Exhibit No.:
Issues: Pension,
Deferred Taxes, &
Cost of Removal
Witness: H. Davis Rooney
Sponsoring Party: Aquila Networks-MPS
[redacted]
Case No.: ER-2004-0034[redacted]
[redacted]

Before the Public Service Commission
of the State of Missouri

Surrebuttal Testimony

of

H. Davis Rooney

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SURREBUTTAL TESTIMONY OF
H. DAVIS ROONEY
AQUILA, INC. D/B/A AQUILA NETWORKS-MPS
[redacted]
CASE NOS. ER-2004-0034 [redacted]
([redacted])

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF H. DAVIS ROONEY
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NOS. ER-2004-0034 AND HR-2004-0024 (CONSOLIDATED)

Q. Please state your name and business address.

A. My name is Davis Rooney. My business address is 10750 E. 350 Highway, Raytown, MO 64138.

Q. Are you the same Davis Rooney that has previously filed testimony in this case before the Missouri Public Service Commission ("Commission")?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my testimony is to respond to the rebuttal testimony of Commission Staff ("Staff") witnesses as to the ratemaking treatment of pensions, the straight-line tax depreciation deduction, and the ratemaking treatment of net salvage (salvage and cost of removal).

PREPAID PENSION

Q. What is the purpose of your surrebuttal testimony on this issue?

A. This section of my surrebuttal testimony will address the rebuttal testimony of Staff witness Steve M. Traxler regarding the calculation of the prepaid pension asset to be included in Staff's proposed amortization of that asset.

Q. Does Staff accurately address Company's position?

A. No. Company's position, is foremost, that in prior stipulations the issue of recoverability of prepaid pensions was resolved through negotiation in favor of the Company's position.

Staff attempts to characterize the issue based on when the Commission first ordered FAS 87, ignoring prior stipulations concerning this issue.

Q. What are those prior orders and stipulations?

A. [redacted]

For MPS, the case was ER-93-37. That case has a stipulation and agreement that says in part: "Signatories agree that Company's accounts shall reflect pension costs equal to contributions made to its established pension funds, discontinuing its previous practice under FAS 87 effective June 29, 1993." (Case No. ER-93-37, Stipulation and Agreement).

Q. Can these agreements be characterized as "accounting" not "ratemaking" agreements?

A. [redacted] In MPS's case the agreement is authorization to record a regulatory liability beginning with that case. It clearly recognizes that MPS had not recorded a regulatory liability to that date. The agreement did not require a regulatory liability as of that date. Recording a regulatory liability as of that date for the existing FAS 87 balance would have resulted in a "write off". [redacted]

[redacted] noting that in the recent MPS Case No. ER-93-37, there was no write-off suggested. (Case No. ER-93-41, Hearing Transcript dated 4/21/93, page 363, lines 4-13). Clearly, it was not MPS's or Staff's understanding at the time, after the stipulation in MPS Case No. ER-93-37, that there was a difference between the ratemaking and financial balance of prepaid pensions. If there had been a difference between the ratemaking and financial balance of prepaid pensions, it would have required a write off, through the establishment of a regulatory liability. If there had been a difference between the ratemaking and financial balance of prepaid pensions, Staff would not have agreed to the wording regarding prior accounting, and Staff would not have testified in the L&P case that no write off was needed for MPS.

Q. Is there a difference between Staff's adjustment and a regulatory liability?

A. No. Both Staff's adjustment and a regulatory liability reduce rate base. Both a Staff adjustment and a regulatory liability assert there is a difference between ratemaking and financial reporting prepaid pension. [redacted] MPS [redacted] negotiated stipulations regarding the recording of regulatory liabilities regarding prepaid pensions.

Q. [redacted]

A. [redacted]

Q. [redacted]

A. [redacted]

[redacted]

Q. How does Staff describe ratemaking policy for pensions prior to 1987?

A. Staff states it was not GAAP but a contribution method.

Q. What was Staff's position on pensions between 1987 and 1993?

A. With regard to pensions, Staff has at various times since 1987 proposed that ratemaking for pensions expense be based on Financial Accounting Standard (FAS) 87, ERISA minimum, or no (zero) pension expense. Following is a table of when Staff has taken those positions:

Ameren Case No. EC-87-114	Ordered FAS 87
L&P Case No. GR-88-115	Direct Position not opposed to FAS 87 Expense
MPS Case No. GR-88-194	Direct Position Pension Expense of $0
KPL Case No. GR-90-50	Recommended FAS 87 Expense
MPS Case No. ER-90-101	Direct Position FAS 87 Expense
MPS Case No. ER-93-37	Direct Position ERISA Minimum
SJLP Case No. ER-93-43	Direct Position ERISA Minimum

Q. How much of the amount at issue is cash contributions deferred on the balance sheet?

A. Included in the $7,473,024 at issue for MPS, is $5,246,730 of cash contributions. Almost all of the $5 million of cash contributions would be deferred on the balance sheet (not included in rates) under all of Staff's positions noted above.

Q. Did Staff's direct positions in MPS's gas Case No. GR-88-194 or MPS's electric Case No. ER-90-101 allow any of the test year contributions in rates?

A. No. In the gas case, Staff eliminated all pension costs. In the electric case Staff proposed FAS 87 negative expense.

Q. Are you aware of any case prior to 1987 ordering contribution rate treatment for MPS?

A. No. I reviewed rate orders for MPS back to 1955. I found no order prior to 1987 that authorized or described a deviation from GAAP for pension ratemaking.

Q. Is it your understanding that prior to 1987, the accrual pension amounts required to be expensed were determined according to FAS 87's predecessor accounting standard APB 8?

A. Yes.

Q. Is it your understanding that contributions prior to 1987 were determined by funding the APB 8 expense amount?

A. Yes. This is disclosed in the Company's annual reports prior to 1987. The footnotes in the MPS annual report state, " The company's policy is to fund current pension costs accrued and prior service costs which are being amortized over 30 years." (Missouri Public Service Company 1984 Annual Report – Note 7 Retirement Plans). Similar statements are in the years I reviewed from 1983 through 1986. This indicates that MPS was funding to the pension plan the accrual (APB 8) expense amount.

Q. How does this impact the issue at hand?

A. When FAS 87 was introduced and replaced APB 8, Company and Staff disagreed whether pension contributions prior to 1987, that were substantially equal to the expenses required under Generally Accepted Accounting Principles (GAAP), constituted ratemaking on contributions or ratemaking on GAAP.

Q. In the absence of an order to the contrary, how are Missouri utilities expected to keep their books and records?

A. "Regulated utilities are required to follow the standards promulgated by the FASB for financial reporting purposes, unless the utility seeks authorization from its applicable regulatory body to deviate form FASB's Generally Accepted Accounting Principles (GAAP), in which case the authorization must also meet the requirements of FAS 71, Accounting for The Effects of Certain Types of Regulation." (Report and Order on Remand, MPS Case No. ER-93-37).

Q. How were these issues resolved?

A. Staff implies that the only way the FAS 87 prepaid balance can become a valid asset for ratemaking is to record it after being ordered onto FAS 87 by the Commission. As noted above, L&P negotiated simultaneous with its return to FAS 87 for ratemaking a

stipulation that its prepaid pension balance no longer required an offsetting regulatory liability. MPS negotiated recognition of its past practices under FAS 87 and authorization to deviate from FAS 87 in the future. In both cases, a write off of the prepaid pension balance was not required. Given that the parties bargained in good faith at the time, it is unfair now to overturn a portion of those agreements.

Q. Staff cites several cases in support of their position, are these cases directly applicable to MPS [redacted]?

A. No. Staff cites three cases Laclede Gas Company Case Nos.GR-2001-629, GR-2002-356, and The Empire Electric District Company Case No. ER-2002-424 (Traxler Rebuttal, page 11, lines 11-13). These were all stipulations agreeing to adopt the ERISA minimum along with extensive agreements on other issues. These were not litigated cases. It is unclear what give and take each company achieved in its settlement. These cases have little applicability to this case. It is interesting that Staff seeks to apply stipulations from other companies to us, while seeking to undo Company's own stipulations.

Q. The cases cited by Staff all adopted the ERISA minimum. Does Company believe the ERISA minimum is adequate?

A. No. A range of contribution levels should be allowed. Pension plans are required to contribute at least the minimum.

Q. What is Company's position on pensions?

A. The key positions are:

- All of the prepaid pension balance should be included in Staff's amortization calculation, less the regulatory liability on MPS's books for pensions.

- Staff's proposal results in a write off of $14.3 million by not allowing recovery of all of the prepaid pension balance, net of the Company's existing regulatory liability. This write off is contrary to the stated positions of Staff and Company at the time the MPS ER-93-37 and L&P ER-94-163 stipulations were agreed to.
- All of the prepaid pension for L&P and MPS should be considered in rate base, less the existing regulatory liability on MPS's books for pensions.
- A range of contributions not just the ERISA minimum should be allowed.
- The ERISA minimum should be adjusted for the impact of contributions in excess of the ERISA minimum, which directly reduce the ERISA minimum calculation, and these contributions in excess of the ERISA minimum should be capitalized as a regulatory asset, deferred until full recovery is allowed including a return from when contributed. To do otherwise would take the benefit of lower ERISA minimums without allowing recovery of the cost incurred which resulted in the lower ERISA minimum calculation.

STRAIGHT-LINE TAX DEPRECIATION DEDUCTION

Q. What is the purpose of your surrebuttal testimony on this issue?

A. My surrebuttal testimony on this issue will address the rebuttal testimony of Staff witness Steve M. Traxler regarding Staff's method used to calculate the income tax deduction for depreciation recovered in rates – "straight-line tax" depreciation.

Primary Issue – Prior Flow Through Items

Q. What is Staff's position on the existence of prior flow though items?

A. Staff states that "the only material difference between annualized book depreciation recovered in rates and the related tax deduction for book depreciation is the elimination of the asset 'basis difference' which was previously flowed through in rates in prior years." (Traxler Rebuttal, page 11, line 23-page 12, line3).

Q. Do you agree with this statement?

A. No. Prior orders and prior ratemaking demonstrate that for Aquila Networks-MPS (MPS) there has been more depreciation related tax deductions flowed through in rates in prior years than just the basis differences. Aquila's books and records, as well as common sense, support that these flow through items are significant. Later in my testimony I will present the orders and support for the existence and significance of prior flow through items other than basis differences.

Q. Why is the existence of significant prior flow through items other than basis differences the primary issue?

A. Much of Staff's rebuttal testimony is based on the premise that there are no other flow through items. Statements based on this premise are incorrect because significant prior flow through items other than basis differences exist. In particular, for years prior to ER-97-394, ratemaking has reflected the use of guideline tax straight-line depreciation and procedures. Secondly, because Staff's method adjusts only for the basis differences, the existence of these other significant prior flow through items makes it inappropriate to follow the method proposed by Staff.

Q. What does "tax deductions flowed through" refer to?

A. "Tax deductions flowed through" refers to using more tax deduction, in a given year, for ratemaking than the related expense, in that year, recognized in cost of service for ratemaking.

Q. Can you give an example?

A. Consider the total investment in plant. Book depreciation recognizes the cost of this investment in ratemaking cost of service. Over time, book depreciation will recognize all and only all of the total cost of the plant investment in cost of service. The same is true of the tax depreciation deductions. Over time, the total of all the tax deductions for investment in plant will equal the total of book depreciation, which will equal the total investment. However, tax generally allows the tax deductions to be taken faster. If the tax depreciation deductions are reflected in the current year for ratemaking, the difference between the book and tax depreciation is said to be "flowed through". If ratemaking used the book depreciation for both cost of service and the depreciation tax deduction for ratemaking, then there would be no difference and the expense and its ratemaking tax deduction are said to be "normalized". In the case of plant investment, ratemaking has taken more tax deductions earlier (flow through) and therefore has less total tax deduction remaining.

Q. What plant related items have been flowed through?

A. Ratemaking has flowed through basis deductions, guideline depreciation, and cost of removal.

Q. Which statements by Staff assume there are no prior flow through items other than basis differences?

A. The following is a list of statements by Staff that are incorrect because significant other prior flow through items exist:

- Traxler Rebuttal, page 11, lines 22-23 and page 12, lines 1-3 – "under Staff's calculation method the only material difference between annualized book depreciation expense recovered in rates and the related tax deduction for book depreciation is the elimination of the asset "basis difference" which was previously flowed through in rates in prior years." While this statement is an accurate description of what Staff has calculated, Staff does not adjust for all prior flow through items. Because of the existence of other significant prior flow through items, which are not adjusted for in calculation, Staff's method is not a correct calculation to use.
- Traxler Rebuttal, page 12, lines 12-14 – The Staff's method for calculating the straight-line tax depreciation deduction applies the tax basis/book basis ratio times annualized book depreciation in order to avoid taking an additional tax deduction which has been given to ratepayers in years prior to 1986." Staff adjusts only for basis differences previously flowed through. Because other flow through items exist in prior years, Staff's method produces an additional (duplicate) tax deduction for these other items. These duplicate tax deductions are not realizable by the Company from the IRS. These duplicate tax deductions are not a real tax benefit to the Company (because the Company cannot get this tax benefit from the IRS). They are fictional amounts.
- Traxler Rebuttal, page 14, lines 17-22 – "Q. If in fact, the amount of assets retired earlier and later than their book depreciation life generally offset one another, will

there be any significant difference between book depreciation and straight-line tax depreciation (other than the basis difference previously discussed)? A. No." Because straight-line tax depreciation rates were used, not book depreciation rates, the assumption of offsetting retirements cannot be achieved. Because there are other significant flow through items, book and straight-line tax will be different by more than just basis differences.

- Traxler Rebuttal, page 15, lines 1-5 – "Q. If the amount of assets retired earlier and later than their depreciation life do not offset one another, can a significant difference occur between book depreciation and straight-line tax depreciation when employing the method used by MPS to calculate straight-line tax depreciation? A. Yes." The existence of prior flow through items, ordered by the Commission, other than basis differences creates the difference, but it is intentionally created by Commission order.
- Traxler Rebuttal, page 15, lines 7-8 – "Any time that straight-line tax depreciation is stopped prior to retirement is an example of an asset vintage which is outliving its book depreciation life." Because there are significant prior flow through items such as the use of faster guideline depreciation rates, stopping straight-line tax depreciation when the vintage is fully depreciated is an example of the available tax deductions being exhausted faster for straight-line tax than for book.
- Traxler Rebuttal, page 16, lines 18-21 – "The additional $.62 in revenue requirement results from depreciation on plant assets staying in service longer than the estimated life used to compute the book depreciation with **no** corresponding tax deduction for the additional book depreciation beginning in

year 11 in the example." Because there are other significant prior flow through items other than basis differences, the $0.62 is the result of properly not taking an additional (duplicate) tax deduction which has already been given to ratepayers. Staff properly allows the additional $0.62 for the basis difference flowed through. Staff should properly allow the additional $0.62 for the other flow through items.

- Traxler Rebuttal, page 16, line 22-27 – "Q. What is the Staff recommendation for calculating straight-line tax depreciation so that the inequity described in your last answer can be eliminated? A. The additional revenue requirement resulting from including book depreciation expense in cost of service without a corresponding tax deduction can be eliminated by continuing to calculate straight-line tax depreciation for all assets which are still in service consistent with the calculation of book depreciation". The "inequity" is that by Commission order the prior ratepayers received lower rates from the benefits of flow through of other significant prior flow through items other than basis differences. Staff's solution is to take an additional (duplicate) tax deduction for flow through tax deductions which have already previously been given to ratepayers by Commission order.
- Traxler Rebuttal, page 18, lines 20-21 – "The Staff's position on the issue simply provides for a **"matching"** tax deduction for this additional recovery of book depreciation expense." Flow through items are **not** created by Commission orders to match **book** depreciation and ratemaking tax depreciation. Flow through items are created by Commission orders intended to more closely match **tax** depreciation and ratemaking tax depreciation. Because there are significant other prior flow through items, attempting to now "match" book depreciation and

ratemaking tax depreciation, without adjusting for the prior flow through items, results in additional (duplicate) depreciation deductions.

Q. How does Staff say they treat prior flow through items?

A. Staff says its intent is, "**to avoid taking an additional tax deduction which has been given to ratepayers in years prior**". (Traxler Rebuttal, page 12, lines 12-14) emphasis added. While Staff notes the importance of adjusting for prior flow through items, Staff does not adjust for all these items.

Q. What is the financial impact of Staff's method with regard to the basis differences previously flowed through?

A. Under Staff's method the Company is properly allowed to collect $1,620 for every $1,000 of book depreciation related to basis differences previously flowed through to ratepayers. The reason it is proper is because the benefit of the tax deduction for basis differences was previously provided to ratepayers by being flowed through. Prior ratepayers received $620 of benefit for every $1,000 of tax deduction flowed through. The depreciation of these basis differences is included in book depreciation but the ratemaking tax deduction, having been depleted by prior flow through is not available. Therefore, for each $1,000 of basis difference included in book depreciation, current ratepayers pay an additional $620. This is proper ratemaking since the ratepayers, at the time the basis differences were flowed through, received $620 of benefit. This same fair treatment should be provided all prior flow though items, not just basis differences.

Q. Does Staff's method, in fact "avoid taking an additional tax deduction which has been given to ratepayers in years prior" (Traxler Rebuttal, page 12, lines 12-14) for all prior flow through items?

A. No. Staff's method avoids taking an addition tax deduction only for basis differences flowed through. For all other flow through items it actually takes, not avoids, an additional tax deduction that has already been given to ratepayers in prior years.

Q. What should be the proper treatment for flow through items?

A. Just as for basis differences, the prior flow through items should be allowed to flow back (reverse) as originally intended by the Commission. To do otherwise takes an additional (duplicate) tax deduction. Since the Company does not get the same additional tax deduction on its tax return, preventing the flow back confiscates the value of the additional tax deduction from the Company's investors.

Q. How can you tell that Staff's method adjusts only for basis differences?

A. Staff states that they adjusted only for basis difference when Staff stated, "under Staff's calculation method the only material difference between annualized book depreciation expense recovered in rates and the related tax deduction for book depreciation is the elimination of the asset "basis difference" which was previously flowed through in rates in prior years." (Traxler Rebuttal, page 11 lines 22-23 and page 12, lines 1-3). Staff's method is book depreciation with an adjustment only for the amortization, at the book depreciation rate, of basis differences. The adjustment used by Staff is incorrect because it does not adjust for all prior flow through items. It is important to understand that Staff's method is a **change** in method from the method used prior to ER-97-394. It changes the calculation of straight-line tax from a calculation on a tax basis to a calculation on a book basis. The design of Staff's method will take additional tax deductions for any other flow through items that have already been given to ratepayers in prior years.

Q. Can you give an example of a flow through item not considered by Staff?

A. Yes. Staff's method does not consider that, for MPS ratemaking, tax straight-line depreciation based on guideline lives on pre-1981 vintage property was flowed through until MPS's Case No. ER-97-394.

Q. Can you document that guideline life tax straight-line depreciation was flowed through for ratemaking until ER-97-394?

A. Yes. While I will discuss this evidence in greater detail later, the documentation of my review is provided on Surrebuttal Schedule HDR-1. The evidence supports that for MPS ratemaking, tax straight-line depreciation based on guideline lives on all pre-1981 vintage property was flowed through until MPS's Case No. ER-97-394.

Q. Is this item significant?

A. Common sense indicates that it is. It was an issue in no fewer than four consecutive litigated MPS rate cases in which the Commission repeatedly ordered flow through treatment. This does not seem to indicate that the Company, the Staff, or the Commission considered this item insignificant. Further, in the report and order in MPS Case No. ER-80-118 on page 32, the values of the flow through issues in that case were set out. The guideline depreciation issue for that one case and test year was valued at $295,430. The basis difference items that Staff does adjust for were valued at $408,341. On a relative basis, the item is significant. Additionally, whereas the bulk of the basis differences were discontinued in 1986 by a change in the tax law, the guideline depreciation flow through continued for another decade until MPS Case No. ER-97-394. The additional decade increases the prior guideline depreciation flow though while holding constant the amount related to basis difference.

Q. Have you quantified the cumulative amount of duplicate tax deductions related to guideline depreciation?

A. Yes. We believe that Staff's ratio calculation has provided ratepayers with between $17 million and $23 million of duplicate tax deductions since MPS Case No. ER-97-394. On Data Request No. 310.1, I provided a calculation of the value of this item.

Q. Did you meet with Staff to discuss Data Request 310.1?

A. Yes. I met with Staff for the first time regarding taxes on November 25, 2003. I supplied an additional calculation (See Surrebuttal Schedule HDR-2). The additional schedule provided is intended to substantiate, in a more understandable way, that the prior flow through items not considered in Staff's method are significant and material to MPS.

