UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Kern River Gas Transmission Company) Docket No. RP04-___-000

PREPARED DIRECT TESTIMONY OF JEFFREY VALENTINE on behalf of KERN RIVER GAS TRANSMISSION COMPANY

Q. Please state your name, title and business address.

A. My name is Jeffrey Valentine. I am Manager of Taxes, Property Accounting and Accounts Payable for Kern River Gas Transmission Company ("Kern River"). My business address is 2755 East Cottonwood Parkway, Salt Lake City, Utah 84121.

Q. Please summarize your educational background.

A. I graduated from Brigham Young University with a Bachelor of Science degree in accounting in 1974. I also received a Bachelor of Arts degree in psychology from the University of Southern California in 1971. I began working in the tax department of Arthur Andersen & Co. in Los Angeles, California in 1974 and became a certified public accountant in 1976. In 1977, I began working in the tax department of Northwest Pipeline Corporation ("Northwest") and continuously worked for Northwest or one of its affiliates until July 2002. I held various positions, including manager of taxes for Williams Gas Pipeline West (which included Kern River and Northwest), Director of Federal Taxes for Williams Gas Pipeline (which included Kern River, Northwest, Transcontinental Gas Pipe Line

Corporation, Texas Gas Transmission Corporation and Williams Gas Pipeline Central), and controller for Williams Gas Pipeline West from 1999 until Kern River was purchased by MidAmerican Energy Holdings Company ("MEHC") in March 2002. I assumed my current position of Manager of Taxes, Property Accounting and Accounts Payable for Kern River on July 1, 2002.

Q. Please describe your current job responsibilities.

A. In my current position, I am responsible for the administration of the tax, property accounting and accounts payable functions for Kern River. My tax responsibilities include federal and state income taxes, ad valorem taxes and sales and use taxes. I have responsibility for the related tax compliance, payments and tax reporting for financial statement purposes, including the recording of accumulated deferred income taxes. I also manage the property accounting function, which includes accounting for purchased property, construction and retirement projects, recording the allowance for funds used during construction ("AFUDC"), depreciation, amortization and the accounting for various regulatory assets.

Q. What is the purpose of your prepared direct testimony in this case?

A. I will explain and support Kern River's computation of accumulated deferred income taxes ("ADIT"). To that end, I am sponsoring various schedules and statements relating to Kern River's ADIT calculations. My testimony will also explain Kern River's positions on ad valorem (property) and other taxes, and the computation of income tax allowances in the calculation of the cost of service.

Q. Please identify the schedules and statements you are sponsoring.

A. I am sponsoring the following schedules and statements:

Schedule B-1	Summary of Accumulated Deferred Income Taxes
Schedule B-2	Regulatory Assets and Liabilities
Schedule C-4	AFUDC and Construction Overhead Methods
Statement H-3	Income Taxes
Schedule H-3 (1)	State Income Taxes Per the 2002 Return
Statement H-4	Summary of Other Taxes

I am also sponsoring Exhibit KR-16, which is attached to my testimony.

Q. How has AFUDC been calculated and accounted for in this rate filing?

A. AFUDC has been calculated in accordance with FERC rules (18 C.F.R. Part 201, Gas Plant Instruction 3(17)) and has been capitalized as part of the cost of Kern River's gas plant. For the 2003 Expansion, Kern River's corrections to AFUDC, as specified in the Preliminary Determination for the project (98 FERC ¶ 61,205), were approved by the Commission in its letter order accepting the initial rate compliance filing (103 FERC ¶ 61,102).

Q. Why is Kern River's ad valorem tax expense for the test period adjusted upward relative to the amount incurred during the twelve-month base period ended January 31, 2004?

A. Kern River's tax department has estimated ad valorem (property) taxes for all property in service as of January 1, 2004. This is the last ad valorem tax assessment date before the end of the test period (October 31, 2004), as well as the first ad valorem tax assessment date that includes the full value of the 2003 Expansion. To develop this adjusted expense, the specific assessment practices of each taxing jurisdiction were considered. The objective of the adjusted ad valorem tax expense included in this filing is to estimate all of the ad valorem taxes for 2004 for which Kern River will be liable, based on the best information available. Standard rate case resolution procedures will normally adjust this estimated expense to the actual amount of ad valorem tax payments made during the twelve months preceding the end of the test period.