Q. What does Surrebuttal Schedule HDR-2 show?

A. This schedule is an estimate of the amount by which ratemaking has taken the tax depreciation deduction faster than the expense used for ratemaking book depreciation included in cost of service. Most of MPS's property is grouped into just two tax classes – Steam Generation and T&D (Transmission and Distribution). These two classes include almost all depreciable property except general/common plant accounts (FERC Accounts 390-398). The column titled "Surviving Tax Basis," is the amount of tax basis for tax purposes (i.e. reported on the tax return). The column titled "SLT Rate" is the guideline tax straight-line rate used to depreciate these assets for ratemaking purposes until MPS Case No. ER-97-394. The Steam Generation rate of 3.57% corresponds to the straight-line guideline life of 28 years for this tax class. The T&D rate of 3.33% corresponds to the straight-line guideline life of 33 years for this tax class. The columns headed "Book Depreciation Rates" is the weighted average book depreciation rate representative of the

years indicated. Finally, the column titled "Flow Thru Depr" is a calculation of the excess depreciation generated by the difference between the SLT Rate and the Book Depreciation Rates. The estimate stops at the earlier of 1997 or when the vintage is fully depreciated for straight-line tax. It does not include the additional amounts that would accrue by continuing to depreciate the assets after they are fully depreciated as recommended under Staff's methodology. This schedule is an estimate of the amount by which ratemaking has taken the tax depreciation deduction faster than the expense used for ratemaking book depreciation included in cost of service.

Q. What is the amount of the faster guideline depreciation flow through estimated from the schedule?

A. The total for the Surrebuttal Schedule is $21.3 million. Company believes that this estimate is low because it does not include all tax classes or the impact of important other book/tax procedural differences that are inherent in the guideline straight-line tax calculation. Company believes $21.3 million to be both significant and material.

Q. Having shown that there was significant prior flow through of depreciation in addition to basis differences, does Staff's method "avoid taking an additional tax deduction which has been given to ratepayers in years prior" for all prior flow through items?

A. No. Staff's method avoids taking an addition tax deduction only for basis differences flowed through. For all other flow through items it actually takes, not avoids, an additional tax deduction which has already been given to ratepayers in prior years.

Data Request No. 310.1

Q. How does Staff respond to the calculation found in Data Request 310.1?

A. Staff states "This calculation is unrelated to any difference between a straight-line calculation, prior to 1997, which was based upon a "guideline rate" as opposed to a "book depreciation rate" for pre-1981 vintage property." (Traxler Rebuttal, page 18, lines 1-4).

Q. Does the Company's response to Data Request 310.1, in fact, relate to prior depreciation flow through, other than basis differences?

A. Yes.

Q. Please explain.

A. See Surrebuttal Schedule HDR-3. Consider a single $1,000 asset in a single account with a 10-year actual life and a 10% book depreciation rate. For simplicity, assume no book/tax basis difference. For book purposes, the asset will be depreciated at $100 per year for 10 years and then be retired at the beginning of year 11. At the end of its actual life, $1,000 of book depreciation will have been recorded. As a result of its retirement, the entire $1,000 of accumulated depreciation will be removed by charging $1,000 of original cost to the accumulated depreciation reserve. The key points are total depreciation is $1,000, equal to original cost, and the accumulated depreciation reserve is $0, after recording the retirement.

The calculation of straight-line tax is shown under the columns headed Straight Line Tax (SLT) on Surrebuttal Schedule HDR-3. Assume that in the first year a faster guideline life were used for ratemaking straight-line tax. Let us assume the faster rate produces $200 of straight-line tax depreciation in the first year, instead of $100 used for book depreciation. This is an extra $100, or a flow through of $100. Now assume for years 2-10 Staff's method is used. There is no book/tax basis difference so, under Staff's method, straight-line tax equals 100% of book depreciation. At $100 per year for 9 years,

this is $900 dollars of depreciation, in addition to the first year depreciation of $2000. The total straight-line tax depreciation is $1100, $100 more than the available tax deduction. This is $100 of duplicate tax deduction taken by Staff's method when a prior flow through exists. When the $1000 asset is retired, the straight-line tax accumulated depreciation reserve is $100, because under book procedures, at retirement, original cost is charged to accumulated depreciation. The asset became fully depreciated for straight-line tax in year 9. However, since Staff's method does not adjust for the prior flow through of $100, Staff's method takes an additional $100 after the asset was fully depreciated for straight-line tax.

Q. What is Staff's response to the way the duplicate tax deduction is calculated?

A. Staff states that "Since Mr. Rooney's support for $17-$23 million of alleged duplicate tax deductions is limited to an analysis from 1997-2002, the results cannot be related to the use of a "guideline rate" used prior to 1997." (Traxler Rebuttal, page 18, lines 10-12).

Q. Is the response to Data Request 310.1 limited to 1997-2002?

A. No. The analysis considers vintage accounts fully depreciated for straight-line tax during the years 1997-2002. In order to determine if a vintage was fully depreciated for straight-line tax, prior year straight-line tax depreciation, including those years using guideline tax-straight-line depreciation were considered. Only those vintages using guideline tax-straight-line depreciation prior to 1997 were considered.

As previously noted on Surrebuttal Schedule HDR-3, the amount of the additional depreciation taken after the asset was fully depreciated for straight-line tax is equal to the extra $100 of depreciation flowed through. A guideline rate was not used after the first year, but also no adjustment was made to the subsequent book-based straight-line tax

depreciation to make up for the prior extra $100 taken. Because Staff's method does not adjust for this prior flow through, a duplicate amount of the prior flow through is taken. The duplicate amount taken to date is equal to the amount recorded after the straight-line tax vintage is fully depreciated. It should be noted that this asset became fully depreciated before the end of its book life because of the prior flow through not because the asset outlived its book life.

Q. Doesn't Staff have the view that depreciating past zero is necessary to balance early retired assets and late retired assets?

A. As can be seen from the example above, there was only one asset and the book depreciation was exactly the right amount for the one asset. The book depreciation balanced itself without the need for other assets. The prior flow through straight-line tax depreciation was still duplicated. The fact that Staff's method does not correct for the prior flow through will not be fixed by adding more assets to the example. A process that doesn't work for only one asset cannot work for more than one asset.

Q. How does Company's method adjust for the prior flow through?

A. Company's method depreciates all vintage and tax class asset accounts until all of the available straight-line tax deduction has been recorded through straight-line tax depreciation. Then we stop. All available straight-line tax deduction is recorded through the straight-line tax calculation. Stopping the depreciation when the vintage tax class is fully depreciated is both reasonable, since there is no more tax deduction available, and a requirement of calculating guideline straight-line tax. (IRC Reg. § 1.167(a)-11(c)(1)(i)(a)).

Tax Straight-Line and Book Depreciation are Different Depreciation Systems

Q. Are book depreciation and straight-line tax depreciation systems the same?

A. Book depreciation and tax straight-line are completely different. Book and straight-line tax could have been the same. This is called full normalization, but the Commission did not order full normalization. In prior years in order to provide the greater benefits of flow through in those prior years, the Commission did not use book depreciation for straight-line tax. The Commission ordered "tax straight-line" flow through.

Q. What is tax straight-line depreciation?

A. Tax straight-line depreciation (not straight-line tax) is the income tax deduction for depreciation that would be calculated on the tax return, in accordance the Internal Revenue Code rules (IRC) under the straight-line method.

Q. Is this calculation similar to the book depreciation calculation?

A. No. It is a tax depreciation deduction calculation using tax guideline lives and tax depreciation procedures. The tax guideline lives and procedures produce a larger depreciation deduction in the early years than book rates and methods.

Q. Does the total amount of the straight-line tax depreciation deduction over the life of the asset differ from total amount of book depreciation?

A. No. When the tax straight-line depreciation is combined with the basis differences that Staff acknowledges were flowed through, the total deduction is the same as the expense that will be recorded for book depreciation. However, the timing is different.

Q. How is the timing different?

A. For tax straight-line the guideline lives are generally shorter than book depreciation rates. Therefore the available tax deduction will be exhausted before the end of the assets actual

lives. The tax straight-line depreciation rules for the 1971-1980 vintages also use different retirement rules than are used for book. Ordinarily, for these vintages, retirements do not reduce the tax basis. Depreciation continues on these assets. There are no early retirements to require "balance" with late retirements. "Balance" occurs by stopping depreciation of the vintage class when it is fully depreciated.

Q. Why does the Company stop depreciating fully depreciated vintages for straight-line tax?

A. Foremost it is because the total available tax deduction has been exhausted. As demonstrated above, stopping depreciation of fully depreciated straight-line tax vintages is the proper procedure that allows the flow back (reversal) of the prior flow throughs and prevents duplicate tax deductions from occurring.

Staff's Method of Continuing Depreciation is Not Appropriate

Q. What is Staff's primary issue?

A. "Whether ratepayers should be given a tax deduction for the book depreciation recovered in rates on fully depreciated assets." (Traxler Rebuttal, page 20, lines 7-10)

Q. Mr. Traxler spends a considerable amount of time discussing how Staff's method works. Do you agree with his analysis?

A. No. His entire foundation is based on one key premise: that there are no depreciation flow through items other than basis differences. Stated another way, Staff's method assumes that straight-line tax calculations have always used the same depreciation rates and procedures as book depreciation. There is ample evidence that for years before Case No. ER-97-394, pre-1981 vintage assets were depreciated using tax guideline depreciation rates, not book depreciation rates, and because of the use of guideline depreciation systems, book procedures have not been used.

Q. Why does Mr. Traxler say straight-line tax depreciation is stopped?

A. Staff states, "Any time that straight-line tax depreciation is stopped prior to retirement is an example of an asset vintage which is outliving its book depreciation life." (Traxler Rebuttal, page 15, lines 7-8)

Q. Do you agree with this statement?

A. No. Clearly, Mr. Traxler is again assuming that book depreciation rates and book procedures have been used for straight-line tax over the entire life of the vintage. As demonstrated above, because there are significant prior flow through items, such as the use of faster guideline depreciation, stopping straight-line tax depreciation when the vintage is fully depreciated is an example of the available tax deductions being exhausted faster for straight-line tax than for book.

Q. Did the Commission at the time understand that the benefits of straight-line tax would run out because of flow through treatment?

A. Yes. In 1976, the Commission wrote:

> "However, the Commission points out that the reverse is true under flow through where the Company is allowed to collect in rates only its actual tax liability. Eventually, the Company will use up its depreciation deduction both as far as the Commission and the IRS are concerned, but its IRS depreciation deduction will be exhausted sooner, leaving a period of time where the IRS recognizes no expense but the Commission still does. At that point, the Commission will have to give the Company two dollars to cover one dollar of depreciation expense, because both dollars will be considered taxable income by the IRS, half of which the IRS will take." (Report and Order, MPS Case No. 18,502 E, page 14)

Q. What happens if not all prior flow through items are reflected in current rates?

A. The current ratepayers receive a benefit from the Company's investors for a benefit already provided to prior ratepayers. The Company cannot collect from the IRS a benefit already provided in ratemaking and already taken on its tax return. Therefore, the benefit

would have to be paid to the ratepayers by the Company's investors, reducing the Company's authorized return.

Q. Has Staff made an adjustment for all prior flow through items?

A. No.

Q. What other aspects of Mr. Traxler's analysis do you disagree with?

A. He misstates Company's position and he does not clearly describe mass asset accounting.

Q. How has Staff misstated the Company's position?

A. Staff states "Both the Staff and the Company have included book depreciation expense in cost of service for assets which are fully depreciated." Company does not agree with this statement. Company does not agree that any individual book asset under a mass asset accounting system can be considered fully depreciated until it is: 1) retired; or, 2) the entire plant account becomes fully depreciated.

Q. What is incorrect about Mr. Traxler's description of mass asset accounting?

A. Mr. Traxler has confused an average life of a group of assets with the actual life of an individual asset. Staff claims that when the actual life of an asset is greater than the average life assigned to its plant account, the asset is fully depreciated. Staff is incorrect in this statement.

Q. How has Mr. Traxler extended this confusion to the straight-line tax calculation?

A. Because the Commission ordered straight-line tax depreciation calculations to be performed on a tax basis (guideline depreciation) in order to capture the benefits of flow through, the straight-line tax and book depreciation systems are completely different. For the straight-line tax system of depreciation, assets can and do become fully depreciated before the end of their book and actual lives. This is because guideline depreciation is

calculated on a tax basis. It is calculated using lives that are shorter than book lives. It is calculated using vintage accounts, and it is calculated using different retirement procedures. It is not correct to try and equate the book mass asset system of depreciation with the tax vintage, tax class depreciation system required to calculate the guideline depreciation ordered by the Commission.

Q. Can you provide an example?

A. Yes. See Surrebuttal Schedule HDR-4. Columns one and two show two assets of $1000 each with actual lives of 5 years and 15 years, respectively. The average life for a plant account containing only these two assets is 10 years and a depreciation rate of 10% (ignoring net salvage). Staff claims that a book asset that survives past 10 years is fully depreciated. One has only to look at the accumulated depreciation reserve to see that is not the case. If asset two had been the only asset in the account, Staff states that the Commission at the end of year 10, to reflect that the entire account was fully depreciated, would have rightfully stopped depreciation. (Traxler Rebuttal, page 13, line 22 to page 14, line 3). Staff's example of "over depreciating" mass assets is improbable.

Q. Does Mr. Traxler contradict his claim that mass asset accounting permits assets to be over depreciated?

A. Yes. He states that under mass asset accounting, "No attempt is made to track the accumulated depreciation reserve by vintage **or specific asset**." (Traxler Rebuttal, page 13, lines 21-22). At the same time, he provides an example of a specific asset and associates a portion of the accumulated depreciation reserve with that specific asset in order to claim the asset is fully depreciated. The same would be true if Staff's example was for a specific group of assets that is less than the mass asset depreciable group.

Q. How else does Mr. Traxler contradict his claim that mass accounting permits assets to be over depreciated?

A. He states, "If you retire a $100,000 plant asset, the book depreciation reserve is reduced by the same $100,000." Mass asset accounting clearly does not consider any individual asset to be fully depreciated before it is retired. Rather an individual mass asset is only considered fully depreciated when it is retired.

Q. Is the reason provided by Staff for considering a retired asset fully depreciated accurate?

A. No. Staff states, "The underlying assumption is that in the aggregate, assets being retired early will be offset by an equal amount of asset being retired later." (Traxler Rebuttal, page 14, lines 14-16). While this statement may be true for book depreciation rates and book depreciation systems, it is not true of a depreciation system for the same assets that uses different depreciation rates or different procedures. If the straight-line tax depreciation rate, such as a fixed rate based on a tax guideline life, is not based on a study that is adjusted for the actual lives, then the "offsetting" feature of mass asset accounting will not work.

Q. What would be the result of continuing straight-line tax depreciation if a faster guideline life had been used?

A. See Surrebuttal Schedule HDR-5. This example shows the same book plant account as on Surrebuttal Schedule HDR–4 opposite a faster straight-line tax guideline life for a pre-1970 vintage. Pre-1970 tax vintage retirements are treated essentially the same as book retirements. The plant account has an average book life of 10 years. The early retirements and later retirements precisely balance out over the actual lives of the assets. This results in all and only all the total investment of $2000 being recovered over the life

of the longest asset (15 years). On the other hand, because a faster life of 8 years was used for straight-line tax, all of the depreciation deduction was used up by the end of Year 11. Year 11 is the year in which the straight-line tax accumulated depreciation in column (g) equals the plant in service in shown in column (b). To continue to calculate straight-line tax depreciation past the point when the account is fully depreciated for straight-line tax is to provide ratepayers a tax depreciation deduction that is more than what is available to the Company.

Q. What about Staff's claim that there are offsetting deductions with other shorter-lived assets?

A. Staff's claim is based on book rates and book procedures being used for straight-line tax. Since tax guideline rates and procedures, not book rates, have been used for pre-1981 assets, there can be no "balancing" offsetting assets. The guideline rates are not designed to produce offsetting results, as book rates are. The example on Surrebuttal Schedule HDR-3 shows that if faster guideline rates were ever utilized for straight-line tax, Staff's method of calculating will produce excess (duplicate) tax deductions. The amount of the duplicate deductions created under Staff's method will be the balance of the accumulated depreciation reserve in the straight-line tax vintage account in excess of the basis.

Q. How does the Company correct for the fact that there are no compensating offsetting retirements when guideline life depreciation rates have been use for straight-line tax?

A. In accordance with the rules for the tax straight-line systems being used, we stop depreciating the straight-line vintage when all the available tax deduction has been provided to the ratepayer. This is the proper mechanism to recover the higher ratemaking taxes resulting from the early depletion caused by the prior flow through items. As noted

above, the Commission was fully aware of the ratemaking impacts that flow through posed to future revenue requirements. The earlier flow through of tax benefits predictably and inevitably left us with less ratemaking tax deductions now.

Staff's Method is a Change in Method

Q. Is Staff's method a switch from the tax based straight-line system of depreciation used prior to 1997 to a book based system of depreciation?

A. Yes. As noted above, and as described by Staff, Staff's method is book depreciation with an adjustment only for basis difference flowed through. It is essentially a change to full normalization with a partial adjustment for prior flow through items.

Q. Has the issue of switching from a tax based straight-line system of depreciation to a book based system of depreciation, as proposed by Staff, been addressed before?

A. Yes. In the late 1970's, FERC ordered the utilities under its jurisdiction to embrace full normalization and use book depreciation for tax straight-line. The existence of prior flow through items became the source of much litigation over the proper way to flow back the prior flow throughs and whether the methods proposed met the legal requirements of normalization of the IRC. Ultimately, the IRS issued Revenue Ruling 83-37 (Surrebuttal Schedule HDR-7). The ruling concluded that an annual addback was required to compensate for the prior flow though items. Key to their conclusion was the statement: "Were it not for (the) addback, it is apparent that the annual adjustments would cause the deferred tax account balance to be reduced in violation of section 1.167(l)-1(h)(2)(i) of the regulations" (Rev. Rul. 83-37)

Q. Can you translate this revenue ruling to apply to MPS?

A. I will paraphrase excerpts of the ruling, changes in italics to represent the current situation, emphasis added:

> The *Staff's Method* goes beyond requiring prospective full normalization of all book-tax timing differences. It requires *the Company* to normalize not only book-tax differences for assets placed in service after the adoption of such method but also for assets placed in service when normalization was not required or when normalization of only some book-tax timing differences was required *for ratemaking*.
>
> **The *Staff's Method* does not compute the amount of federal tax deferral with respect to any particular asset or class of assets, as would normally be done in computing under section 1.167(l)-1(h)(1)(i) of the regulations the amount of federal income tax deferral.** Rather, it focuses on the total plant investment. By computing the annual additions to the deferred tax reserve on the basis of the annual aggregate differences between book and tax depreciation for the entire plant, **applying *Staff's method* to property which flow-through accounting has previously been used allows current deductions to the deferred tax reserve with respect to property for which book depreciation now exceeds tax depreciation even though *lesser or* no amounts were added to the reserve when tax depreciation was higher than *tax straight line* depreciation because such differences were flowed through to ratepayers** (*i.e. guideline depreciation*). However, the method attempts to counter the effects of having flowed through prior book-tax differences rather than having normalized them by providing for an addback, which increases the tax expense for ratemaking purposes during the remaining book life of all the taxpayer's plant. *However this addback is not sufficient because it only addresses one of several items flowed through.*
>
> ***Because the addback proposed by Staff does not address all prior flow through items,* it is apparent that the annual adjustments *proposed by Staff* would cause the deferred tax account balance to be reduced in violation of section 1.167(l)-1(h)(2)(i) of the regulations.** However, if the previously flowed through amounts were added back at a rate assuring that sufficient amounts were added **annually** to counteract the effect of normalizing for property for which benefits had been previously flowed through, the *Staff's Method* would be acceptable, since the annual additions to the deferred tax account would equal on a composite basis the amount required by section 167(l) of the Code and the amount needed to normalize all other book-tax timing differences.
>
> **If the addback in a given year for previously flowed-through amounts is too low, the addition to the deferred tax account for that year with respect to section 167(l) differences would be less than the required amount. This would cause a reduction of the deferred tax account for reasons other than those**

specified in section 1.167(l)-1(h)(2)(i) of the regulations and, because of this violation of section 167(l), the taxpayer would lose the right to use accelerated depreciation.

Therefore, to assure that section 167(l) of the Code is not violated in a particular case by the use of the *Staff's Method,* the *Company* who previously used flow-through accounting must compute, during each year in which an addback is required, the minimum addition required by section 167(l). **This is done by calculating for each public utility property the difference between accelerated depreciation taken on the taxpayer's return and the amount that would have been taken as depreciation if the taxpayer had used a straight line method (on the tax return) instead.** The amount that would have been taken as straight line depreciation should be computed by reference to the tax basis, not the book basis, of the property at the time that normalization was adopted with respect to the property. For each year in which an addback is required, the balance in the deferred tax reserve must equal or exceed the amount that would have been in the account if only book-tax differences addressed by section 167(l) had been normalized.

Because *Staff's Method* applies to property placed in service before *2001*, when **some or all** book-tax differences had been flowed through to ratepayers, it also **requires an annual addback** to the cost of service, which is designed to generally offset the effect of normalizing with respect to property previously accounted for under a flow-through method.

Q. This ruling twice refers to a normalization violation under section 1.167(l)-1(h)(2)(i).

What is section 1.167(l)-1(h)(2)(i)?

A. Section 1.167(l)-1(h)(2)(i) states in part:

> **(i)** The taxpayer must credit the amount of deferred Federal income tax determined under subparagraph (l)(i) of this paragraph for any taxable year to a reserve for deferred taxes, a depreciation reserve, or other reserve account. The taxpayer need not establish a separate reserve account for such amount but the amount of deferred tax determined under subparagraph (l)(i) of this paragraph must be accounted for in such a manner so as to be readily identifiable. With respect to any account, the aggregate amount allocable to deferred tax under section 167(l) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation under subparagraph (l)(i) of this paragraph.

Q. What does this mean?

A. Deferred taxes arise from the difference between tax depreciation and ratemaking straight-line depreciation. Deferred taxes are tracked by tax account. A vintage and class account is an account. When tax depreciation for an account is greater than ratemaking straight-line depreciation, additions are made to the deferred tax reserve. When tax depreciation for an account is less than ratemaking straight-line depreciation, deductions are made from the reserve. When accounts are fully depreciated for both tax depreciation and ratemaking straight-line depreciation, all of the reserve additions will have been deducted. The reserve for the account will be zero. To continue ratemaking straight-line depreciation on the account after it is fully depreciated for tax and fully depreciated for ratemaking straight-line tax will result in a deduction to the reserve (tax depreciation at zero is less than the continued ratemaking straight-line depreciation). Since no prior additions remain in the reserve for that account, a reduction in the reserve is made for which there are no prior additions.

Q. Can you describe this more simply?

A. Yes. It says that for any account (vintage and class account) the deferred income tax reserve may not be reduced except by the reversal of what was previously put into the reserve. You cannot take out what you did not put in.

Q. Isn't the common view of normalization that if ratemaking straight-line tax depreciation is no more than book depreciation there can be no problem?

A. This is an over simplified view. It is true only when book depreciation rates and procedures are used for both book and ratemaking straight-line tax depreciation and have been consistently applied from the beginning. This simplified view does not look at the accumulated result of tax depreciation compared to ratemaking straight-line tax

depreciation. As demonstrated earlier, if there is any additional flow through, the proper procedure is to stop depreciating the straight-line tax vintage account when it is fully depreciated.

Other Flow Through - Guideline Depreciation

Q. What is guideline life depreciation?

A. Guideline life depreciation refers to two tax methods of tax depreciation allowed by the tax code. Guideline life depreciation refers to both pre-1971 vintage property using the IRC Class Life System (CLS) and 1971 to 1980 vintage property using the IRC Class Life Asset Depreciation Range (also called Asset Depreciation Range or ADR). Under these two tax depreciation systems, assets must be placed in vintage accounts with only one class of asset in an account. (IRC Reg. 1.167(a)-11(b)(3)). Additionally the IRC rule for guideline life depreciation requires that "no account may be depreciated below the reasonable salvage value of the account"(IRC Reg. 1.167(a)-11(c)). Salvage value here means gross salvage, not net of removal costs.

Q. How is this related to ratemaking straight-line tax depreciation?

A. Prior to 1970, ratemaking was permitted to flow through (use for ratemaking) all tax deduction benefits in the same year they occurred in the Company's tax return, including tax depreciation taken under CLS. Beginning in 1970, the tax rules changed. In order for regulated utilities to be eligible to use "accelerated methods" on their tax returns, utilities that used a straight-line depreciation method for calculating book depreciation, also had to use a straight-line method for calculating ratemaking tax deductions. This did not mean that the ratemaking tax depreciation expense (straight-line tax) had to be the same, only that it had to be calculated using a similar (straight-line) method. Straight-line tax

depreciation could be faster than book depreciation, as long as it was calculated straight-line. The IRC placed a limit on how much faster straight-line tax could be. Straight-line tax depreciation (ratemaking) could be no faster than the depreciation allowed on the tax return using the straight-line method (tax straight line) (IRC Section 1.167(l)-1(h)(1)(iii).

Q. Have you reviewed the history of tax normalization for MPS?

A. Yes. I made a review of rate orders and supporting documents. A description of the documents I reviewed is on Schedule HDR-1.

Q. With respect to the Missouri Commission and MPS, can you summarize your findings?

A. With the exception of parts of 1976-1978, MPS ratemaking has reflected flow through treatment of guideline tax straight-line depreciation. I will describe documentation that prior to 1970 MPS was on full flow through (all depreciation tax deductions were used to reduce current rates to ratepayers). From 1970 to 1976, MPS was on flow through of all unprotected items (partial normalization). In four consecutive rate cases from 1978 to 1982, the Company was ordered to flow through tax straight-line guideline life depreciation, and that the Commission established a policy of allowing normalization of these items only in cases of cash flow difficulties. In 1983, the Company was allowed to normalize its post-1980 property vintages in accordance with the requirements of the Economic Recovery Tax Act of 1981. I found no evidence or order after 1982 indicating a change in treatment for the pre-1981 vintages. To the contrary, I reviewed testimony and other supporting documents of both Staff and Company in MPS Case Nos. ER-83-40, GR-88-194, ER-90-101, and ER-93-37 indicating that guideline tax straight-line depreciation was used to calculate straight-line tax depreciation and the use of this guideline tax straight-line depreciation was not a disputed issue.

Review of Evidence of Prior Flow Through

Q. What is the purpose of this section?

A. The purpose of this section is to provide evidence that for MPS ratemaking has reflected the flow through of other items besides just basis differences. In particular, guideline tax straight-line depreciation has been flowed through.

Q. Why is this testimony necessary?

A Staff says, "The Staff's method for calculating the straight-line tax depreciation deduction applies the tax basis/book basis ratio times annualized book depreciation in order to avoid taking an additional tax deduction which has been given to ratepayers in years prior...." (Traxler Rebuttal, page 12, lines 12-14). While acknowledging that prior flow through items require an adjustment, Staff denies there are any prior property related flow through items, other than basis differences. Staff states the "the only material difference between annualized book depreciation recovered in rates and the related tax deduction for book depreciation is the elimination of the asset "basis difference" which was previously flowed through in rates in prior years." (Traxler Rebuttal, page 11, line 23-page 12, line3). Staff appears to be unaware of the Commission's long standing policy to flow through tax timing differences except when a utility is experiencing significant cash-flow problems. Staff's testimony in GR-88-194 listed seven MPS electric and gas cases and one Missouri Cities Water case in support of the Commission's policy history. (See MPS Case No. GR-88-194, Tooey, Direct, pages 7-8). The purpose of this section is to show that ratemaking straight-line tax depreciation flowed through Guideline Tax Straight-line depreciation and cost of removal for years prior to ER-97-394.

Q. What rate orders establish that more than just basis differences have been flowed through for ratemaking?

A. MPS had four consecutive rate case rulings from 1978 to 1982 ordering us to flow through guideline life depreciation and cost of removal. Additionally, the report and order in MPS Case No. 18,502, page 15 notes that prior cases have result in only "two utilities being granted normalization of FPC-530 items" (guideline life depreciation and basis differences). The four MPS Report and Orders were:

> Case No. ER-78-29 "The Company's cash flow, interest coverage, and internally generated funds will remain adequate if it is allowed to normalize only the tax timing differences related to accelerated depreciation, repair allowances, investment tax credit, and injuries and damages."
>
> Case No. ER-79-60 "The Company's cash flow, interest coverage, and internally generated funds will remain adequate if Company is allowed to normalize investment tax credit, accelerated depreciation, amortization of extraordinary purchased power costs and numerous quick turn around items."
>
> Case No. ER-80-117 "Staff's position is consistent with the decision consistent with the decision of the Commission rendered in the last two rate cases involving the Company.... In the Commission's opinion the Company's cash flow, interest coverage and internally generated funds have not been shown to be inadequate to the extent that flow-through treatment should not be afforded the six items at issue here." The items included Booked to Guideline Depreciation Lives and Removal Costs, in addition to basis differences.
>
> Case No. ER-82-39, page 23 "The tax-timing differences at issue in this case will be flowed through to the Company's ratepayers, as proposed by Staff." The same six items were at issue as the last case. The items included Booked to Guideline Depreciation Lives and Removal Costs, in addition to basis differences.

Q. What evidence do you have that ratemaking after 1982 included flow through of more than basis differences?

A. I obtained and reviewed our response to Staff Data Request 465 in Case No. ER-97-394. This response was a print out of our straight-line tax records for vintages 1970 and after.

It shows by vintage, by tax class, by calendar year the amount of tax depreciation and straight-line tax depreciation associated with the tax basis in each tax class. It also shows the tax and straight-line tax depreciation rates applied. The entire data response is very large. I have attached the pages for one vintage year (1974) as Surrebuttal Schedule HDR-8, however data for all vintage years is available.

Q. What were the straight-line tax depreciation rates for the 1970 to 1980 vintages?

A. I observed that for these guideline life vintages, the straight-line tax depreciation rates for each calendar year from the year placed in service until 1997 are the tax straight-line guideline life rate, and not book rates.

Q. How did you use this schedule?

A. I reviewed the Staff's tax work papers supplied to us during MPS Case No. ER-93-37. I noted that Staff's work papers for the straight-line tax calculation were based on a schedule by vintage year of the total tax depreciation and straight-line tax depreciation for the ER-93-37 test year. This schedule is attached as Surrebuttal Schedule HDR-9. I noted:

- Tax depreciation on the schedule for the pre-1970 vintage equaled the straight-line tax depreciation. This is the expected result when tax depreciation is flowed through for pre-1970 vintages, as permitted by the IRC. MPS elected tax straight-line CLS for our pre-1970 vintage tax depreciation.
- Straight-line tax depreciation for each and every electric property vintage year 1970 to 1980 agreed with the total of the straight-line tax depreciation for the electric classes of property for the 1993 year shown on our response to Staff Date Request 465 in Case No. ER-97-394.

Q. What did you conclude regarding Case No. ER-93-37?

A. After noting that Company and Staff testimony did not contain disagreements regarding the method of calculating straight-line tax depreciation, I concluded that Staff's approach in ER-93-37 was consistent with Company's and Company's records. In particular, guideline depreciation was used for pre-1981 vintages and book rates were applied to post-1980 vintages.

Q. Did you review MPS Case No. ER-83-40?

A. Yes. I reviewed the Staff's testimony. I also reviewed Staff's tax work paper supplied to us during Case No. ER-83-40, attached as Surrebuttal Schedule HDR-10, and our response to Staff Data Request 298 in Case No. ER-83-40 that was included with Staff's tax work papers, attached as Surrebuttal Schedule HDR-11. This was the first case after the four cases that ordered flow through. It is the first case in which the Company did not bring tax normalization to hearing.

Q. What did you observe in Staff's testimony?

A. In testimony, Staff refers to an adjustment 15 identified as "Excess Tax Deprecation and Guideline Tax Depreciation – Based upon Plant at 12-31-82. Excess tax depreciation is calculated on book to guideline tax for pre '81 and from book to ESL on post '80 vintages" (ER-83-40, Tooey Direct, page 7). In his testimony he further describes the adjustments as "The adjustment amounts are the difference between per books Deferred Tax and Deferred Taxes resulting from the normalization of the excess of actual tax depreciation over Tax Straight-Line Depreciation." (ER-83-40, Tooey Direct, page 8).

Q. What did you observe in Staff's tax work papers?

A. Staff's tax work paper is attached as Surrebuttal Schedule HDR-10. Included with the Staff's tax work papers for Case No. ER-83-40 was the Company's response to Staff's data request 298, attached as Surrebuttal Schedule HDR-11. In response to this data request, MPS provided schedules of 1983 tax depreciation, 1983 guideline straight-line tax depreciation, and 1983 equivalent straight line (ESL) depreciation. Staff's tax work papers show that the tax straight-line amount derives from the guideline straight-line tax schedule for vintages before 1981. ESL is used for the post 1980 vintages. I also noted that for the 1974 vintage, the electric property 1983 tax depreciation and the 1983 Guideline Straight Line Depreciation amounts on Surrebuttal Schedule HDR-11 agreed, except for one small adjustment, with the corresponding amounts for 1983 in Company's response to Staff Date Request 465 in Case No. ER-97-394 (1974 vintage schedules attached as Surrebuttal Schedule HDR-8).

Q. What is equivalent straight-line (ESL) depreciation?

A. ESL depreciation is book depreciation rates multiplied by the same tax basis as used for tax depreciation for vintage years after 1980.

Q. What did you conclude regarding Case No. ER-83-40?

A. The hearing memorandum states the following:

> "The Commission has previously established a generic docket, Case No. 00-83-220 to consider the issue of tax normalization. Company requests that a schedule of proceedings be established in that docket in order that a resolution of that issue can be had as expeditiously as possible." (Hearing Memorandum, ER-83-40, page 14).

After reviewing this hearing memorandum, coupled with Staff's testimony and work papers, I concluded that the case outcome and Staff's approach in ER-83-40 were consistent with Company's records. In particular, guideline depreciation was used for

pre-1981 vintages and book rates were applied to post-1980 vintages. Cost of removal flow through was also not changed by this case.

Q. Did you review MPS Case GR-88-194?

A. Yes. I reviewed Staff's tax testimony in MPS case GR-88-194 noting it was also consistent with Company's view that there are flow through items other than basis differences. Staff states:

"Tax straight-line depreciation is calculated by applying book depreciation rates to the tax basis of the depreciable property for vintage years 1988 through 1981. Tax straight-line depreciation for older vintages is calculated by applying Class Life Asset Depreciation Range, Class Life System, or straight-line depreciation rates as appropriate to the tax basis of the depreciable property." (GR-88-194, Tooey Direct, page 4, lines 11-16).

"Staff is proposing flow-through treatment on the book /tax timing differences associated with 1) vacation accrual, 2) cost of removal, and 3) book to tax straight-line depreciation. The Company has proposed normalization of vacation accrual and cost of removal." (GR-88-194, Tooey Direct, page 6, lines 17-20)

Q. What do you conclude regarding Case No. GR-88-194?

A. Staff's testimony confirms that as of the late 1980's there has been no-change in Staff or Commission's policy for MPS in the handling of guideline life depreciation flow through or cost of removal flow through.

Q. Did you review MPS Case ER-90-101?

A. Yes. I reviewed Company's tax testimony in MPS case ER-90-101 noting it was also consistent with Company's view that there are flow through items other than basis differences. Company Witness Dennis Williams states:

> "...full normalization of tax timing differences results in the most proper allocation of costs to the consumer. However, except in extraordinary circumstances, this Commission has historically allowed only normalization of those items which are statutorily protected...For purposes of this proceeding, we have determined to seek normalization of only those items historically provide such treatment by this Commission." (ER-90-101, Williams Direct, page 3).

On pages 4-6 of Mr. Williams' testimony, he describes the tax treatment of the various items. These include normalizing only the protected accelerated tax depreciation and protected advances and contributions in aid of construction. Cost of removal was treated as flow through.

Q. What did you conclude regarding Case No. ER-90-101?

A. After noting that Company and Staff rebuttal and surrebuttal testimony did not contain disagreements regarding the method of calculating straight-line tax depreciation, I concluded that Staff's approach in ER-90-101 was consistent with Company view reflected in MPS's straight-line tax records. In particular, guideline depreciation was used for pre-1981 vintages and book rates were applied to post-1980 vintages.

Q. What evidence did you review regarding flow through treatment of guideline tax straight-line depreciation prior to 1976?

A. I noted that the Report and Order in MPS's 1976 Case No. 18,502E, the Commission, discussing whether to normalize more than the protected amount of guideline depreciation (an "FPC-530" item), states:

> "Prior rate cases have resulted in two utilities being granted normalization of FPC-530 items because both had cash flow problems and one utility being denied normalization because it did not." (Case No. 18,502E, Report and Order, page 15)

The flow through treatment of tax straight-line depreciation is also evident in MPS's 1968 Case No. 16,569. The hearing memorandum and Staff Schedule D, referred to in the hearing memorandum, the test year net operating income in the hearing memorandum, and the test year net operating income in the report and order, all reflect that the excess of tax depreciation over book depreciation was flowed through. This can be seen on Staff

Schedule D that the excess of tax depreciation over book depreciation was used to reduce ratemaking tax expense in the same manner as the flowed through basis deductions of "taxes charged construction" and "pension costs to construction". Finally, flow through treatment of tax depreciation is consistent with both our straight-line tax records and our 1970 FERC Form 1. Ratemaking depreciation deferred taxes arise from a difference between tax and ratemaking straight-line tax depreciation. These deferred taxes are recorded in FERC account 282. If there is full flow through, there are no deferred taxes. Page 227 of our 1970 FERC Form 1 shows the beginning balance in account 282 is zero. This is consistent with the Company's records showing full flow through of pre –1970 tax depreciation.

Q. What is your conclusion regarding evidence of prior flow through?

A. I concluded that Company's straight-line tax records reflecting the use of guideline tax straight-line depreciation for ratemaking are well supported by our ratemaking history. Claims by Staff that there are no other significant flow through items are unsupported.

Other Flow Through Items

Q. Are there other prior flow through items?

A. Yes. Basis retirement differences and cost of removal in book depreciation rates are two other items that have historically caused the straight-line depreciation tax deduction to be higher than the associated book depreciation deductions.

Q. Please explain how basis retirement differences arise.

A. To calculate guideline tax straight-line depreciation, tax rules are followed. The asset retirement rules for tax are not identical to the rules for book. One important example of this relates to ordinary retirements of assets from the 1971 to 1980 vintages. These are

known as the Asset Depreciation Range (ADR) vintages. Under tax rules for these vintages tax basis is not reduced for ordinary retirements until after the vintage is fully depreciated. (IRC Reg. Section 1.167(a)-11)

Q. What is an example of an ordinary retirement?

A. Retirements from service due to wear and tear or normal operations would be considered ordinary. The sale of a system to another utility would not be an ordinary retirement.

Q. How does this impact Staff's method?

A. Staff's method assumes that straight-line tax calculations have always used the same depreciation rates, procedures, and methods as book depreciation. Guideline tax straight-line depreciation is not the same as book. Therefore, applying Staff's method now produces a different result from book depreciation that is not compensated for. This retirement rule is clearly different from the book retirement rules that reflect all retirements. This also contradicts one of Staff's assumptions that depreciation needs to continue on longer surviving assets to make up for depreciation not taken on shorter lived assets. This is clearly not the case here. Shorter-lived assets continue to be depreciated for straight-line tax regardless of whether they are retired for book.

Q. What is the impact on the calculation of straight-line tax of not reducing tax basis for retirements?

A. See Surrebuttal Schedule HDR-6. This schedule takes the example from Surrebuttal Schedule HDR-5 and illustrates an ADR vintage. Under the guideline straight-line tax method of calculating straight-line tax, the total available tax deduction is depleted in year 8. The retirement rules of ADR are one feature of tax straight line that provided prior Commissions the benefits of flow through.

Q. How can cost of removal contribute to a depreciation difference?

A. Historically, including in our ER-97-394 case, the tax deduction for cost of removal (not net salvage) has been separately calculated and deducted as a flow through item in the tax calculation. This has been the case back to the late 1970's. The ratepayer has received the tax deduction benefit for actual cost of removal in this manner. Book depreciation rates have historically included a component for a provision for cost of removal. This means that the depreciation rate and the depreciation amount are larger to allow for a provision for the cost of removal. To the extent that our book depreciation rates were used to calculate the tax deduction for depreciation, the depreciation tax deduction has also been larger to allow for a provision for cost of removal. Since actual cost of removal has been separately deducted for ratemaking and not charged back against straight-line tax depreciation, the provision becomes an additional flow through (tax benefit) in ratemaking. Since it is in the straight-line tax depreciation calculation, it serves to deplete the available tax deduction somewhat faster than a depreciation rate without a cost of removal component.

[redacted]

Q. [redacted]s?

A. [redacted]

[redacted]

Tax Summary

Q. Can you summarize your tax testimony?

A. The following are the key points:

- There are prior flow through items other than basis differences
- These items are of significant magnitude.
- The IRC requires vintage accounts to stop depreciation when fully depreciated. Company's calculation complies with this requirement.
- If switching to book depreciation (full normalization) when prior flow through items exist, the IRC requires an adjustment for these prior flow though items.
- Staff's method does not adjust for all the prior flow through items thereby taking duplicate (unrealizable) tax deductions unfairly.
- When the Commission originally ordered flow through, the Commission realized that flowing through benefits early on to ratepayers would increase rates to future ratepayers.

- Company's calculation properly complies with IRC requirements and produces the correct tax straight-line result.

RECORDING OF COST OF REMOVAL AND SALVAGE (NET SALVAGE)

Q. Staff witness Rosella Schad recommends that interim costs of removal should be expensed (Schad Rebuttal, page 15). Do you agree with her recommendation?

A. No. In order to provide proper protection to both the ratepayer and the Company, interim costs of removal, regardless of the dollar amount of net salvage authorized by the Commission for recovery in rates, should be included in the depreciation rate and provided rate base treatment for ratemaking. As demonstrated in my Rebuttal Exhibits HDR-1 and HDR-2, Staff's expense method does not allow full recovery and creates an under-recovery. Rate base treatment, regardless of the amount authorized, ensures that the ratepayer pays for all and only all actual net salvage costs of the Company. And given that the Commission reviews our depreciation rates periodically through updated depreciation studies, any rate that was too high or too low would be identified. Over time, the ratepayer pays no more than what the Company paid and earns a return through reduced rates in the interim. The Staff's expense method is inequitable in nature and provides no protection to either the ratepayer or the Company.

Q. What is your recommendation?

A. I recommend using the traditional method of incorporating net salvage in the depreciation rate, regardless of the dollar level provided in the rate, and affording rate base treatment as the appropriate ratemaking treatment because:

- Rate base treatment of net salvage equitably compensates both the ratepayer and the Company.

- Rate base treatment ensures that over time, all and only all actual net salvage amounts are collected from the ratepayer.
- Rate base treatment is supported by the accounting rules as published in both the Code of Federal Regulations and the Missouri Code of State Regulations.