Q. Why has the compressor fuel use tax expense been increased over the amount incurred during the twelve-month base period?

A. Kern River is required to pay a Utah use tax (similar to a sales tax) that ranges between 5.75% and 6.60% of the market value of compressor fuel gas used, depending on the location within Utah where the gas is consumed. This tax is shown on Statement H-4. The actual tax expense depends on pipeline throughput (which directly impacts the amount of compressor fuel used) and the current market value of the fuel used. The 2003 Expansion added five new compressors in Utah. The increase in Utah fuel tax expense reflects the additional fuel usage associated with these new compressors that went into service on May 1, 2003.

Q. How are payroll taxes reflected in Kern River's rate filing?

A. Kern River pays all payroll taxes required by law that are applicable to its workforce. The payroll taxes reflected in this rate filing were developed in a manner consistent with the test period adjustment for payroll expense, as explained in Mr. Hansen's prepared direct testimony.

Q. Please describe Kern River's proposed income tax allowance.

A. While Kern River is a general partnership, the income tax allowance is calculated as if it were a corporation. This treatment is appropriate because Kern River is owned 100 percent by corporations. This methodology also conforms to FERC policy and has been used by Kern River since its inception in 1992.

Q. How were Kern River's income taxes derived?

A. Statement H-3 shows the derivation of federal and state income taxes. The same calculation procedure is used in the cost of service schedules in Schedule J-2, which Mr. Warner sponsors. Kern River's income tax rates are based on using the federal statutory corporate income tax rate of 35.0% and a composite state statutory corporate income tax rate of 4.8%. The composite state income tax rate takes into account the allocation and apportionment procedures used by states to determine their respective shares of taxable income. This composite state tax rate also takes into account that Wyoming and Nevada do not levy a corporate income tax.

Q. Please provide an overview of Kern River's ADIT balances.

A. Schedule B-1, page 1, shows Kern River's ADIT balances by deferred tax account (Accounts 190, 282 and 283) by month. Schedule B-1, page 2, shows the major temporary differences that give rise to the deferred taxes in each account. It also shows the ADIT balance related to each category of assets. I would note that Section 154.305(c) of the Commission's regulations requires that rate base be adjusted (up or down) by ADIT balances related to rate base, construction, or other costs and revenues affecting the jurisdictional cost –of service. Kern River has directly charged (or allocated using a gross plant allocator or other similar methodology where necessary) the ADIT resulting from each temporary difference to the company's various services based on the nature of the temporary difference.

Q. What are deferred income taxes?

A. “Generally Accepted Accounting Principles” (GAAP) require recording an income tax provision (expense) that represents the expected income tax liability that will arise as a result of the “pre-tax” book income recognized by a company. For accounting purposes, that tax provision is divided into a current tax component (which represents the amount of tax that should be reflected on the income tax return for the current year) and a deferred tax component (which represents a tax obligation that will be paid sometime in the future). The specific, authoritative accounting pronouncement that deals with income taxes is Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, commonly referred to as FAS 109. Kern River has followed generally accepted accounting principles and FERC precedents in computing the ADIT balances used in its rate models and in statements and schedules included in this rate filing. In accordance with FAS 109, Kern River has recorded deferred income taxes for all temporary differences.

Q. Does FERC’s Uniform System of Accounts require regulated companies to follow FAS 109?

A. Yes. FERC issued Accounting Instruction AI93-5-000 on April 23, 1993 to require all public utilities, licensees, and natural gas companies to implement the provisions of FAS 109 in general purpose financial statements issued to the public no later than the first quarter of 1993.

Q. Does regulatory accounting for deferred income taxes differ from the financial accounting requirements under FAS 109?

A. FERC rules conform very closely to the GAAP rules.

Q. What is a temporary difference?

A. Per FAS 109, a "temporary difference" is a difference between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively. This definition is fairly complex and somewhat difficult to understand. An alternative way of trying to understand this term is that it is essentially an adjustment made to book income to arrive at the current year's taxable income, which will reverse (or turnaround) in future years. For the sake of simplicity, for the remainder of my testimony, the term "income taxes" refers to both federal and state income taxes. Similarly, all references to taxes or deferred taxes refer to "income" taxes.