FUTURE INTERIM NET SALVAGE AMOUNTS

Q. What method does the Company recommend as the proper amount of net salvage to be included in the depreciation rates?

A. The Company has a clear preference for the accrual levels of interim net salvage. Utilizing the accrual level should be the ratio of net salvage to retirements, i.e., the plant value of retirements. Accrual levels of net salvage spreads the ultimate cost over the life of the property and recovers these costs from the customers who actually consumed that property.

Q. What method does Staff propose?

A. Staff proposes utilizing a five-year average historical annual amount of net salvage, also termed the "pay as you go" method. Pay as you go represents the ratio of actual net salvage to total plant balances.

Q. Why is Company's accrual method preferred?

A. Company's accrual method is superior to Staff's pay as you go method because Staff's method has current customers paying for an **estimated** cash outlay, and has current customers paying for removal of plant consumed by prior customers and future customers paying for plant consumed by today's customers creating an intergenerational issue for the ratepayer.

Q. Ms. Schad states that the pay as you go method calculated by Staff utilizing a five year average represents known and measurable amounts and it is the Commission's practice to set rates based on known and measurable amounts. How do you respond?

A. First, incorporating historical averages into ratemaking should not be characterized as "known and measurable" amounts for future events. Since expenditures will occur at some future point in time, Staff's method should be characterized as an estimate, just a different method of estimation as compared to Company's accrual method. The key difference is that by utilizing the rate base method, ratepayers over time will pay the actual amounts incurred, because the rate base method provides a mechanism to true-up to the actual amounts incurred. Under Staff's method, ratepayers always pay an estimated amount incurred with no true-up mechanism to the actual amounts incurred.

Q. Has the pay as you go method been utilized in prior cases?

A. Yes. The pay as you go method has been incorporated in depreciation rates in prior rate orders. Specifically, in MPS Case No. ER-90-101, the Commission adopted Staff witness Melvin Love's methodology to recover a five-year average level of net salvage through the depreciation rate. A similar method was adopted in MPS Case No. ER-93-37.

Q. Has the accrual method been utilized in prior cases?

A. Yes. Both Company and Staff in MPS Case No. ER-97-394 recommended accrual levels (ratio of net salvage to plant value of retirements). This method was adopted by the Commission in MPS Case No. ER-97-394.

Q. Why is the accrual method superior?

A. The accrual method should be adopted by the Commission by incorporating Dr. Ronald E. White's recommended deprecation rates because:

- Intergeneration inequity for the ratepayer is minimized through the accrual method. The cost of providing service is appropriately placed with customers benefiting from the service, i.e., proper matching occurs.
- Minimization of a hidden disallowance will be accomplished through the accrual method. If the Company is not allowed to collect the true cost of serving current customers now, there is no guarantee it will be allowed to collect from future customers for a service previously provided to past customers.

Q. Ms. Schad references in her rebuttal that the Company's depreciation rates for interim costs of removal generated over $14.5 million annually for removal costs. Do you agree?

A. The Company has outstanding discovery requests on Staff's calculations of the $14.5 million. Until we receive the information requested, we are not in a position to respond.

Q. Has Ms. Schad misinterpreted your direct testimony?

A. Yes. In her testimony she takes exception to my use of the word "benefits." My testimony refers to the "benefits of salvage." Salvage (gross) is a reduction of the Company's costs and is given to the ratepayer as a benefit.

Q. Please summarize the Company's position for the amount of interim cost of removal.

A. The Company's preference is to utilize the accrual method because this method is more equitable. Current ratepayers consuming property should have to pay a portion of the retirement of the property they are consuming. The accrual method is superior to Staff's pay as you go method because it takes into consideration the future investment or growth

in electric plant. The Staff's method is inequitable and fails to take into consideration future growth and plant investment.

Q. Does this conclude your surrebuttal testimony?

A. Yes it does.

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
	MPS Cases		
ER-97-394	Data Request MPSC-465	1) Data Response is a detail showing by tax class, by vintage, by tax year the tax and tax straight line depreciation. 2) For vintages 1970 to1981 it shows the use of guideline life rates for all tax years. 3) Tax basis is the same as SLT basis.	1) Company's records show the use of guideline tax straight line for pre-1981 vintages for tax years prior to Case ER-97-394. 2) SLT reflects the same retirement procedures as Tax, not book retirement procedures

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
ER-93-37	Direct Testimony and supporting work papers of James R. Dittmer for Staff	p24 "review emphasis was upon recurring book and tax differences which have been historically flowed through as well as prominent book/tax differences." P27 "The net provision for deferred taxes associated with tax depreciation in excess of book depreciation was calculated by MPS with the Company's vintage tax records...and applying the Staff's recommended depreciation rates." Staff Schedule E20-45 - shows tax and straight line tax depreciation by vintage. Pre-1970 tax and tax straight line are equal. All electric SLT Depreciation amounts for 1970-1980 tie to the 1993 tax year data contained in Data Request 465 for Case No. ER-97-394.	1. Staff witness was aware of historical items and issues. 2. Staff supervised the preparation of the vintage schedules. 3. The vintage schedule from Staff's work papers do not reflect Staff's current method of calculation. This is clearly apparent by the fact that pre-1970 tax and tax straight line are identical. This is not possible under any plausible variation of Staff's ratio methodology. It is only possible if tax guideline class life rates were applied to tax basis for both tax and tax straight line and calculated in accordance with tax depreciation methods excluding fully depreciated vintages. 4. Staff's 1970-1981 SLT depreciation is guideline tax depreciation as it ties to Company's schedules. 5. Staff applied book depreciation rates to post 1980 vintages only, consistent with treatment in prior cases. 6. Staff's direct case included flow through of guideline tax depreciation.

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
ER-90-101	Surrebuttal Testimony of James R. Dittmer for Staff	p1 Mr. Dittmer's filed direct but no rebuttal testimony in this case. p1-2 Mr. Dittmer's issues for surrebuttal were unbilled revenue flow through tax issue, cost of removal tax deduction issue, overall revenue requirement recommendation, and certain promotional practices waivers. p3-20 Mr Dittmer refers to many cases regarding ratemaking treatment of taxes from 1958-1990. p20 "I, or members of my firm, have been involved in some capacity in every MPS electric case since Case No. ER-78-29."	1. Staff is familiar with current and historical tax issues. 2. Staff offered no rebuttal or surrebuttal to Company's use of Guideline Life flow through. Staff did not contest Company's approach.
ER-90-101	Direct Testimony of Dennis R. Williams - Company	p3 "full normalization of tax timing differences results in the most proper allocation of costs to the consumer. However, except in extraordinary circumstances, this Commission has historically allowed only normalization of those items which are statuatorily protected...For purposes of this proceeding, we have determined to seek normalization of only those items historically provide such treatment by this Commission." p4-6 Normalize only protected accelerated tax depreciation, and protected advances and contributions in aid of construction. Flow through costs of removal.	1. Company records on Data Request 465 in Case No. ER-97-394 show guideline SLT depreciation used in these years. This is consistent with prior flow through of guideline life differences. Guideline depreciation is not considered "accelerated". 2. Indicates Company believes there has been no change in Commission or Staff policy on flow through. 3. Conclude that Company has accepted the Commissions long standing and consistent flow through treatment of guideline life differences. If it had been granted normalization in a prior case, after seeking normalization for so many years, Company would have proposed it in this case.

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
GR-88-194	Direct Testimony of Edward Tooey - Staff	p4 "Tax straight-line depreciation is calculated by applying book depreciation rates to the tax basis of the depreciable property for vintage years 1988 through 1981. Tax straight-line depreciation for older vintages is calculated by applying Class Life Asset Depreciation Range, Class Life System, or straight-line depreciation rates as appropriate to the tax basis of the depreciable property." Staff flows through guideline/book life differences. Uses book depreciation rates only for ACRS and MACRS (post ERTA 1981) vintages p5 Staff notes that book depreciation rates include a component for cost of removal p6 "Staff is proposing flow-through treatment on the book/tax timing differences associated with 1) vacation accrual, 2) cost of removal, 3) book to tax straight-line depreciation. The Company has proposed normalization for vacation accrual and cost of removal." p7-9 Extensive discussion of the Commissions consistent treatment of cash flow difficulties as a test for flow through treatment.	1. This is consistent with prior flow through of guideline life differences. 2. Indicates there has been no change in Commission or Staff policy on flow through. 3. Staff testimony cites the differences with Company's proposal. Guideline life flow through treatment was not a difference. Conclude that Company has accepted the Commissions long standing and consistent flow through treatment of guideline life differences. If it had been granted normalization in a prior case, after seeking normalization for so many years, Company would have proposed it in this case.

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
AO-87-48	Order Approving Stipulation and Agreement in Tax Case, Company Schedules 1-25	Schedules show no deferred taxes related to pre-1970 vintages.	1. Likely the tax records were highly scrutinized in this case as it was the primary focus. 2. Staff and Company have utilized average rate assumption method (ARAM) to flow back excess taxes. This required a finding that the Company's vintage records are adequate. (IRC Rev Proc 88-12)
ER-83-40	Direct Testimony and Supporting Schedules and Supporting Workpapers of Edward Tooey	p6-7 "How were tax deductions appearing thereon calculated?...Excess Tax Depreciation and Guideline Tax Depreciation - Based upon Plant at 12-31-82. Excess tax depreciation is calculated on book to guideline tax for pre-'81 vintages and from book to ESL on post '80 vintages." Workpaper - Tax S/L ties to Data Request 298 schedule Guideline Straight Line Depreciation	1. Staff used guideline tax depreciation for pre-1981 vintage to determine straight-line tax depreciation for ratemaking tax deduction.
ER-83-40	Data Request 298	Shows Tax and Guideline Straight Line Depreciation by Class and Vintage for 1983 tax year.	1. Some vintages and classes tie to Data Request 465 from Case No. ER-97-394. Some adjustments from 1983 to 1997 are to be expected.
ER-83-40	Hearing Memorandum	p14 Tax normalization isse was deferred into a rulemaking case 00-83-220.	1. No change in tax treatment in this case. 2. Case 00-83-220 concluded no change should be made in the Commissions tax normalization policy.
ER-83-40	Report and Order	p12 Hearing memorandum addressed normalization. Order is silent on normalization issues except to reiterate the authorization to comply with ERTA 1981	1. ERTA 1981 tax law normalization requirements did not apply to pre-1981 vintage property. (IRC-81 Sec 168(e))

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
ER-82-39	Report and Order	p22 Flow through of booked to guideline depreciation lives, pensions and taxes, capitalized interest, removal costs, JEC Trust Deduction, and unbilled revenue. p22 "The Commission has frequently and consistently held in recent years that normalization treatment should be afforded only upon a showing that the utility requesting such normalization is experiencing significant cash flow problems." p23 "the Company has not met its burden of proving that its cash flow requires normalization of tax-timing differences" p23 Company authorized to normalize in accordance with Economic Recovery Tax Act of 1981.	1. Fourth order in a row allowing guideline life. 2. Commission draws our attention to its policy on normalization. 3. Everyone else is being treated similarly. 4. ERTA 1981 did not change any normalization requirements for pre-81 vintages (guideline life vintages) IRC-81 Sec 168(e)
NA	IRC Sec. 168 (1981 Code - ERTA 1981)	For purposes of this section -- 168(e)(1) property placed in service before January 1, 1981. -- The term "recovery property" does not include property placed in service by the taxpayer before January 1, 1981.	1. For new property placed in service, normalization requires a tax deduction depreciation period no shorter than that used to compute (book) depreciation expense, however this requirement does not apply to older vintages.
ER-81-85	Surrebuttal of James R. Dittmer for Staff in Case ER-90-101	p6 and Schedule 2 - Mr. Steven C. Carver of the MPSC Staff testified that staff was proposing flow through treatment of book-to-guideline depreciation lives.	1. Guideline life (Class Life Asset Depreciation Range lives) were flowed through.

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
ER-80-118	Report and Order	p32 "Staff's position is consistent with the decision of the Commission rendered in the last two rate cases involving the Company." p32 Flow through of booked to guideline depreciation lives, pensions and taxes, capitalized interest, removal costs, JEC Trust Deduction, and unbilled revenue.	1. Guideline life now specifically listed. This, and the note that Staff's position is consistent with prior two cases, supports the calculations reflected in Company's records that guideline life has been consistently flowed through.
ER-79-60	Report and Order	p35 "normalize investment tax credit, accelerated depreciation, amortization of extraordinary purchased power costs and numerous quick turnaround items" Allowance for funds used during construction, pension and taxes capitalized, Jeffrey Energy Center Trust deduction and removal costs shall be flowed through."	1. Order states that this is substantially the same as the last case. 2. Flow through of guideline life differences is confirmed in ER-80-118
ER-78-29	06/23/1978 Report and Order	p7 Cash flow is the key test to normalization p7 "Only" "accelerated depreciation, repair allowance, investment tax credit, and injuries and damages are allowed to be normalized."	1. All other unprotected items are flow through. 2. Accelerated depreciation is not the same as life differences. Guideline life differences are not precluded (protected) from flow through. 3. Guideline life difference was flowed through. This is consistent with the Companies books and records which have been subject to audit since that time. 4. This view is substantiated in ER-80-118

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
18,502 E	05/28/1976 Report and Order	p14 Regarding flow through and normalization. "Witnesses for Company, Staff, and intervenors pointed out the advantage and disadvantages of both approaches. Complications do develop under normalization in that the Company is being allowed to collect more revenue than their expenses will shelter, hence, the IRS will consider these normalization dollars as taxable income and take roughly half of them. To compensate, the Commission, under normalization, must double the amount of the normalization adjustment in order for the Company to end up with the proper number of dollars. However, the Commission points out that the reverse is true under flow through where the Company is allowed to collect in rates only its actual tax liability. Eventually, the Company will use up its depreciation deduction both as far as the Commission and the IRS are concerned, but its IRS depreciation deduction will be exhausted sooner, leaving a period of time where the IRS recognizes no expense but the Commission still does. At that point, the Commission will have to give the Company two dollars to cover one dollar	1) The Commission recognizes that by ordering flow through treatment future rate payers would incur higher rates.

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
18,502 E	05/28/1976 Report and Order	p14 Addresses life differences and capitalized overheads (FPC-530 issues) p15 Points out that only two prior cases have been granted normalization of FPC-530 items and both because of cash flow difficulties p15 Establishes cash flow difficulties as the proper test of allowing normalization of unprotected depreciation items Dissent of Commissioner Mulvaney indicates Company has not demonstrated cash flow difficulties and should not take the "drastic" measure of "adopting" full normalization.	1. Life and overheads are FPC-530 items, nomalization of which are subject to a determination of adequate cash flow. 2. MPS was not cited as one of the two prior companies granted normalization. Implies MPS was on flow through of unprotected items prior to this case. This is consistent with later rate case documents that show the amortization back into ratemaking of previously normalized amounts in 1976-78. 3. View that MPS was not on normalization prior is supported by dissent language of "drastic" and "adopting". 4. Life differences are not the same as or included in liberalized (accelerated) depreciation.
NA	1970 MPS FERC Form 1	p 227 - Account 282 has no opening balance	1. Absence of deferred taxes is consistent with pre-1970 flow through treatment of tax depreciation, as reflected in Case No. 16,569.

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
16,569	07-15-1969 Report and Order - MPS	p5 Test year (12/31/1968) net operating income is $7,382,978	1. Test year NOI ties to applicants brief showing flow through treatment of tax depreciation
16,569	05-26-1969 Brief of Applicant Missouri Public Service Company	p14-17 Ratemaking NOI reflects the impact of the deduction of the excess of the tax depreciation over book depreciation on the ratemaking tax expense p17 Adjusted test year NOI of $7,382,977 ties to rate order	1. The benefit of tax depreciation was provided the ratepayers. Tax depreciation was flowed through. Staff and Company accepted flow through treatment. This item was not at issue.
16,569	06-16-1969 Brief of the General Counsel Missouri Public Service Commission	p22 "The Company and the Staff are in agreement as to the method of computing federal and state income taxes except for the investment tax credit for rate-making purposes. (See Staff Ex. D, p. 2)"	1. Rate-making calculation of income tax expense was not an issue, except for investment tax credit.
16,569	Staff Exhibit D	Shows flow through treatment of excess of tax depreciation over book depreciation.	1. Tax depreciation flowed through
16,569	Hearing Transcript (1969)	p111-114 Richard Green - Company does not currently take liberalized depreciation because it objects to flow through ratemaking treatment p850 Jack Baker - Company does not currently take liberalized depreciation because Commission's current policy would require flow through treatment.	1. As of 1968 Company did not take liberalized depreciation. 2. Company, and current case supported it, believed Commission's policy was to flow through tax depreciation as reflected on the tax return. (Note: In 1968, the tax laws did not require normalization for ratemaking.)

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
12,964	03-04-1955 Report and Order on Emergency Facility Deferred Taxes - MPS	p1-2 "The Uniform System of Accounts prescribed by this Commission for the use of electrical corporations subject to its jurisdiction...does not specifically prescribe the method of accounting for the Federal income tax effect or result of such accelerated amortization." p4-6 Only applies to certified emergency facilities. p5-6 Orders reversal of deferred taxes to stop at when exhausted or property is retired, but authorized to use monthly amounts to ensure entire balance is amortized over the estimated remaining life. p6 Deferred taxes will be associated with particular certificates.	1. No prior accounts for deferred taxes, implies no prior deferred tax tracking, implies full flow through treatment, as flow through does not create deferred taxes. 2. Only certified emergency facilities authorized for deferred tax accounting treatment. Implies other property still flow through. 3. Deferred taxes from one certified property shall be held separate from other certified property. Implies aggregating separate properties is not authorized. 4. Reversal of deferred taxes will stop when the deferred taxes for that property reach zero.

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
	L&P Cases		
ER-99-247	Order Approving Stipulation and Agreement	p5 Item 5A "That SJLP will record income taxes by calculating tax straight-line depreciation on all assets in SJLP's plant accounts and by flowing through for cost of removal, net of salvage, the total tax deduction less the amount included in tax straight-line depreciation.	1. SJLP is allowed to adjust its flow through of COR by the amount of net salvage included in the calculation of tax straight-line.
ER-81-43	06-09-1981 Report and Order, Staff and Company Testimony	Item 5 Cost of removal ordered flow through Staff position in case was "The Staff is recommending that the flow-through treatment be utilized by this Company for all tax-timing differences not required by law to be normalized." (Traxler Direct, page 9)	1. Cost of removal flow through in straight-line depreciation to the extent cost of removal is in book depreciation rates. 2. Staff position is flow through of all unprotected items.
18,626	09-13-1976 Report and Order	p14 Lists nine items ordered flow through. "Book-tax differences in straight line life depreciation" is listed.	1. SJLP has flow through depreciation differences other than basis differences.
NA	1970 SJLP FERC Form 1	p 227 - Account 282 has opening balance of $324,000. Footnote discloses entire opening balance arose in 1969.	1. Absence of deferred taxes prior to 1969 is consistent with flow through treatment of tax depreciation and consistent with 1969 accounting order.

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
16,881	12-31-1969 Accounting Order	p2 Deferred taxes are the tax difference between the use of accelerated depreciation on the tax return and the use of tax straight-line depreciation on the income statement ("deduction allowable under the tax depreciation method heretofore followed). p3 "In respect of any of its properties" reversal of deferred taxes continues until the amount "applicable to such properties is exhausted"	1. Deferred taxes are the difference in two tax calculations. 2. Reversals of deferred taxes stop when exhausted.

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
	Other Company Cases		
13,294	02-28-1956 Report and Order on Liberalized Tax Depreciation Accounting - KCPL	p1 This case was part of a joint hearing and record with four other utilities "due to the importance of this matter". p2 Commission's Uniform System of accounts does not have a way to account for accelerated tax depreciation. p2-3 Refers to "three methods of determining depreciation for Federal tax purposes." Discusses tax methods of computing tax depreciation deduction. Accelerated methods available for tax years after 1953. p6 Rate treatment not at issue. p6 Election of accelerated depreciation for tax does not impact recording of book depreciation. p6-7 States the deferral is based on the difference between the accelerated tax depreciation deduction and the "deduction allowable under the tax depreciation method heretofore followed." p7 Regarding reversal of deferred taxes states when the reversal occurs for "any of its properties", the reversal will continue until the deferral "applicable to such properties is exhausted".	1. As a joint hearing for 5 utilities, intended to address the Uniform Systems of Accounts, I concluded that this set out the Commission's approach and not a single utility procedure. 2. No prior accounts for deferred taxes, implies no prior deferred tax tracking, implies full flow through treatment, as flow through does not create deferred taxes. 3. The deferral relates only to the difference between IRC accelerated tax and IRC tax straight line. Implies flow through accounting for the difference between tax straight line and book depreciation. 4. Provides that the reversal of deferred taxes stops at $0 for any property on which it is reversing. 5. By pointing out that deferral accounting was not binding on future rate cases, this implies a past preference for flow through and a reserved judgement on normalization accounting for ratemaking. This supports a view of prior flow through.

Documents Reviewed in Support of Existence of Prior Flow Through

Case No.	Document	Facts Found	Conclusion
GR-94-220	Laclede Gas Company Stipulation and Agreement	p11 Adopts Staff's Method and authorized to charge its deferred tax reserve for any tax liability created by the adoption of Staff's method. Attachment 2 Authorizes the reduction of tax basis by property retirements "for property depreciated under tax depreciation methods in which Tax Basis is not otherwise reduced by property retirements."	1. Laclede can charge its deferred tax reserve for the amounts created under Staff's method. 2. Laclede is authorized to reflect as retired the unreflected tax basis of ADR retirements.

Estimate of Prior Flow Through
Class Life vs Book Depreciation Rate Prior to 1997

MPS Vintage	Type	Surviving Tax Basis 12/31/2002	Flow Thru Depr	SLT Rate	Book Depreciation Rates 1951-1968	1969-1989	1990-1992	1993-1997
Pre-1970	Steam Gen	51,601,651	5,065,808	3.57%	2.63%	3.28%	2.97%	3.73%
Pre-1970	T&D	26,862,724	3,349,016	3.33%	2.96%	2.95%	2.82%	2.84%
1970	Steam Gen	831,455	56,872	3.57%	2.63%	3.28%	2.97%	3.73%
1971	Steam Gen	360,511	23,608	3.57%	2.63%	3.28%	2.97%	3.73%
1972	Steam Gen	970,926	60,752	3.57%	2.63%	3.28%	2.97%	3.73%
1973	Steam Gen	505,201	30,139	3.57%	2.63%	3.28%	2.97%	3.73%
1974	Steam Gen	723,785	41,070	3.57%	2.63%	3.28%	2.97%	3.73%
1975	Steam Gen	102,249	5,504	3.57%	2.63%	3.28%	2.97%	3.73%
1976	Steam Gen	182,166	9,275	3.57%	2.63%	3.28%	2.97%	3.73%
1977	Steam Gen	1,020,667	48,992	3.57%	2.63%	3.28%	2.97%	3.73%
1978	Steam Gen	25,196,008	1,135,980	3.57%	2.63%	3.28%	2.97%	3.73%
1979	Steam Gen	6,114,747	257,868	3.57%	2.63%	3.28%	2.97%	3.73%
1980	Steam Gen	17,516,286	687,639	3.57%	2.63%	3.28%	2.97%	3.73%
1970	T&D	6,432,801	753,289	3.33%	2.96%	2.95%	2.82%	2.84%
1971	T&D	4,475,442	506,925	3.33%	2.96%	2.95%	2.82%	2.84%
1972	T&D	13,774,778	1,507,445	3.33%	2.96%	2.95%	2.82%	2.84%
1973	T&D	10,444,869	1,103,000	3.33%	2.96%	2.95%	2.82%	2.84%
1974	T&D	7,858,524	799,755	3.33%	2.96%	2.95%	2.82%	2.84%
1975	T&D	11,201,790	1,097,059	3.33%	2.96%	2.95%	2.82%	2.84%
1976	T&D	8,973,003	844,386	3.33%	2.96%	2.95%	2.82%	2.84%
1977	T&D	12,858,907	1,160,772	3.33%	2.96%	2.95%	2.82%	2.84%
1978	T&D	13,280,622	1,147,935	3.33%	2.96%	2.95%	2.82%	2.84%
1979	T&D	9,668,956	798,693	3.33%	2.96%	2.95%	2.82%	2.84%
1980	T&D	10,722,713	844,636	3.33%	2.96%	2.95%	2.82%	2.84%
	Total	241,680,781	21,336,417					
		Rev Requirement	**13,295,002**					

Actual amount would likely be higher because:

Calculations not done for all tax classes, only for two largest.
This calculation does not reflect the additional depreciation over book amount created by the ADR retirement rules
Gas property not addressed.

Example of Staff's Method with Prior Flow Through Depreciation
No Book/Tax Basis Difference
No Life Difference
Assume $200 Guideline Straight Line Tax Depreciation in First Year

(a)	(b)	(c)	(d)	(e)	(f)
Life		10		Straight Line Tax	
Year	Plant Acct In Service	Plant Acct Depr	Plant Acct Accum Depr	SLT Depr	SLT Accum Depr
1	1,000	100	100	200	200
2	1,000	100	200	100	300
3	1,000	100	300	100	400
4	1,000	100	400	100	500
5	1,000	100	500	100	600
6	1,000	100	600	100	700
7	1,000	100	700	100	800
8	1,000	100	800	100	900
9	1,000	100	900	100	1,000
10	1,000	100	1,000	100	1,100
11	-	-	-	-	100
Totals		1,000		1,100	

Example of an Asset Outliving its Account Average Life

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Life	5	15		10		
Year	Asset 1 Asset Depr	Asset 2 Asset Depr	Plant Acct In Service	Plant Acct Depr	Plant Acct Accum Depr	
1	200	67	2,000	200	200	
2	200	67	2,000	200	400	
3	200	67	2,000	200	600	
4	200	67	2,000	200	800	
5	200	67	2,000	200	1,000	
6		67	1,000	100	100	Retire Asset1
7		67	1,000	100	200	
8		67	1,000	100	300	
9		67	1,000	100	400	
10		67	1,000	100	500	
11		67	1,000	100	600	
12		67	1,000	100	700	
13		67	1,000	100	800	
14		67	1,000	100	900	
15		67	1,000	100	1,000	
16		-	-	-	-	Retire Asset2
Totals	1,000	1,000		2,000		

Example of a Pre-1970 Class Life Asset

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Life		10			8	
	Plant Acct	Plant Acct	Plant Acct		SLT Vintage	SLT Vintage
Year	In Service	Depr	Accum Depr		Depr	Accum Depr
1	2,000	200	200		250	250
2	2,000	200	400		250	500
3	2,000	200	600		250	750
4	2,000	200	800		250	1,000
5	2,000	200	1,000		250	250
6	1,000	100	100	Retire Asset1	125	375
7	1,000	100	200		125	500
8	1,000	100	300		125	625
9	1,000	100	400		125	750
10	1,000	100	500		125	875
11	1,000	100	600		125	1,000
12	1,000	100	700			1,000
13	1,000	100	800			1,000
14	1,000	100	900			1,000
15	1,000	100	1,000			1,000
16	-	-	-	Retire Asset2	-	-
Totals		2,000			2,000	

Example of an ADR Guideline Life Asset

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Life		10				8	
	Plant Acct	Plant Acct	Plant Acct		SLT Vintage	SLT Vintage	SLT Vintage
Year	In Service	Depr	Accum Depr		Tax Basis	Depr	Accum Depr
1	2,000	200	200		2,000	250	250
2	2,000	200	400		2,000	250	500
3	2,000	200	600		2,000	250	750
4	2,000	200	800		2,000	250	1,000
5	2,000	200	1,000		2,000	250	1,250
6	1,000	100	100	Retire Asset1	2,000	250	1,500
7	1,000	100	200		2,000	250	1,750
8	1,000	100	300		2,000	250	2,000
9	1,000	100	400		2,000		2,000
10	1,000	100	500		2,000		2,000
11	1,000	100	600		2,000		2,000
12	1,000	100	700		2,000		2,000
13	1,000	100	800		2,000		2,000
14	1,000	100	900		2,000		2,000
15	1,000	100	1,000		2,000		2,000
16	-	-	-	Retire Asset2	-	-	-
Totals		2,000				2,000	

REV-RUL, Depreciation; public utility., Rev. Rul. 83-37, 1983-1 CB 60, (Jan. 01, 1983)

Rev. Rul. 83-37,▶ 1983-1 CB 60

Section 167.--Depreciation

26 CFR 1.167(l)-1: Limitations on reasonable allowance in case of property of certain public utilities.

[IRS Headnote] Depreciation; public utility.--
A public utility taxpayer will not be denied the use of accelerated methods of depreciation when it prospectively normalizes all differences between book and tax accounting (full normalization) in compliance with a Federal Energy Regulatory Commission (FERC) order. Furthermore, the taxpayer will not be in violation of section 167(1), even if it is normalizing with respect to property previously flowed through to the ratepayers, when the balance in its deferred tax account equals or exceeds the historical amount determined by the book and tax differences directly addressed by section 167(1).

[Text]

ISSUE

Will a public utility taxpayer be denied the use of accelerated methods of depreciation if it complies with an order of the Federal Energy Regulatory Commission (FERC) to normalize all tax differences between book and tax accounting for depreciation, including differences attributable to property for which flow-through accounting was previously used?

FACTS

In 1967, the taxpayer, a regulated public utility, began flowing through to ratepayers all tax deferrals resulting from the differences between book and tax accounting, including those attributable to the use of accelerated depreciation for federal income tax purposes while using straight line depreciation for book purposes. This method of flowing through all book-tax differences continued through 1974. In 1975 the taxpayer properly changed its accounting method to normalize prospectively, under the provisions of section 167(l) of the Internal **Revenue** Code for all qualified property.

In 1977, FERC issued an order for ratemaking purposes requiring the use of the "Comprehensive Interperiod Allocation of Income Taxes" method of normalization, [hereinafter referred to as the FERC Comprehensive Full Normalization Method] as described below.

This FERC Comprehensive Full Normalization Method was designed to normalize all tax differences attributable to the use of different accounting methods for book and tax purposes in 1977 and subsequent years. Under this procedure, the federal tax expense used to determine cost of service for ratemaking purposes and for reflecting operating results in the taxpayer's regulated books of account is computed by using the same accounting methods used to compute depreciation expense for ratemaking purposes. Therefore, in computing tax expense for ratemaking purposes, items such as interest, taxes, etc., are capitalized rather than deducted as current expense; and a depreciation deduction equal to the taxpayer's depreciation expense for ratemaking purposes (determined by using a depreciable basis that included capitalized expenses such as interest, taxes, etc.) and a depreciation rate based on the use of a straight line depreciation method and useful lives equal to book lives are used.

Because the FERC Comprehensive Full Normalization Method applies to property placed in service before 1977, when some or all book-tax differences had been flowed through to ratepayers, it also requires an annual addback to the cost of service, which is designed to generally offset the effect of normalizing with respect to property previously accounted for under a flow-through method. This annual addback is computed as follows:

(1) The remaining tax basis of all the taxpayer's plant is subtracted from the remaining book basis of such plant at the time the FERC Comprehensive Full Normalization Method is adopted.

(2) The amounts added to the deferred tax reserve before 1977 are divided by the tax rates for the years in which such additions were made to the reserve.

(3) To compute the amount of deductions previously flowed through to ratepayers, the amounts arrived at in step (2) are subtracted from the amount arrived at in step (1).

(4) The amount of previously flowed through deductions computed in step (3) is then allocated to 1977 and later years by dividing such amount by the approximate remaining book life (in years) of all plant then in service.

(5) For each of the years to which an amount is allocated in step (4), the tax attributable to the allocated amount is included as an additional tax expense; thereby, the amounts to be added to the deferred tax reserve in such years areincreased.

LAW AND ANALYSIS

For public utility property placed in service before January 1, 1970, section 167(l)(1) of the Code dictates that, if the taxpayer has been using accelerated depreciation and has been normalizing its deferred taxes, it can continue to use accelerated depreciation only if it continues to normalize with respect to that property. If the taxpayer has been using accelerated depreciation and flowing through to its ratepayers the benefits of the tax deferral, it is required to continue to do so with respect to that property unless the appropriate regulatory agency permits it to change. For property placed in service after December 31, 1969, section 167(l)(2) provides that if the taxpayer has been using a flow-through method with respect to its pre-1970 property of the same (or similar) kind most recently placed in service, it should continue to use accelerated depreciation and flow-through unless the regulatory agency permits it to change. In all other cases, the taxpayer may use accelerated depreciation only if it normalizes the deferred income taxes.

Section 167(l)(3)(G) of the Code and section 1.167(l)-1(h)(1)(i) of the Income Tax Regulations specify that to qualify as using a normalization method of accounting with respect to public utility property, the taxpayer must use the same method of depreciation to compute both its tax expense and its depreciation expense for purposes of establishing its cost of service for ratemaking purposes and for reflecting operating results on its regulated books of account; and if the taxpayer uses a different method for purposes of claiming depreciation on its tax return, it must make adjustments to a reserve to reflect the total amount of federal income tax deferral resulting from the use of such different methods of depreciation with respect to all its public utility property (other than property for which flow-through accounting is used).

Section 1.167(l)-1(h)(1)(i)(*b*) of the regulations requires the taxpayer who normalizes to make adjustments to its deferred tax reserve to reflect the total deferral of federal income tax liability with respect to all its public utility property (other than property for which flow-through accounting is being used) resulting from its use for tax purposes of a different method of depreciation than it uses for ratemaking and book purposes. Section 1.167(l)-1(h)(1)(iii) specifies that the amount of federal income tax deferred is the excess of the amount the tax liability would have been had a subsection (l) method (generally, a straight line method) been used over the amount of the actual tax liability.

The FERC Comprehensive Full Normalization Method requires that adjustments to a deferred tax reserve be made for the effects of all book-tax differences, not simply those differences for which adjustments are required by the section 167(l) regulations. Furthermore, this method provides for normalization with respect to all the taxpayer's public utility property, including property that had previously been accounted for unde a flow-through method.

Section 1.167(l)-1(a)(1) of the regulations specifically states that the section 167(l) regulations do not pertain to other book-tax timing differences with respect to State income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items. Thus, the requirement of the FERC Comprehensive Full Normalization Method for

normalization of book-tax timing differences other than those covered by section 167(l) of the Code has no bearing upon whether the method satisfies the requirements of section 167(l) and the regulations thereunder. Furthermore, because the amount of deferral attributable to nonsection 167(l) differences is unrelated to the amount of deferral caused by section 167(l) differences and because full normalization, *i.e.*, the normalization of all book-tax timing differences, necessarily includes the normalization of those book-tax differences addressed by section 167(l), and use of the FERC Comprehensive Full Normalization Method with respect to public utility property placed in service after such normalization method is adopted does not result in violation of section 167(l).

However, the FERC Comprehensive Full Normalization Method goes beyond requiring prospective full normalization of all book-tax timing differences. It requires taxpayers to normalize not only book-tax differences for assets placed in service after the adoption of such method but also for assets placed in service when normalization was not required or when normalization of only some book-tax timing differences was required.

The FERC Comprehensive Full Normalization Method does not compute the amount of federal tax deferral with respect to any particular asset or class of assets, as would normally be done in computing under section 1.167(l)-1(h)(1)(i) of theregulations the amount of federal income tax deferral. Rather, it focuses on the total plant investment. By computing the annual additions to the deferred tax reserve on the basis of the annual aggregate differences between book and tax depreciation for the entire plant, full normalization with respect to property concerning which flow-through accounting has previously been used allows current deductions to the deferred tax reserve with respect to property for which book depreciation now exceeds tax depreciation even though no amounts were added to the reserve when tax depreciation was higher than book depreciation because such differences were flowed through to ratepayers. However, the method attempts to counter the effectsof having flowed through prior book-tax differences rather than having normalized them by providing for the addback, which increases the tax expense for ratemaking purposes during the remaining book life of all the taxpayer's plant.

Were it not for addback, it is apparent that the annual adjustments would cause the deferred tax account balance to be reduced in violation of section 1.167(l)-1(h)(2)(i) of the regulations (unless additions to the account with respect to nonsection 167(l) book-tax differences made up for this deficit). However, if the previously flowed through amounts were added back at a rate assuring that sufficient amounts were added annually to counteract the effect of normalizing for property for which benefits had been previously flowed through, the FERC Comprehensive Full Normalization Method would be acceptable, since the annual additions to the deferred tax account would equal on a composite basis the amount required by section 167(l) of the Code and the amount needed to normalize all other book-tax timing differences. But the period for amortizing the addback is the average remaining useful life of the entire plant while the period for which differences must be accounted for under Section 1.167(l)-1(h)(1) of the regulations will normally differ depending upon the type and vintage year of the particular assets for which accelerated depreciation has been claimed. Because of this, the FERC Comprehensive FullNormalization does not assure that the addback period will properly correlate to the period for which adjustments are required under section 167(l).

If the addback in a given year for previously flowed-through amounts were too low, the addition to the deferred tax account for that year with respect to section 167(l) differences would be less than the required amount. This would cause a reduction of the deferred tax account for reasons other than those specified in section 1.167(l)-1(h)(2)(i) of the regulations and, because of this violation of section 167(l), the taxpayer would lose the right to use accelerated depreciation.

Therefore, to assure that section 167(l) of the Code is not violated in a particular case by the use of the FERC Comprehensive Full Normalization Method, a taxpayer who previously used flow-through accounting must compute, during each year in which an addback is required, the minimum addition required by section 167(l). This is done by calculating for each public utility property the difference between accelerated depreciation taken on the taxpayer's return and the amount that would have been taken as depreciation if the taxpayer had used a straight line method instead. The amount that would have been taken as straight line depreciation should be computed by reference to the tax basis, not the book basis, of the property at the time that normalization was adopted with respect to the property. For each year in which an addback is required, the balance in the deferred tax reserve must equal or exceed the amount that would have been in the account if only book-tax differences addressed by section 167(l) had been normalized.

HOLDING

The public utility taxpayer will not be denied the use of accelerated methods of depreciation when it complies with an order from FERC to prospectively normalize all differences between book and tax accounting (full normalization) ratherthan only the difference between accelerated and straight line depreciation. However, if a taxpayer is normalizing with respect to property previously accounted for under a flow-through method, the taxpayer will meet the requirements of section167(l) of the Code if the balance in its deferred tax account equals or exceeds the amount that would have been in the account if only book-tax differences addressed by section 167(l) had been normalized.

Summary of Tax and Straight Line Depreciaton and Deferred Taxes
1974 Vintage Property

Utility	Property Description	Tax Depr Rate	SL Depr Rate	Deferred Rate Federal	Deferred Rate State	Tax Year	Tax Depr	SL Depr	Difference	Deferred Taxes Federal	Deferred Taxes State	Deferred Taxes Total
1	49.13; Steam Production	0.00000	0.03571	0.44697	0.02762	1997	0	26,935	(26,935)	(12,039)	(744)	(12,783)
1	49.14; Trans-Distribution	0.75000	0.03333	0.44596	0.02767	1997	40,619	272,039	(231,420)	(103,205)	(6,403)	(109,608)
1	Buildings	0.03333	0.02222	0.44730	0.02760	1997	8,305	9,605	(1,300)	(581)	(36)	(617)
1	Equipment	0.00000	0.00000	0.44730	0.02760	1997	0	0	0	0	0	0
				TOTAL ELECTRIC			48,924	308,579	(259,655)	(115,825)	(7,183)	(123,008)
2	49.21; Distribution	0.30560	0.02864	0.44077	0.02801	1997	7,658	16,104	(8,446)	(3,723)	(236)	(3,959)
2	49.24; Transmission	0.00000	0.00000	0.44730	0.02760	1997	0	0	0	0	0	0
				TOTAL GAS			7,658	16,104	(8,446)	(3,723)	(236)	(3,959)
8	Buildings	0.03333	0.02222	0.44730	0.02760	1997	9,463	10,489	(1,026)	(459)	(28)	(487)
				TOTAL COMMON			9,463	10,489	(1,026)	(459)	(28)	(487)
				TOTAL 1974 VINTAGE			66,045	335,172	(269,127)	(120,007)	(7,447)	(127,454)