If a profitable company's taxable income were exactly the same as its pre-tax book income, then its entire "tax provision" (tax expense recorded on the books) would be considered a current tax. That is, the company's tax return for that same year would show a tax obligation to the taxing authority that was equal to the tax expense recorded on the books of the company. If a profitable company's taxable income was only 60% of its pre-tax book income, then one would expect about 60% of the company's total tax provision to be recorded as current taxes and the remainder as deferred taxes. The current tax provision should equal the tax liability that will be shown on the tax return of the company for the current year. Technically, deferred taxes are calculated based on the difference between the book basis of assets/liabilities and the tax basis of those assets/liabilities. However, in most cases, the difference in book and tax basis is tied back to a temporary timing difference between book income and taxable income.

Q. Are both current and deferred income taxes considered when arriving at an overall income tax rate for this rate filing?

A. Yes.

Q. If only the current income tax provision is required to be paid to the government in the current year, why is the deferred income tax provision included? Wouldn't rates be lower if the income tax rate was limited to just the current component?

A. If only the current tax provision was considered in determining cost of service, rates would be lower for customers today. However, to make up for all of the early tax benefits like accelerated tax depreciation, customers in the future would be required to pay relatively higher rates. Both FERC and Congress have made the determination that it is in the best interest of the public if a consistent, overall tax rate that includes both current and deferred taxes is used for rate making. Section 154.305 of the Commission's regulations states: "An interstate pipeline must compute the income tax component of its cost-of-service by using tax normalization for all transactions." It goes on to define "tax normalization" to be "Computing the income tax component as if transactions recognized in each period for ratemaking purposes are also recognized in the same amount and in the same period for income tax purposes." That is just another way of saying that the total income tax provision should be calculated as though the taxable income in the tax return was the same as book income.

Q. Is there any risk to Kern River or the customers if tax normalization is not followed?

A. Yes. A regulated entity's ability to use accelerated tax depreciation is contingent on its compliance with the tax normalization rules.

Q. What causes taxable income to differ from book income?

A. The Internal Revenue Code has many rules that determine when revenue or expenses are to be included in a tax return. These tax rules frequently differ from the book rules. An income tax return starts with net book income and then makes various adjustments (referred to as Schedule Ms) to arrive at taxable income. For companies with a large investment in tangible property, the depreciation Schedule M is usually the single largest adjustment made each year to arrive at taxable income.

Q. How is the Schedule M for depreciation calculated?

A. The Schedule M for depreciation is the difference between book depreciation (which is used to calculate book income for financial statements) and tax depreciation (which is used to calculate taxable income for the tax return). The annual regulatory depreciation amounts calculated by Kern River's levelized rate models may vary from less than 1% in the early years to more than 6% toward the end of the shippers' contract life. For tax purposes, prior to the recent introduction of bonus depreciation, transmission plant was depreciated over a 15-year life using MACRS, an accelerated tax depreciation method. When tax depreciation exceeds book (or regulatory) depreciation, accumulated deferred income taxes increase.

Q. Are interstate pipelines required to elect accelerated tax depreciation?

A. Yes. FERC policy has generally required pipelines to elect accelerated tax depreciation.

Q. Have there been any significant changes to the tax laws regarding the calculation of tax depreciation that affect Kern River's deferred taxes?

A. Yes. Two new income tax laws were passed in 2002 and 2003 that significantly affect the calculation of tax depreciation. The first legislation was the Job Creation and Worker Assistance Act of 2002. The second piece of legislation was the Jobs and Growth Tax Relief Act of 2003. The specific provisions are found in Internal Revenue Code Section 168(k). The new statutes allow taxpayers to claim additional ("bonus") tax depreciation for the first year in service for most new property. The balance of the tax basis, after deducting the first year bonus depreciation, is also eligible for accelerated tax depreciation using MACRS. The 2002 act permits companies to elect 30% bonus depreciation, and the 2003 act permits companies to elect 50% bonus depreciation, for eligible property added between certain dates specified in the statutes. Where eligible, Kern River has elected to use bonus depreciation to minimize its current tax liability.