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VINTAGE 1975 1974

Utility	Tax Class	Tax Depr Rate	SL Depr Rate	Deferred Rate Federal	Deferred Rate State	Tax Year	Tax Depr	SL Depr	Difference	Deferred Taxes Federal	Deferred Taxes State	Deferred Taxes Total	Accum Reserve Federal	Accum Reserve State	Accum Reserve Total	Declined Balance	Tax Basis	Accum Tax Depr	Accum SL Depr
1	49.13; Steam Produc	0.08889	0.03571	0.447300	0.027600	1974	33,523	13,467	20,056	8,971	554	9,525	8,971	554	9,525	720,734	754,257	33,523	13,467
1	49.13; Steam Produc	0.08889	0.03571	0.447300	0.027600	1975	64,066	26,935	37,131	16,609	1,025	17,634	25,580	1,579	27,159	656,668		97,589	40,402
1	49.13; Steam Produc	0.09090	0.03571	0.447300	0.027600	1976	59,691	26,935	32,756	14,652	904	15,556	40,232	2,483	42,715	596,977		157,280	67,337
1	49.13; Steam Produc	0.09520	0.03571	0.447300	0.027600	1977	56,832	26,935	29,897	13,373	825	14,198	53,605	3,308	56,913	540,145		214,112	94,272
1	49.13; Steam Produc	0.10000	0.03571	0.447300	0.027600	1978	54,015	26,935	27,080	12,113	747	12,860	65,718	4,055	69,773	486,130		268,127	121,207
1	49.13; Steam Produc	0.10530	0.03571	0.447300	0.027600	1979	51,189	26,935	24,254	10,849	669	11,518	76,567	4,724	81,291	434,941		319,316	148,142
1	49.13; Steam Produc	0.11110	0.03571	0.447300	0.027600	1980	48,322	26,935	21,387	9,566	590	10,156	86,133	5,314	91,447	386,619		367,638	175,077
1	49.13; Steam Produc	0.11760	0.03571	0.447300	0.027600	1981	45,466	26,935	18,531	8,289	511	8,800	94,422	5,825	100,247	341,153		413,104	202,012
1	49.13; Steam Produc	0.12500	0.03571	0.447300	0.027600	1982	42,644	26,935	15,709	7,027	434	7,461	101,449	6,259	107,708	298,509		455,748	228,947
1	49.13; Steam Produc	0.13330	0.03571	0.447300	0.027600	1983	39,791	26,935	12,856	5,750	355	6,105	107,199	6,614	113,813	258,718		495,539	255,882
1	49.13; Steam Produc	0.14290	0.03571	0.447300	0.027600	1984	36,971	26,935	10,036	4,489	277	4,766	111,688	6,891	118,579	221,747		532,510	282,817
1	49.13; Steam Produc	0.15380	0.03571	0.447300	0.027600	1985	34,105	26,935	7,170	3,207	198	3,405	114,895	7,089	121,984	187,642		566,615	309,752
1	49.13; Steam Produc	0.16670	0.03571	0.447300	0.027600	1986	31,280	26,935	4,345	1,944	120	2,064	116,839	7,209	124,048	156,362		597,895	336,687
1	49.13; Steam Produc	0.18180	0.03571	0.387800	0.030600	1987	28,427	26,935	1,492	579	46	625	117,418	7,255	124,673	127,935		626,322	363,622
1	49.13; Steam Produc	0.20000	0.03571	0.446966	0.027617	1988	25,587	26,935	(1,348)	(603)	(37)	(640)	116,815	7,218	124,033	102,348		651,909	390,557
1	49.13; Steam Produc	0.22220	0.03571	0.446966	0.027617	1989	22,742	26,935	(4,193)	(1,874)	(116)	(1,990)	114,941	7,102	122,043	79,606		674,651	417,492
1	49.13; Steam Produc	0.25000	0.03571	0.446966	0.027617	1990	19,902	26,935	(7,033)	(3,144)	(194)	(3,338)	111,797	6,908	118,705	59,704		694,553	444,427
1	49.13; Steam Produc	0.28570	0.03571	0.446966	0.027617	1991	17,057	26,935	(9,878)	(4,415)	(273)	(4,688)	107,382	6,635	114,017	42,647		711,610	471,362
1	49.13; Steam Produc	0.33330	0.03571	0.446966	0.027617	1992	14,214	26,935	(12,721)	(5,686)	(351)	(6,037)	101,696	6,284	107,980	28,433		725,824	498,297
1	49.13; Steam Produc	0.40000	0.03571	0.446966	0.027617	1993	11,373	26,935	(15,562)	(6,956)	(430)	(7,386)	94,740	5,854	100,594	17,060		737,197	525,232
1	49.13; Steam Produc	0.50000	0.03571	0.446966	0.027617	1994	8,530	26,935	(18,405)	(8,226)	(508)	(8,734)	88,514	5,346	91,860	8,530		745,727	552,167
1	49.13; Steam Produc	0.66670	0.03571	0.446966	0.027617	1995	5,687	26,935	(21,248)	(9,497)	(587)	(10,084)	77,017	4,759	81,776	2,843		751,414	579,102
1	49.13; Steam Produc	1.00000	0.03571	0.446966	0.027617	1996	2,843	26,935	(24,092)	(10,768)	(665)	(11,433)	66,249	4,094	70,343	0		754,257	606,037
1	49.13; Steam Produc	0.00000	0.03571	0.446966	0.027617	1997	0	26,935	(26,935)	(12,039)	(744)	(12,783)	54,210	3,350	57,560	0		754,257	632,972
1	49.13; Steam Produc	0.00000	0.03571	0.446966	0.027617	1998	0	26,935	(26,935)	(12,039)	(744)	(12,783)	42,171	2,606	44,777	0		754,257	659,907
1	49.13; Steam Produc	0.00000	0.03571	0.446966	0.027617	1999	0	26,935	(26,935)	(12,039)	(744)	(12,783)	30,132	1,862	31,994	0		754,257	686,842
1	49.13; Steam Produc	0.00000	0.03571	0.446966	0.027617	2000	0	26,935	(26,935)	(12,039)	(744)	(12,783)	18,093	1,118	19,211	0		754,257	713,777
1	49.13; Steam Produc	0.00000	0.03571	0.446966	0.027617	2001	0	26,935	(26,935)	(12,039)	(744)	(12,783)	6,054	374	6,428	0		754,257	740,712
1	49.13; Steam Produc	0.00000	0.03571	0.446966	0.027617	2002	0	13,545	(13,545)	(6,054)	(374)	(6,428)	0	0	0	0		754,257	754,257
1	49.13; Steam Produc	0.00000	0.03571	0.446966	0.027617	2003	0	0	0	0	0	0	0	0	0	0		754,257	754,257
							754,257	754,257	0	0	0	0							

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Utility	Tax Class	Tax Depr Rate	SL Depr Rate	Deferred Rate Federal	Deferred Rate State	Tax Year	Tax Depr	SL Depr	Difference	Deferred Taxes Federal	Deferred Taxes State	Deferred Taxes Total	Accum Reserve Federal	Accum Reserve State	Accum Reserve Total	Declined Balance	Tax Basis	Accum Tax Depr	Accum SL Depr
1	49.14; Trans-Distribu	0.08333	0.03333	0.447300	0.027600	1974	340,083	136,033	204,050	91,272	5,632	96,904	91,272	5,632	96,904	7,821,897	8,161,312	340,083	136,033
1	49.14; Trans-Distribu	0.08333	0.03333	0.447300	0.027600	1975	651,799	272,066	379,733	169,855	10,481	180,336	261,127	16,113	277,240	7,170,098		991,882	408,099
1	49.14; Trans-Distribu	0.08510	0.03333	0.447300	0.027600	1976	610,175	272,066	338,109	151,236	9,332	160,568	412,363	25,445	437,808	6,559,923		1,602,057	680,165
1	49.14; Trans-Distribu	0.08880	0.03333	0.447300	0.027600	1977	582,521	272,066	310,455	138,867	8,569	147,436	551,230	34,014	585,244	5,977,402		2,184,578	952,231
1	49.14; Trans-Distribu	0.09300	0.03333	0.447300	0.027600	1978	555,898	272,066	283,832	126,958	7,834	134,792	678,188	41,848	720,036	5,421,504		2,740,476	1,224,297
1	49.14; Trans-Distribu	0.09750	0.03333	0.447300	0.027600	1979	528,597	272,066	256,531	114,746	7,080	121,826	792,934	48,928	841,862	4,892,907		3,269,073	1,496,363
1	49.14; Trans-Distribu	0.10250	0.03333	0.447300	0.027600	1980	501,476	272,066	229,410	102,615	6,332	108,947	895,549	55,260	950,809	4,390,763		3,770,549	1,768,429
1	49.14; Trans-Distribu	0.10800	0.03333	0.447300	0.027600	1981	474,205	272,039	202,166	90,429	5,580	96,009	985,978	60,840	1,046,818	3,916,558		4,244,754	2,040,468
1	49.14; Trans-Distribu	0.00000	0.00000	0.447300	0.027600	1982	2,363	2,363	0	0	0	0	985,978	60,840	1,046,818	3,914,195		4,247,117	2,042,831
1	49.14; Trans-Distribu	0.11420	0.03333	0.447300	0.027600	1982	447,001	272,039	174,962	78,261	4,829	83,090	1,064,239	65,669	1,129,908	3,467,194		4,694,118	2,314,870
1	49.14; Trans-Distribu	0.12110	0.03333	0.447300	0.027600	1983	419,877	272,039	147,838	66,128	4,080	70,208	1,130,367	69,749	1,200,116	3,047,317		5,113,995	2,586,909
1	49.14; Trans-Distribu	0.12890	0.03333	0.447300	0.027600	1984	392,789	272,039	120,760	54,016	3,333	57,349	1,184,383	73,082	1,257,465	2,654,518		5,506,794	2,858,948
1	49.14; Trans-Distribu	0.13780	0.03333	0.447300	0.027600	1985	365,793	272,039	93,754	41,936	2,588	44,524	1,226,319	75,670	1,301,989	2,288,725		5,872,587	3,130,987
1	49.14; Trans-Distribu	0.14790	0.03333	0.447300	0.027600	1986	338,502	272,039	66,463	29,729	1,834	31,563	1,256,048	77,504	1,333,552	1,950,223		6,211,089	3,403,026
1	49.14; Trans-Distribu	0.15970	0.03333	0.387800	0.030600	1987	311,451	272,039	39,412	15,284	1,206	16,490	1,271,332	78,710	1,350,042	1,638,772		6,522,540	3,675,065
1	49.14; Trans-Distribu	0.17360	0.03333	0.328600	0.033600	1988	284,491	272,039	12,452	4,092	418	4,510	1,275,424	79,128	1,354,552	1,354,281		6,807,031	3,947,104
1	49.14; Trans-Distribu	0.19000	0.03333	0.445964	0.027668	1989	257,313	272,039	(14,726)	(6,567)	(407)	(6,974)	1,268,857	78,721	1,347,578	1,096,968		7,064,344	4,219,143
1	49.14; Trans-Distribu	0.20990	0.03333	0.445964	0.027668	1990	230,254	272,039	(41,785)	(18,635)	(1,156)	(19,791)	1,250,222	77,565	1,327,787	866,714		7,294,598	4,491,182
1	49.14; Trans-Distribu	0.23440	0.03333	0.445964	0.027668	1991	203,158	272,039	(68,881)	(30,718)	(1,906)	(32,624)	1,219,504	75,659	1,295,163	663,556		7,497,756	4,763,221
1	49.14; Trans-Distribu	0.26530	0.03333	0.445964	0.027668	1992	176,041	272,039	(95,998)	(42,812)	(2,656)	(45,468)	1,176,692	73,003	1,249,695	487,515		7,673,797	5,035,260
1	49.14; Trans-Distribu	0.30560	0.03333	0.445964	0.027668	1993	148,985	272,039	(123,054)	(54,878)	(3,405)	(58,283)	1,121,814	69,598	1,191,412	338,530		7,822,782	5,307,299
1	49.14; Trans-Distribu	0.36000	0.03333	0.445964	0.027668	1994	121,871	272,039	(150,168)	(66,969)	(4,155)	(71,124)	1,054,845	65,443	1,120,288	216,659		7,944,653	5,579,338
1	49.14; Trans-Distribu	0.43750	0.03333	0.445964	0.027668	1995	94,788	272,039	(177,251)	(79,048)	(4,904)	(83,952)	975,797	60,539	1,036,336	121,871		8,039,441	5,851,377
1	49.14; Trans-Distribu	0.55560	0.03333	0.445964	0.027668	1996	67,712	272,039	(204,327)	(91,122)	(5,653)	(96,775)	884,675	54,886	939,561	54,159		8,107,153	6,123,416
1	49.14; Trans-Distribu	0.75000	0.03333	0.445964	0.027668	1997	40,619	272,039	(231,420)	(103,205)	(6,403)	(109,608)	781,470	48,483	829,953	13,540		8,147,772	6,395,455
1	49.14; Trans-Distribu	1.00000	0.03333	0.445964	0.027668	1998	13,540	272,039	(258,499)	(115,281)	(7,152)	(122,433)	666,189	41,331	707,520	0		8,161,312	6,667,494
1	49.14; Trans-Distribu	0.00000	0.03333	0.445964	0.027668	1999	0	272,039	(272,039)	(121,320)	(7,527)	(128,847)	544,869	33,804	578,673	0		8,161,312	6,939,533
1	49.14; Trans-Distribu	0.00000	0.03333	0.445964	0.027668	2000	0	272,039	(272,039)	(121,320)	(7,527)	(128,847)	423,549	26,277	449,826	0		8,161,312	7,211,572
1	49.14; Trans-Distribu	0.00000	0.03333	0.445964	0.027668	2001	0	272,039	(272,039)	(121,320)	(7,527)	(128,847)	302,229	18,750	320,979	0		8,161,312	7,483,611
1	49.14; Trans-Distribu	0.00000	0.03333	0.445964	0.027668	2002	0	272,039	(272,039)	(121,320)	(7,527)	(128,847)	180,909	11,223	192,132	0		8,161,312	7,755,650
1	49.14; Trans-Distribu	0.00000	0.03333	0.445964	0.027668	2003	0	272,039	(272,039)	(121,320)	(7,527)	(128,847)	59,589	3,696	63,285	0		8,161,312	8,027,689
1	49.14; Trans-Distribu	0.00000	0.03333	0.445964	0.027668	2004	0	133,623	(133,623)	(59,591)	(3,697)	(63,288)	(2)	(1)	(3)	0		8,161,312	8,161,312
							8,161,312	8,161,312	0	(2)	(1)	(3)							

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Utility	Tax Class	Tax Depr Rate	SL Depr Rate	Deferred Rate Federal	Deferred Rate State	Tax Year	Tax Depr	SL Depr	Difference	Deferred Taxes Federal	Deferred Taxes State	Deferred Taxes Total	Accum Reserve Federal	Accum Reserve State	Accum Reserve Total	Declined Balance	Tax Basis	Accum Tax Depr	Accum SL Depr
1	Buildings	0.04444	0.02222	0.447300	0.027600	1974	9,605	4,803	4,802	2,148	133	2,281	2,148	133	2,281	422,665	432,270	9,605	4,803
1	Buildings	0.04444	0.02222	0.447300	0.027600	1975	18,783	9,605	9,178	4,105	253	4,358	6,253	386	6,639	403,882		28,388	14,408
1	Buildings	0.04490	0.02222	0.447300	0.027600	1976	18,134	9,605	8,529	3,815	235	4,050	10,068	621	10,689	385,748		46,522	24,013
1	Buildings	0.04600	0.02222	0.447300	0.027600	1977	17,744	9,605	8,139	3,641	225	3,866	13,709	846	14,555	368,004		64,266	33,618
1	Buildings	0.03333	0.02222	0.447300	0.027600	1978	12,266	9,605	2,661	1,190	73	1,263	14,899	919	15,818	355,738		76,532	43,223
1	Buildings	0.03333	0.02222	0.447300	0.027600	1979	11,857	9,605	2,252	1,007	62	1,069	15,906	981	16,887	343,881		88,389	52,828
1	Buildings	0.03333	0.02222	0.447300	0.027600	1980	11,462	9,605	1,857	831	51	882	16,737	1,032	17,769	332,419		99,851	62,433
1	Buildings	0.03333	0.02222	0.447300	0.027600	1981	11,080	9,605	1,475	660	41	701	17,397	1,073	18,470	321,339		110,931	72,038
1	Buildings	0.03333	0.02222	0.447300	0.027600	1982	10,710	9,605	1,105	494	30	524	17,891	1,103	18,994	310,629		121,641	81,643
1	Buildings	0.03333	0.02222	0.447300	0.027600	1983	10,353	9,605	748	335	21	356	18,226	1,124	19,350	300,276		131,994	91,248
1	Buildings	0.03333	0.02222	0.447300	0.027600	1984	10,008	9,605	403	180	11	191	18,406	1,135	19,541	290,268		142,002	100,853
1	Buildings	0.03333	0.02222	0.447300	0.027600	1985	9,675	9,605	70	31	2	33	18,437	1,137	19,574	280,593		151,677	110,458
1	Buildings	0.03333	0.02222	0.447300	0.027600	1986	9,352	9,605	(253)	(113)	(7)	(120)	18,324	1,130	19,454	271,241		161,029	120,063
1	Buildings	0.03333	0.02222	0.447300	0.027600	1987	9,040	9,605	(565)	(253)	(16)	(269)	18,071	1,114	19,185	262,201		170,069	129,668
1	Buildings	0.03333	0.02222	0.447300	0.027600	1988	8,739	9,605	(866)	(387)	(24)	(411)	17,684	1,090	18,774	253,462		178,808	139,273
1	Buildings	0.03333	0.02222	0.447300	0.027600	1989	8,448	9,605	(1,157)	(518)	(32)	(550)	17,166	1,058	18,224	245,014		187,256	148,878
1	Buildings	0.03333	0.02222	0.447300	0.027600	1990	8,305	9,605	(1,300)	(581)	(36)	(617)	16,585	1,022	17,607	236,709		195,561	158,483
1	Buildings	0.03333	0.02222	0.447300	0.027600	1991	8,305	9,605	(1,300)	(581)	(36)	(617)	16,004	986	16,990	228,404		203,866	168,088
1	Buildings	0.03333	0.02222	0.447300	0.027600	1992	8,305	9,605	(1,300)	(581)	(36)	(617)	15,423	950	16,373	220,099		212,171	177,693
1	Buildings	0.03333	0.02222	0.447300	0.027600	1993	8,305	9,605	(1,300)	(581)	(36)	(617)	14,842	914	15,756	211,794		220,476	187,298
1	Buildings	0.03333	0.02222	0.447300	0.027600	1994	8,305	9,605	(1,300)	(581)	(36)	(617)	14,261	878	15,139	203,489		228,781	196,903
1	Buildings	0.03333	0.02222	0.447300	0.027600	1995	8,305	9,605	(1,300)	(581)	(36)	(617)	13,680	842	14,522	195,184		237,086	206,508
1	Buildings	0.03333	0.02222	0.447300	0.027600	1996	8,305	9,605	(1,300)	(581)	(36)	(617)	13,099	806	13,905	186,879		245,391	216,113
1	Buildings	0.03333	0.02222	0.447300	0.027600	1997	8,305	9,605	(1,300)	(581)	(36)	(617)	12,518	770	13,288	178,574		253,696	225,718
1	Buildings	0.03333	0.02222	0.447300	0.027600	1998	8,305	9,605	(1,300)	(581)	(36)	(617)	11,937	734	12,671	170,269		262,001	235,323
1	Buildings	0.03333	0.02222	0.447300	0.027600	1999	8,305	9,605	(1,300)	(581)	(36)	(617)	11,356	698	12,054	161,964		270,306	244,928
1	Buildings	0.03333	0.02222	0.447300	0.027600	2000	8,305	9,605	(1,300)	(581)	(36)	(617)	10,775	662	11,437	153,659		278,611	254,533
1	Buildings	0.03333	0.02222	0.447300	0.027600	2001	8,305	9,605	(1,300)	(581)	(36)	(617)	10,194	626	10,820	145,354		286,916	264,138
1	Buildings	0.03333	0.02222	0.447300	0.027600	2002	8,305	9,605	(1,300)	(581)	(36)	(617)	9,613	590	10,203	137,049		295,221	273,743
1	Buildings	0.03333	0.02222	0.447300	0.027600	2003	8,305	9,605	(1,300)	(581)	(36)	(617)	9,032	554	9,586	128,744		303,526	283,348
1	Buildings	0.03333	0.02222	0.447300	0.027600	2004	8,305	9,605	(1,300)	(581)	(36)	(617)	8,451	518	8,969	120,439		311,831	292,953
1	Buildings	0.03333	0.02222	0.447300	0.027600	2005	8,305	9,605	(1,300)	(581)	(36)	(617)	7,870	482	8,352	112,134		320,136	302,558
1	Buildings	0.03333	0.02222	0.447300	0.027600	2006	8,305	9,605	(1,300)	(581)	(36)	(617)	7,289	446	7,735	103,829		328,441	312,163
1	Buildings	0.03333	0.02222	0.447300	0.027600	2007	8,305	9,605	(1,300)	(581)	(36)	(617)	6,708	410	7,118	95,524		336,746	321,768
1	Buildings	0.03333	0.02222	0.447300	0.027600	2008	8,305	9,605	(1,300)	(581)	(36)	(617)	6,127	374	6,501	87,219		345,051	331,373
1	Buildings	0.03333	0.02222	0.447300	0.027600	2009	8,305	9,605	(1,300)	(581)	(36)	(617)	5,546	338	5,884	78,914		353,356	340,978
1	Buildings	0.03333	0.02222	0.447300	0.027600	2010	8,305	9,605	(1,300)	(581)	(36)	(617)	4,965	302	5,267	70,609		361,661	350,583
1	Buildings	0.03333	0.02222	0.447300	0.027600	2011	8,305	9,605	(1,300)	(581)	(36)	(617)	4,384	266	4,650	62,304		369,966	360,188
1	Buildings	0.03333	0.02222	0.447300	0.027600	2012	8,305	9,605	(1,300)	(581)	(36)	(617)	3,803	230	4,033	53,999		378,271	369,793
1	Buildings	0.03333	0.02222	0.447300	0.027600	2013	8,305	9,605	(1,300)	(581)	(36)	(617)	3,222	194	3,416	45,694		386,576	379,398
1	Buildings	0.03333	0.02222	0.447300	0.027600	2014	8,305	9,605	(1,300)	(581)	(36)	(617)	2,641	158	2,799	37,389		394,881	389,003
1	Buildings	0.03333	0.02222	0.447300	0.027600	2015	8,305	9,605	(1,300)	(581)	(36)	(617)	2,060	122	2,182	29,084		403,186	398,608
1	Buildings	0.03333	0.02222	0.447300	0.027600	2016	8,305	9,605	(1,300)	(581)	(36)	(617)	1,479	86	1,565	20,779		411,491	408,213
1	Buildings	0.03333	0.02222	0.447300	0.027600	2017	8,305	9,605	(1,300)	(581)	(36)	(617)	898	50	948	12,474		419,796	417,818
1	Buildings	0.03333	0.02222	0.447300	0.027600	2018	8,305	9,605	(1,300)	(581)	(36)	(617)	317	14	331	4,169		428,101	427,423

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Utility	Tax Class	Tax Depr Rate	SL Depr Rate	Deferred Rate Federal	Deferred Rate State	Tax Year	Tax Depr	SL Depr	Difference	Deferred Taxes Federal	Deferred Taxes State	Deferred Taxes Total	Accum Reserve Federal	Accum Reserve State	Accum Reserve Total	Declined Balance	Tax Basis	Accum Tax Depr	Accum SL Depr
1	Buildings	0.03333	0.02222	0.447300	0.027600	2019	4,169	4,847	(678)	(303)	(19)	(322)	14	(5)	9	0		432,270	432,270
							432,270	432,270	0	14	(5)	9							

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Utility	Tax Class	Tax Depr Rate	SL Depr Rate	Deferred Rate Federal	Deferred Rate State	Tax Year	Tax Depr	SL Depr	Difference	Deferred Taxes Federal	Deferred Taxes State	Deferred Taxes Total	Accum Reserve Federal	Accum Reserve State	Accum Reserve Total	Declined Balance	Tax Basis	Accum Tax Depr	Accum SL Depr
1	Equipment	0.16667	0.08333	0.447300	0.027600	1974	6,254	3,127	3,127	1,399	86	1,485	1,399	86	1,485	68,789	75,043	6,254	3,127
1	Equipment	0.16667	0.08333	0.447300	0.027600	1975	11,465	6,253	5,212	2,331	144	2,475	3,730	230	3,960	57,324		17,719	9,380
1	Equipment	0.16667	0.08333	0.447300	0.027600	1976	9,554	6,253	3,301	1,477	91	1,568	5,207	321	5,528	47,770		27,273	15,633
1	Equipment	0.16667	0.08333	0.447300	0.027600	1977	7,962	6,253	1,709	764	47	811	5,971	368	6,339	39,808		35,235	21,886
1	Equipment	0.16667	0.08333	0.447300	0.027600	1978	6,635	6,253	382	171	11	182	6,142	379	6,521	33,173		41,870	28,139
1	Equipment	0.16667	0.08333	0.447300	0.027600	1979	5,529	6,253	(724)	(324)	(20)	(344)	5,818	359	6,177	27,644		47,399	34,392
1	Equipment	0.16667	0.08333	0.447300	0.027600	1980	4,607	6,253	(1,646)	(736)	(45)	(781)	5,082	314	5,396	23,037		52,006	40,645
1	Equipment	0.18182	0.08333	0.447300	0.027600	1981	4,189	6,253	(2,064)	(923)	(57)	(980)	4,159	257	4,416	18,848		56,195	46,898
1	Equipment	0.22222	0.08333	0.447300	0.027600	1982	4,188	6,253	(2,065)	(924)	(57)	(981)	3,235	200	3,435	14,660		60,383	53,151
1	Equipment	0.28571	0.08333	0.447300	0.027600	1983	4,189	6,253	(2,064)	(923)	(57)	(980)	2,312	143	2,455	10,471		64,572	59,404
1	Equipment	0.40000	0.08333	0.447300	0.027600	1984	4,188	6,253	(2,065)	(924)	(57)	(981)	1,388	86	1,474	6,283		68,760	65,657
1	Equipment	0.66667	0.08333	0.447300	0.027600	1985	4,189	6,253	(2,064)	(923)	(57)	(980)	465	29	494	2,094		72,949	71,910
1	Equipment	1.00000	0.08333	0.447300	0.027600	1986	2,094	3,133	(1,039)	(465)	(29)	(494)	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1987	0	0	0	0	0	0	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1988	0	0	0	0	0	0	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1989	0	0	0	0	0	0	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1990	0	0	0	0	0	0	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1991	0	0	0	0	0	0	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1992	0	0	0	0	0	0	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1993	0	0	0	0	0	0	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1994	0	0	0	0	0	0	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1995	0	0	0	0	0	0	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1996	0	0	0	0	0	0	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1997	0	0	0	0	0	0	0	0	0	0		75,043	75,043
1	Equipment	0.00000	0.00000	0.447300	0.027600	1998	0	0	0	0	0	0	0	0	0	0			
1	Equipment	0.00000	0.00000	0.447300	0.027600	1999	0	0	0	0	0	0	0	0	0	0			
							75,043	75,043	0	0	0	0							

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Utility	Tax Class	Tax Depr Rate	SL Depr Rate	Deferred Rate Federal	Deferred Rate State	Tax Year	Tax Depr	SL Depr	Difference	Deferred Taxes Federal	Deferred Taxes State	Deferred Taxes Total	Accum Reserve Federal	Accum Reserve State	Accum Reserve Total	Declined Balance	Tax Basis	Accum Tax Depr	Accum SL Depr
2	49.21; Distribution	0.07143	########	0.447300	0.027600	1974	20,086	8,034	12,052	5,391	333	5,724	5,391	333	5,724	542,303	562,389	20,086	8,034
2	49.21; Distribution	0.07143	########	0.447300	0.027600	1975	38,737	16,067	22,670	10,140	626	10,766	15,531	959	16,490	503,566		58,823	24,101
2	49.21; Distribution	0.07270	########	0.447300	0.027600	1976	36,609	16,067	20,542	9,188	567	9,755	24,719	1,526	26,245	466,957		95,432	40,168
2	49.21; Distribution	0.07540	########	0.447300	0.027600	1977	35,209	16,067	19,142	8,562	528	9,090	33,281	2,054	35,335	431,748		130,641	56,235
2	49.21; Distribution	0.07840	########	0.447300	0.027600	1978	33,849	16,067	17,782	7,954	491	8,445	41,235	2,545	43,780	397,899		164,490	72,302
2	49.21; Distribution	0.08160	########	0.447300	0.027600	1979	32,469	16,067	16,402	7,337	453	7,790	48,572	2,998	51,570	365,430		196,959	88,369
2	49.21; Distribution	0.08510	########	0.447300	0.027600	1980	29,880	15,583	14,297	6,395	395	6,790	54,967	3,393	58,360	335,550		226,839	103,952
2	49.21; Distribution	0.08880	########	0.447300	0.027600	1981	28,526	15,583	12,943	5,789	357	6,146	60,756	3,750	64,506	307,024		255,365	119,535
2	49.21; Distribution	0.09300	########	0.447300	0.027600	1982	28,553	16,104	12,449	5,568	344	5,912	66,324	4,094	70,418	278,471		283,918	135,639
2	49.21; Distribution	0.09750	########	0.447300	0.027600	1983	27,151	16,104	11,047	4,941	305	5,246	71,265	4,399	75,664	251,320		311,069	151,743
2	49.21; Distribution	0.10250	########	0.447300	0.027600	1984	25,760	16,104	9,656	4,319	267	4,586	75,584	4,666	80,250	225,560		336,829	167,847
2	49.21; Distribution	0.10800	########	0.447300	0.027600	1985	24,360	16,104	8,256	3,693	228	3,921	79,277	4,894	84,171	201,200		361,189	183,951
2	49.21; Distribution	0.11420	########	0.447300	0.027600	1986	22,977	16,104	6,873	3,074	190	3,264	82,351	5,084	87,435	178,223		384,166	200,055
2	49.21; Distribution	0.12110	########	0.387800	0.030600	1987	21,583	16,104	5,479	2,125	168	2,293	84,476	5,252	89,728	156,640		405,749	216,159
2	49.21; Distribution	0.12890	########	0.328600	0.033600	1988	20,191	16,104	4,087	1,343	137	1,480	85,819	5,389	91,208	136,449		425,940	232,263
2	49.21; Distribution	0.13780	########	0.328600	0.033600	1989	18,803	16,104	2,699	887	91	978	86,706	5,480	92,186	117,646		444,743	248,367
2	49.21; Distribution	0.14790	########	0.325100	0.043900	1990	17,400	16,104	1,296	421	57	478	87,127	5,537	92,664	100,246		462,143	264,471
2	49.21; Distribution	0.15970	########	0.440766	0.028011	1991	16,009	16,104	(95)	(31)	(3)	(34)	87,096	5,534	92,630	84,237		478,152	280,575
2	49.21; Distribution	0.17360	########	0.440766	0.028011	1992	14,624	16,104	(1,480)	(652)	(41)	(693)	86,444	5,493	91,937	69,613		492,776	296,679
2	49.21; Distribution	0.19000	########	0.440766	0.028011	1993	13,226	16,104	(2,878)	(1,269)	(80)	(1,349)	85,175	5,413	90,588	56,387		506,002	312,783
2	49.21; Distribution	0.20990	########	0.440766	0.028011	1994	11,836	16,104	(4,268)	(1,881)	(119)	(2,000)	83,294	5,294	88,588	44,551		517,838	328,887
2	49.21; Distribution	0.23440	########	0.440766	0.028011	1995	10,443	16,104	(5,661)	(2,495)	(158)	(2,653)	80,799	5,136	85,935	34,108		528,281	344,991
2	49.21; Distribution	0.26530	########	0.440766	0.028011	1996	9,049	16,104	(7,055)	(3,110)	(197)	(3,307)	77,689	4,939	82,628	25,059		537,330	361,095
2	49.21; Distribution	0.30560	########	0.440766	0.028011	1997	7,658	16,104	(8,446)	(3,723)	(236)	(3,959)	73,966	4,703	78,669	17,401		544,988	377,199
2	49.21; Distribution	0.36000	########	0.440766	0.028011	1998	6,264	16,104	(9,840)	(4,337)	(275)	(4,612)	69,629	4,428	74,057	11,137		551,252	393,303
2	49.21; Distribution	0.43750	########	0.440766	0.028011	1999	4,872	16,104	(11,232)	(4,951)	(313)	(5,264)	64,678	4,115	68,793	6,265		556,124	409,407
2	49.21; Distribution	0.55560	########	0.440766	0.028011	2000	3,481	16,104	(12,623)	(5,564)	(352)	(5,916)	59,114	3,763	62,877	2,784		559,605	425,511
2	49.21; Distribution	0.75000	########	0.440766	0.028011	2001	2,088	16,104	(14,016)	(6,178)	(391)	(6,569)	52,936	3,372	56,308	696		561,693	441,615
2	49.21; Distribution	1.00000	########	0.440766	0.028011	2002	696	16,104	(15,408)	(6,792)	(430)	(7,222)	46,144	2,942	49,086	0		562,389	457,719
2	49.21; Distribution	0.00000	########	0.440766	0.028011	2003	0	16,104	(16,104)	(7,099)	(449)	(7,548)	39,045	2,493	41,538	0		562,389	473,823
2	49.21; Distribution	0.00000	########	0.440766	0.028011	2004	0	16,104	(16,104)	(7,099)	(449)	(7,548)	31,946	2,044	33,990	0		562,389	489,927
2	49.21; Distribution	0.00000	########	0.440766	0.028011	2005	0	16,104	(16,104)	(7,099)	(449)	(7,548)	24,847	1,595	26,442	0		562,389	506,031
2	49.21; Distribution	0.00000	########	0.440766	0.028011	2006	0	16,104	(16,104)	(7,099)	(449)	(7,548)	17,748	1,146	18,894	0		562,389	522,135
2	49.21; Distribution	0.00000	########	0.440766	0.028011	2007	0	16,104	(16,104)	(7,099)	(449)	(7,548)	10,649	697	11,346	0		562,389	538,239
2	49.21; Distribution	0.00000	########	0.440766	0.028011	2008	0	16,104	(16,104)	(7,099)	(449)	(7,548)	3,550	248	3,798	0		562,389	554,343
2	49.21; Distribution	0.00000	########	0.440766	0.028011	2009	0	8,046	(8,046)	(3,547)	(224)	(3,771)	3	24	27	0		562,389	562,389
							562,389	562,389	0	3	24	27							

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Utility	Tax Class	Tax Depr Rate	SL Depr Rate	Deferred Rate Federal	Deferred Rate State	Tax Year	Tax Depr	SL Depr	Difference	Deferred Taxes Federal	Deferred Taxes State	Deferred Taxes Total	Accum Reserve Federal	Accum Reserve State	Accum Reserve Total	Declined Balance	Tax Basis	Accum Tax Depr	Accum SL Depr
2	49.24; Transmission	0.11429	########	0.447300	0.027600	1974	1,580	628	952	426	26	452	426	26	452	26,067	27,647	1,580	628
2	49.24; Transmission	0.11429	########	0.447300	0.027600	1975	2,979	1,257	1,722	770	48	818	1,196	74	1,270	23,088		4,559	1,885
2	49.24; Transmission	0.11760	########	0.447300	0.027600	1976	2,715	1,257	1,458	652	40	692	1,848	114	1,962	20,373		7,274	3,142
2	49.24; Transmission	0.12500	########	0.447300	0.027600	1977	2,547	1,257	1,290	577	36	613	2,425	150	2,575	17,826		9,821	4,399
2	49.24; Transmission	0.13330	########	0.447300	0.027600	1978	2,376	1,257	1,119	501	31	532	2,926	181	3,107	15,450		12,197	5,656
2	49.24; Transmission	0.14290	########	0.447300	0.027600	1979	2,208	1,257	951	425	26	451	3,351	207	3,558	13,242		14,405	6,913
2	49.24; Transmission	0.15380	########	0.447300	0.027600	1980	2,037	1,257	780	349	22	371	3,700	229	3,929	11,205		16,442	8,170
2	49.24; Transmission	0.16670	########	0.447300	0.027600	1981	1,868	1,257	611	273	17	290	3,973	246	4,219	9,337		18,310	9,427
2	49.24; Transmission	0.18180	########	0.447300	0.027600	1982	1,698	1,257	441	197	12	209	4,170	258	4,428	7,639		20,008	10,684
2	49.24; Transmission	0.20000	########	0.447300	0.027600	1983	1,528	1,257	271	121	7	128	4,291	265	4,556	6,111		21,536	11,941
2	49.24; Transmission	0.22220	########	0.447300	0.027600	1984	1,358	1,257	101	45	3	48	4,336	268	4,604	4,753		22,894	13,198
2	49.24; Transmission	0.25000	########	0.447300	0.027600	1985	1,189	1,257	(68)	(30)	(2)	(32)	4,306	266	4,572	3,564		24,083	14,455
2	49.24; Transmission	0.28570	########	0.447300	0.027600	1986	1,018	1,257	(239)	(107)	(7)	(114)	4,199	259	4,458	2,546		25,101	15,712
2	49.24; Transmission	0.33330	########	0.447300	0.027600	1987	849	1,257	(408)	(182)	(11)	(193)	4,017	248	4,265	1,697		25,950	16,969
2	49.24; Transmission	0.40000	########	0.447300	0.027600	1988	679	1,257	(578)	(259)	(16)	(275)	3,758	232	3,990	1,018		26,629	18,226
2	49.24; Transmission	0.50000	########	0.447300	0.027600	1989	509	1,257	(748)	(335)	(21)	(356)	3,423	211	3,634	509		27,138	19,483
2	49.24; Transmission	0.66670	########	0.447300	0.027600	1990	339	1,257	(918)	(411)	(25)	(436)	3,012	186	3,198	170		27,477	20,740
2	49.24; Transmission	1.00000	########	0.447300	0.027600	1991	170	1,257	(1,087)	(486)	(30)	(516)	2,526	156	2,682	0		27,647	21,997
2	49.24; Transmission	0.00000	########	0.447300	0.027600	1992	0	1,257	(1,257)	(562)	(35)	(597)	1,964	121	2,085	0		27,647	23,254
2	49.24; Transmission	0.00000	########	0.447300	0.027600	1993	0	1,257	(1,257)	(562)	(35)	(597)	1,402	86	1,488	0		27,647	24,511
2	49.24; Transmission	0.00000	########	0.447300	0.027600	1994	0	1,257	(1,257)	(562)	(35)	(597)	840	51	891	0		27,647	25,768
2	49.24; Transmission	0.00000	########	0.447300	0.027600	1995	0	1,257	(1,257)	(562)	(35)	(597)	278	16	294	0		27,647	27,025
2	49.24; Transmission	0.00000	########	0.447300	0.027600	1996	0	622	(622)	(278)	(17)	(295)	0	(1)	(1)	0		27,647	27,647
2	49.24; Transmission	0.00000	########	0.447300	0.027600	1997	0	0	0	0	0	0	0	(1)	(1)	0		27,647	27,647
2	49.24; Transmission	0.00000	########	0.447300	0.027600	1998	0	0	0	0	0	0	0	(1)	(1)	0			
2	49.24; Transmission	0.00000	########	0.447300	0.027600	1999	0	0	0	0	0	0	0	(1)	(1)	0			
							27,647	27,647	0	0	(1)	(1)							

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Utility	Tax Class	Tax Depr Rate	SL Depr Rate	Deferred Rate Federal	Deferred Rate State	Tax Year	Tax Depr	SL Depr	Difference	Deferred Taxes Federal	Deferred Taxes State	Deferred Taxes Total	Accum Reserve Federal	Accum Reserve State	Accum Reserve Total	Declined Balance	Tax Basis	Accum Tax Depr	Accum SL Depr
8	Buildings	0.03333	0.02222	0.447300	0.027600	1974	7,867	5,244	2,623	1,173	72	1,245	1,173	72	1,245	464,177	472,044	7,867	5,244
8	Buildings	0.03333	0.02222	0.447300	0.027600	1975	15,471	10,489	4,982	2,228	138	2,366	3,401	210	3,611	448,706		23,338	15,733
8	Buildings	0.03333	0.02222	0.447300	0.027600	1976	14,955	10,489	4,466	1,998	123	2,121	5,399	333	5,732	433,751		38,293	26,222
8	Buildings	0.03333	0.02222	0.447300	0.027600	1977	14,457	10,489	3,968	1,775	110	1,885	7,174	443	7,617	419,294		52,750	36,711
8	Buildings	0.03333	0.02222	0.447300	0.027600	1978	13,975	10,489	3,486	1,559	96	1,655	8,733	539	9,272	405,319		66,725	47,200
8	Buildings	0.03333	0.02222	0.447300	0.027600	1979	13,509	10,489	3,020	1,351	83	1,434	10,084	622	10,706	391,810		80,234	57,689
8	Buildings	0.03333	0.02222	0.447300	0.027600	1980	13,059	10,489	2,570	1,150	71	1,221	11,234	693	11,927	378,751		93,293	68,178
8	Buildings	0.03333	0.02222	0.447300	0.027600	1981	12,624	10,489	2,135	955	59	1,014	12,189	752	12,941	366,127		105,917	78,667
8	Buildings	0.03333	0.02222	0.447300	0.027600	1982	12,203	10,489	1,714	767	47	814	12,956	799	13,755	353,924		118,120	89,156
8	Buildings	0.03333	0.02222	0.447300	0.027600	1983	11,796	10,489	1,307	585	36	621	13,541	835	14,376	342,128		129,916	99,645
8	Buildings	0.03333	0.02222	0.447300	0.027600	1984	11,403	10,489	914	409	25	434	13,950	860	14,810	330,725		141,319	110,134
8	Buildings	0.03333	0.02222	0.447300	0.027600	1985	11,023	10,489	534	239	15	254	14,189	875	15,064	319,702		152,342	120,623
8	Buildings	0.03333	0.02222	0.447300	0.027600	1986	10,656	10,489	167	75	5	80	14,264	880	15,144	309,046		162,998	131,112
8	Buildings	0.03333	0.02222	0.447300	0.027600	1987	10,301	10,489	(188)	(84)	(5)	(89)	14,180	875	15,055	298,745		173,299	141,601
8	Buildings	0.03333	0.02222	0.447300	0.027600	1988	9,957	10,489	(532)	(238)	(15)	(253)	13,942	860	14,802	288,788		183,256	152,090
8	Buildings	0.03333	0.02222	0.447300	0.027600	1989	9,625	10,489	(864)	(386)	(24)	(410)	13,556	836	14,392	279,163		192,881	162,579
8	Buildings	0.03333	0.02222	0.447300	0.027600	1990	9,463	10,489	(1,026)	(459)	(28)	(487)	13,097	808	13,905	269,700		202,344	173,068
8	Buildings	0.03333	0.02222	0.447300	0.027600	1991	9,463	10,489	(1,026)	(459)	(28)	(487)	12,638	780	13,418	260,237		211,807	183,557
8	Buildings	0.03333	0.02222	0.447300	0.027600	1992	9,463	10,489	(1,026)	(459)	(28)	(487)	12,179	752	12,931	250,774		221,270	194,046
8	Buildings	0.03333	0.02222	0.447300	0.027600	1993	9,463	10,489	(1,026)	(459)	(28)	(487)	11,720	724	12,444	241,311		230,733	204,535
8	Buildings	0.03333	0.02222	0.447300	0.027600	1994	9,463	10,489	(1,026)	(459)	(28)	(487)	11,261	696	11,957	231,848		240,196	215,024
8	Buildings	0.03333	0.02222	0.447300	0.027600	1995	9,463	10,489	(1,026)	(459)	(28)	(487)	10,802	668	11,470	222,385		249,659	225,513
8	Buildings	0.03333	0.02222	0.447300	0.027600	1996	9,463	10,489	(1,026)	(459)	(28)	(487)	10,343	640	10,983	212,922		259,122	236,002
8	Buildings	0.03333	0.02222	0.447300	0.027600	1997	9,463	10,489	(1,026)	(459)	(28)	(487)	9,884	612	10,496	203,459		268,585	246,491
8	Buildings	0.03333	0.02222	0.447300	0.027600	1998	9,463	10,489	(1,026)	(459)	(28)	(487)	9,425	584	10,009	193,996		278,048	256,980
8	Buildings	0.03333	0.02222	0.447300	0.027600	1999	9,463	10,489	(1,026)	(459)	(28)	(487)	8,966	556	9,522	184,533		287,511	267,469
8	Buildings	0.03333	0.02222	0.447300	0.027600	2000	9,463	10,489	(1,026)	(459)	(28)	(487)	8,507	528	9,035	175,070		296,974	277,958
8	Buildings	0.03333	0.02222	0.447300	0.027600	2001	9,463	10,489	(1,026)	(459)	(28)	(487)	8,048	500	8,548	165,607		306,437	288,447
8	Buildings	0.03333	0.02222	0.447300	0.027600	2002	9,463	10,489	(1,026)	(459)	(28)	(487)	7,589	472	8,061	156,144		315,900	298,936
8	Buildings	0.03333	0.02222	0.447300	0.027600	2003	9,463	10,489	(1,026)	(459)	(28)	(487)	7,130	444	7,574	146,681		325,363	309,425
8	Buildings	0.03333	0.02222	0.447300	0.027600	2004	9,463	10,489	(1,026)	(459)	(28)	(487)	6,671	416	7,087	137,218		334,826	319,914
8	Buildings	0.03333	0.02222	0.447300	0.027600	2005	9,463	10,489	(1,026)	(459)	(28)	(487)	6,212	388	6,600	127,755		344,289	330,403
8	Buildings	0.03333	0.02222	0.447300	0.027600	2006	9,463	10,489	(1,026)	(459)	(28)	(487)	5,753	360	6,113	118,292		353,752	340,892
8	Buildings	0.03333	0.02222	0.447300	0.027600	2007	9,463	10,489	(1,026)	(459)	(28)	(487)	5,294	332	5,626	108,829		363,215	351,381
8	Buildings	0.03333	0.02222	0.447300	0.027600	2008	9,463	10,489	(1,026)	(459)	(28)	(487)	4,835	304	5,139	99,366		372,678	361,870
8	Buildings	0.03333	0.02222	0.447300	0.027600	2009	9,463	10,489	(1,026)	(459)	(28)	(487)	4,376	276	4,652	89,903		382,141	372,359
8	Buildings	0.03333	0.02222	0.447300	0.027600	2010	9,463	10,489	(1,026)	(459)	(28)	(487)	3,917	248	4,165	80,440		391,604	382,848
8	Buildings	0.03333	0.02222	0.447300	0.027600	2011	9,463	10,489	(1,026)	(459)	(28)	(487)	3,458	220	3,678	70,977		401,067	393,337
8	Buildings	0.03333	0.02222	0.447300	0.027600	2012	9,463	10,489	(1,026)	(459)	(28)	(487)	2,999	192	3,191	61,514		410,530	403,826
8	Buildings	0.03333	0.02222	0.447300	0.027600	2013	9,463	10,489	(1,026)	(459)	(28)	(487)	2,540	164	2,704	52,051		419,993	414,315
8	Buildings	0.03333	0.02222	0.447300	0.027600	2014	9,463	10,489	(1,026)	(459)	(28)	(487)	2,081	136	2,217	42,588		429,456	424,804
8	Buildings	0.03333	0.02222	0.447300	0.027600	2015	9,463	10,489	(1,026)	(459)	(28)	(487)	1,622	108	1,730	33,125		438,919	435,293
8	Buildings	0.03333	0.02222	0.447300	0.027600	2016	9,463	10,489	(1,026)	(459)	(28)	(487)	1,163	80	1,243	23,662		448,382	445,782
8	Buildings	0.03333	0.02222	0.447300	0.027600	2017	9,463	10,489	(1,026)	(459)	(28)	(487)	704	52	756	14,199		457,845	456,271
8	Buildings	0.03333	0.02222	0.447300	0.027600	2018	9,463	10,489	(1,026)	(459)	(28)	(487)	245	24	269	4,736		467,308	466,760