Q. Has FERC made it clear whether pipelines are required to elect use of the bonus tax depreciation provisions enacted in 2002 and 2003?

A. I am not aware that FERC has specifically considered that question. However, in an effort to comply with the general intent of FERC policy regarding accelerated tax depreciation, Kern River has voluntarily elected to use bonus depreciation when it is eligible to do so.

Q. Will depreciation or other Schedule Ms change the ultimate income tax liability for a company?

A. Generally, no. With the exception of a few "permanent" Schedule Ms, most Schedule Ms result in a temporary deferral (or acceleration) of taxable income, which in turn results in a temporary deferral (or acceleration) of the company's tax liability. For accounting purposes (per FAS 109), these temporary Schedule

Ms are referred to as "temporary differences." The cumulative sum of temporary differences over a number of years is often referred to as a "cumulative temporary difference" (CTD). A CTD generally represents differences in taxable income (although it technically represents the difference between book and tax basis). A temporary difference, or CTD, must be multiplied by the applicable income tax rate to arrive at the associated deferred tax liability (or asset).

Q. How are deferred income taxes reflected in financial statements?

A. The income statement will normally show the tax provision separated into its two components: current taxes and deferred taxes. On the balance sheet, the current tax will be shown as either a current asset or a current liability. The deferred tax will be shown as either a deferred asset or a deferred liability.

Q. Why would a deferred income tax be recorded as an asset?

A. While the most common occurrence is to have a Schedule M, like tax depreciation, reduce taxable income, there are often other Schedule Ms that increase taxable income. If a temporary difference or Schedule M results in taxable income being greater than book income, then the associated deferred tax will be recorded on the books as an asset, meaning it will reduce the company's tax liability in the future by either reducing taxable income or by enabling the use of a tax credit.

Q. How are deferred income taxes recorded for regulatory purposes?

A. The Commission's Uniform System of Accounts (18 C.F.R. Part 201, Balance Sheet Accounts) indicates that deferred income taxes are to be booked in one of three accounts (190, 282, or 283). Account 282 is reserved for deferred taxes related to property. Following the normal presumption that property-related

Schedule Ms like tax depreciation will reduce taxable income, thereby creating a deferred tax liability, this account is always a liability. For most plant-related Schedule Ms, the deferred tax liability will increase over a period of years until the asset is fully depreciated for tax purposes. When that occurs, the temporary difference or Schedule M will start to "turnaround" and go the other way. In the case of the depreciation Schedule M, that means the adjustment will increase taxable income instead of reducing taxable income. If you followed the deferred tax balance for a specific asset, it would normally build to a high point over its tax depreciable life and then gradually decline back to zero over the remaining book depreciable life. All other deferred taxes, not directly related to property, are booked into Account 190 (if they represent an asset) and into Account 283 (if they represent a liability).

Q. How do deferred income taxes affect a pipeline's rate filing?

A. The deferred tax balances in all three accounts (190/282/283), except the portions that are deemed not related to rate base or the cost of service, will adjust rate base up or down, depending on whether the deferred tax balance is a debit (an asset that increases rate base) or a credit (a liability that decreases rate base). This requirement to adjust rate base for deferred taxes is part of the tax normalization rules. (18 C.F.R. §154.305(c)).

Q. Is there an economic reason why deferred income taxes adjust rate base?

A. Yes. Consider the following simplified example. If a regulated company had $1,000,000 of pre-tax book income and an overall income tax rate of 40%, the rate design would theoretically take into account the expected tax liability of $400,000. If the company's tax return only showed a current tax liability of

$150,000, the company would effectively have the other $250,000 of cash to use until the deferred tax liability became a current liability, sometime in the future. It is my understanding that regulators generally have determined that the ratepayers should benefit by having rate base reduced by the cumulative amount of additional cash generated by tax normalization. The net result is that the regulated company benefits by receiving a temporary "interest free" loan from the government and the customers benefit by having reduced rate base. As a general rule, customers should prefer that a pipeline use the most accelerated depreciation method available, because that approach generates the most deferred taxes, which in turn reduces rate base, which in turn lowers rates. From a regulated company's perspective, while useful as a source of "interest free" cash, the overall impact of claiming accelerated tax depreciation is a net reduction to the company's earnings.