VINTAGE ~~1975~~ 1974

Utility	Tax Class	Tax Depr Rate	SL Depr Rate	Deferred Rate Federal	Deferred Rate State	Tax Year	Tax Depr	SL Depr	Difference	Deferred Taxes Federal	Deferred Taxes State	Deferred Taxes Total	Accum Reserve Federal	Accum Reserve State	Accum Reserve Total	Declined Balance	Tax Basis	Accum Tax Depr	Accum SL Depr
8	Buildings	0.03333	0.02222	0.447300	0.027600	2019	4,736	5,284	(548)	(245)	(15)	(260)	0	9	9	0		472,044	472,044
							472,044	472,044	0	0	9	9							

SCHEDULE HDR-8
Page 10 of 10

2-12-04; 3:08AM; AQUILA MO ELECTRIC ;8167377855 # 10/ 10

C:\123DOCS\DEFTAX\93DEP2ND.WK3
01/11/93

MPS
Schedule of Tax & S/L Depreciation and Deferred Taxes
For Pre–1970 thru 1993 Vintages

Electric (Scenario #1):

Vintage	1993 Tax Depr	1993 S/L Depr	Total 1993 Deferred Taxes
Pre–1970	2,548,554	2,548,554	0
1970	169,723	251,263	(38,723)
1971	40,926	170,848	(61;700)
1972	171,769	508,300	(159,818)
1973	165,624	376,308	(100,009)
1974	168,663	308,579	(66,286)
1975	262,752	402,613	(65,956)
1976	238,586	320,329	(38,294)
1977	449,311	569,802	(55,722)
1978	1,196,449	1,372,006	(81,205)
1979	561,288	571,527	(6,312)
1980	1,049,021	993,009	20,215
1981	838,697	497,884	120,900
1982	709,088	407,129	107,942
1983	2,108,407	1,346,617	275,277
1984	926,372	512,874	149,106
1985	966,993	579,110	139,825
1986	1,302,268	1,110,627	56,812
1987	1,173,104	867,295	110,710
1987	11,368	8,281	1,117
1988	1,638,584	1,170,398	169,576
1988	167,390	115,579	18,767
1989	2,401,550	1,425,691	353,444
1990	3,843,484	2,110,280	627,767
1991	2,004,406	890,408	403,491
1992	3,421,482	1,496,182	697,344
1993	3,436,646	1,752,189	610,110
Total 1993 Tax Depreciation	31,972,505	22,683,682	3,188,378

E20-45

	Initials
Prepared by	
Approved by	

Mo Pub

ER 83-40

Calculation of Tax, Tax S/L and Deferred Taxes

WITH JEC-3

19129876 (F0002) Tax Depreciation with Budgeted Additions and JEC-3
29169 Add back Depr. due to Basis Reductions associated with 10% ITC option

19159045 Actual Tax Depr Restated
<12026177> Tax S/L

7082868 Excess Tax Depr. 670574

x .4749

3363654 ← Deferred Tax

W/O JEC - No K5M

19129876 (F0002) Actual Tax Depr - Budgeted Additions + JEC-3
<507520> Remove Budgeted Additions (Tax thereon)
<1267370> Remove JEC-3 Depr
17354986 Actual Tax Depr - W/O JEC - No K5M

12026177 (F0003) Tax S/L Depr - Budgeted Additions + JEC-3
<159965> Remove TSL associated with Budgeted Additions
<417745> " " " " JEC-3
11498467 Tax S/L Depr - W/O JEC - No K5M

5856519 Excess Tax Depr (Line 18 - 23)

x .4749

2781261 Deferred Tax 571,25

G/L	Actual Tax	
440922	670574	706 diff
314179	496991	diff due to .9749
126743	173583	diff due to allocating common (1,166,756 - 98,734) x .97
440922 G/L diff	670574	diff in MPM Tax Actual Tax

229652 Excess diff
440922
670574 Total diff

No. 298

DATA INFORMATION REQUEST
Missouri Public Service Company
Case No. ER-83-40

REQUESTED FROM:

DATE REQUESTED: 1/26/83

INFORMATION REQUESTED: PLEASE PROVIDE: 1) TAX BASIS PLANT AND ASSOCIATED TAX S/L AND ACTUAL TAX CALCULATIONS FOR YEARS PRIOR TO 1981. 2) TAX BASIS PLANT AND ASSOCIATED ACTUAL TAX FOR 1981 AND 1982 AND FOR BUDGET MONTHS OF JAN-APR '83. 3) BUDGETED TAX BASIS ADDITIONS ASSOCIATED WITH JEC-3 (AS OF THE ESTIMATED IN-SERVICE DATE) AND BUDGETED ACTUAL TAX THEREON.

REQUESTED BY: ED TOOEY

INFORMATION PROVIDED:

See Attached

The information provided to the Missouri Public Service Commission Staff in response to the above information request is accurate and complete, and contains no material misrepresentations or omissions based upon present facts known to the undersigned. The undersigned agrees to immediately inform the Missouri Public Service Commission, if any matters are discovered which would materially affect the accuracy or completeness of the information provided in response to the above information request.

SIGNED BY:

DATE RECEIVED: 2/4/83

Prepared By
Approved By

43-010 EYE-EASE
43-018 20/20 BUFF

1983 TAX DEPRECIATION

ELECTRIC and COMMON PROPERTY

	1	2	3	4
	Pre-1970	1970	1971	1972
Electric				
49.13	2381936	9960	15716	45534
49.14	2023279	191995	197591	638127
49.15 (new)		-	-	-
49.15 (used)		-	-	-
Buildings		-	-	75
Equipment		-0-	1674	7294
TOTAL ELECTRIC	4405209	201955	214981	691041
Common				
Buildings	54932	45	88	601
00.11			-0-	-0-
00.13			-	-
48.32			-0-	-
00.22			-0-	-0-
00.241			-0-	-0-
00.242			-0-	-0-
00.27			-0-	-0-
Equipment	2035	-0-	79	-
Power Operated Equip.			-0-	9553
TOTAL COMMON	56967	45	167	10154
TOTAL	4462176	202000	215148	701195

1973	1974	1975	1976	1977	1978	1979
260334	397791	57586	120349	668522	17280225	4338111
5116928	4201990	6237473	5445585	7936990	8655889	6645611
-	-	-	-	27336	12504	38296
-	-	-	-	104009	-	-
50	103553	12472	-	7118	4939	10499
58808	41188	2438	81140	76887	6150	17113
5488820	4744522	6258169	5657644	9760982	26175507	11644220
396	8889	-	-	737	1660	486
-o-	-o-	230	686	53443	18449	2805
-o-	-o-	-o-	260	12223	2017	10008
11440	289	8214	44115	67677	11293	9411
-o-	-o-	-o-	-o-	-o-	-o-	-o-
-o-	-o-	-o-	-o-	-o-	38824	53442
-o-	-o-	-o-	553	83555	56574	22156
-o-	-o-	-o-	150	17333	14469	17754
24		399	862	2285	75	106
6176	4903	856	6102	89930	87798	37367
18036	14081	2509	13028	338773	266639	804655
5666856	4886603	6606478	5787792	10084665	26441146	12446875

1980	1981	1982	1983 ADDITIONS JAN-APRIL	#3 1983		
1269673	835539	419450	8944	1279720		
6974.18	1175348	1029500	324549	20280		
3780	45689	8540	365			
1952	5196					
	23187	10000				
11801	27699	40615				
1983724	1360492	1138310	333858	1300000		18633664
189	20654	4158	37643			
44424	16965	20052	53870			
1695						
22383	105	215				
5058	16123					
949	64754					
84802	53008	30429	98838			
629	8115					
	68					
23096	17787	2259	29985			
						1166786
1432225	1975599	3503553	2203555			
					X84.74	
					Elec 988734	
21269449	15580991	14886663	5542213	1300009		19800450

988734
18633664
19622398
9749
19129876

Prepared By
Approved By

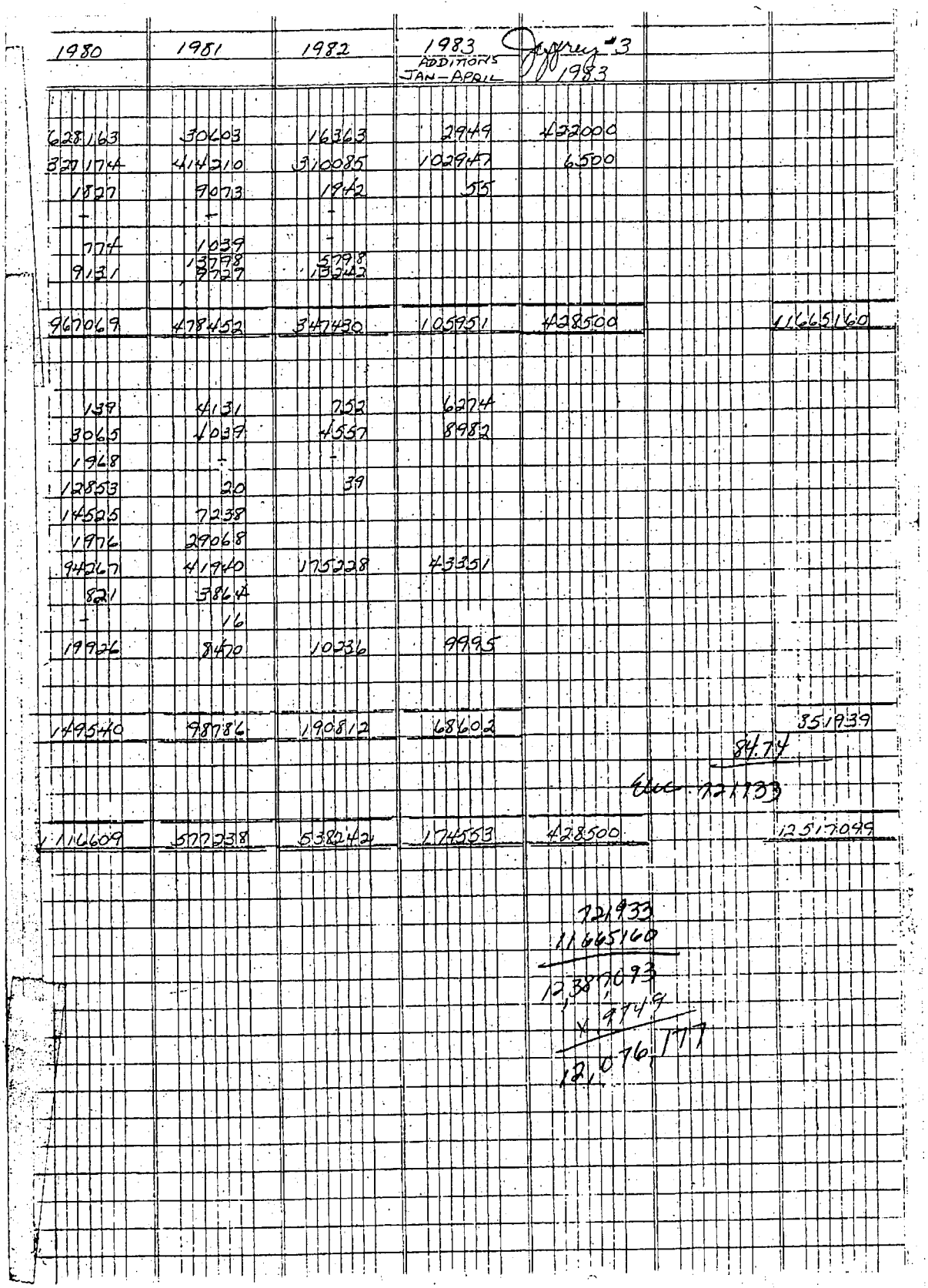
EYE-EASE 45-918 20/20 BUFF

1983 GUIDELINE STRAIGHT LINE DEPRECIATION

ELECTRIC and COMMON PROPERTY

	1	2	3	4
	PRE-1970	1970	1971	1972
Electric				
49.13	2381936	37831	13409	36268
49.14	2063273	227130	157443	473307
49.15 (new)		+	+	+
49.15 (used)		+	+	+
Buildings		+	+	77
Equipment		-0-	2345	10889
TOTAL ELECTRIC	4405209	264961	173197	520541
Common				
Buildings	54932	33	96	614
00.11	-	-0-	-0-	-0-
00.13	-	+	+	+
48.32	-	377	247	+
00.22	+	+	-0-	-0-
00.241	+	+	-0-	-0-
00.242	+	+	-0-	-0-
00.27	+	+	-0-	-0-
Equipment	2035	-0-	207	+
Power Operated Equip.	+	+	-0-	15478
TOTAL COMMON	56967	410	550	16092
TOTAL	4462176	265371	173747	536633

1973	1974	1975	1976	1977	1978	1979
18884	26935	3654	7132	37263	909239	216321
357740	272039	387669	312976	430988	445624	325214
-	-	-	-	1787	7457	20901
-	-	-	-	95209	-	-
49	9605	11038	-	95	3835	7880
8671	6253	3641	12154	10433	6956	16129
385344	314832	406002	332262	575775	1373110	586525
385	8247	-	-	595	1289	365
1355	1773	1722	1709	7979	1973	2327
-0-	-0-	-0-	-0-	2000	3955	1411
54065	682	1296	5216	6397	1018	6354
-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-	7420
-0-	-0-	-0-	-0-	13645	11082	31020
-0-	-0-	-0-	-0-	2832	2880	2456
36	-	597	1287	387	85	119
9221	7321	1278	9112	12120	9951	35218
65062	18023	4893	17324	45955	32233	86690
450406	332855	410895	349586	621730	1405343	673215



1980	1981	1982	1983 ADDITIONS JAN–APRIL	Jeffrey 3 1983	
628163	304603	116363	29449	422000	
3201764	4142210	3160085	1029447	6500	
18827	90713	1842	55		
+	+	+			
7774	10039				
91381	137778 / 87727	57918 / 152442			
9670679	4784452	3447430	1059951	428500	11665160
1139	41131	7152	62764		
30615	10039	45557	89852		
19768	+	+			
128553	20	39			
1745215	72338				
19776	29068				
9442647	4119440	1755228	43351		
8221	58644				
+	16				
19926	8470	10336	9995		
1495540	98786	1908112	68602		851939
					84.74
					721933
11116609	5772238	5382421	1745553	428500	12517049

721933
11665160
12387093
x .9744
12,076,177

	Initials	Date
Prepared By		
Approved By		

45-810 EYE-CASE 48-816 20/20 DUFF

1983 EQUIVALENT STRAIGHT LINE DEPRECIATION
ELECTRIC and COMMON PROPERTY

	1	2	3	4
	PRE-1970	1970	1971	1972
Electric				
49.13	2190301	35564	11881	330028
49.14	1716233	201307	140816	397760
49.15 (new)	-	-	-	-
49.15 (used)	-	-	-	-
Buildings	-	-	-	69
Equipment	-	2129	4271	9913
TOTAL ELECTRIC	3906734	239200	156968	440770
Common				
Buildings	41757	30	96	553
00.11	7637	14553	12358	18150
00.13	-	-	-	-
48.32	5940	399	129	-
00.22	-	-	-	-
00.241	-	-	-	-
00.242	-	-	-	-
00.27	-	-	-	-
Equipment	-	1	248	-
Power Operated Equip.	-	-	-	-
TOTAL COMMON	55334	1883	15515	24103
TOTAL	3962068	241083	158483	443173

1973	1974	1975	1976	1977	1978	1979
16976	25524	33771	6421	33934	83928	199057
317598	2433064	3448238	2778641	3944135	3954486	2944868
-	-	-	-	15886	54456	15089
-	-	-	-	131389	-	-
44	8645	9935	-	86	34451	7082
2311	56644	83062	93440	91465	63344	164205
341938	2828897	3648807	2954402	5702295	12476555	5316511
347	7423	-	-	536	1160	329
1332	886	861	864	39887	986	1164
723	921	2557	764	11999	1186	423
28119	355	6774	27112	33226	5330	33044
-o-	-o-	-o-	-o-	-o-	79111	68844
-o-	-o-	-o-	-o-	48644	21245	98933
-o-	-o-	-o-	-o-	136550	110821	310220
964	631	86	883	33998	17128	14744
22	-	3658	618	1977	511	714
-o-	87785	15338	109335	14545	119441	422647
31523	190001	37769	16766	457104	579220	968256
3134451	3018898	3685576	3121168	6159999	19054775	6288337

1980	1981	1982	1983 ADDITIONS JAN-APRIL	Jeffrey #3 1983		
576446	30603	16363	2949	422500		
290952	414210	310085	102947	6500		
10440	9073	1942	55			
+	+					
6977	10039					
19773	13788	5798				
	9729	13342				
877108	478452	347430	105951	428500		1061608
1125	4151	752	6274			
15932	4039	4557	8982			
590	+	+				
6684	20	39				
15826	7238					
1317	29068					
94265	419440	175228	433351			
493	3864					
+	16					
23912	8470	10236	9995			
144744	98786	190812	68602			835488
1051852	577238	538242	174553	428500		11451096

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks-MPS[redacted]P, for authority to file tariffs increasing electric rates for the service provided to customers in the Aquila Networks-MPS[redacted] area	)	Case No. ER-2004-0034
[redacted]	)	[redacted]

County of Jackson)
) ss
State of Missouri)

AFFIDAVIT OF H. DAVIS ROONEY

H. Davis Rooney, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of H. Davis Rooney;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

H. Davis Rooney

Subscribed and sworn to before me this 13th day of February, 2004.

Notary Public
Terry D. Lutes

My Commission expires:
8-20-2004

TERRY D. LUTES
Jackson County
My Commission Expires
August 20, 2004