Q. What impact did MEHC's purchase of Kern River have on Kern River's ADIT?

A. When MEHC purchased Kern River from Williams, the transaction was a purchase of assets for income tax purposes. As a result, a new tax basis was established for Kern River's assets. Also, as a result of the sale, Williams was required to include all of the previously accumulated, temporary differences related to Kern River's assets in its 2002 federal and state income tax returns and to pay the related income taxes to the IRS and applicable state authorities. Effective with the sale in March 2002, the net ADIT balance ($136,914,000) of Kern River was adjusted to zero. More specifically, a net debit entry was made to the deferred tax accounts (190/282/283) and a credit entry was made to the shareholder equity account. These entries were required to reflect the fact that as a result of the sale, all of the previous deferred taxes that had been booked by the prior owners were converted to a current tax liability that remained the responsibility of the prior owners. This adjustment to the prior ADIT balance was made to be in compliance with FERC regulations and Internal Revenue Code Section 168(f)(2), as well as to be consistent with the guidance issued by FERC in its recent orders concerning Enbridge Pipelines. By doing so, Kern River's ability to continue electing accelerated tax depreciation was preserved.

Q. Did MEHC make a tax election to have the purchase treated as a purchase of assets?

A. No. While there are certain types of purchase transactions that require an affirmative tax election, no election was necessary for this particular transaction.

Q. As part of the purchase, did MEHC request a ruling from the Internal Revenue Service to substantiate that the tax basis of Kern River's assets was required to be adjusted and the deferred taxes reduced to zero to avoid a normalization violation?

A. Since the tax treatment for this transaction follows statutory law, and because no election was required (or available), there was no reason to seek a ruling. FERC's recent Enbridge Pipelines order also held that a ruling from the IRS was not required if a taxable event had occurred.

Q. Will Kern River's deferred income tax balance return to the level it was at prior to the sale by Williams?

A. Yes. As Kern River continues to use accelerated tax depreciation, the deferred tax balance could be expected to build up to levels even higher than what was on its books at the time of the sale.

Q. Does Kern River's levelized rate model take into account changes to deferred income tax balances expected in future years?

A. Yes. Unlike traditional rate design, the levelized rate model used by Kern River incorporates future changes to accumulated regulatory depreciation and ADIT, two significant items that usually reduce rate base, which in turn reduces rates. The future reductions to rate base caused by expected increases to ADIT are automatically factored in to the computation of current rates by Kern River's levelized rate model.

Q. Kern River projects a deferred income tax liability of about $250 million in Accounts 282 and 283 as of October 31, 2004. What caused this large increase in the deferred income tax liability accounts, when it was zero just after the acquisition by MEHC?

A. The large increase in the deferred tax liability accounts is primarily the direct result of the bonus tax depreciation claimed on the 2003 Expansion.

Q. Were the ADIT adjustments related to bonus tax depreciation included in the calculation of Kern River's initial rates for the 2003 Expansion?

A. No. The initial rates shown in Kern River's compliance filings were based on the principles set forth in the certificate application, as approved and modified in the Commission's Preliminary Determination dated February 27, 2002, regarding the project (98 FERC ¶ 61,205). The 2002 and 2003 tax statutes that provided for bonus depreciation were, respectively, signed into law on March 9, 2002 and May 28, 2003. Both laws were enacted <u>after</u> FERC had approved the principles to be used to compute the initial rates.

Q. Does this large deferred income tax liability represent taxes that have been collected, but not paid to the government?

A. No. Since the acquisition by MEHC in March 2002, through October 31, 2004, Kern River is expected to recognize pre-tax book income of approximately $290 million. The maximum tax liability that could have been generated by tax normalization is approximately $116 million (about 40% of pre-tax income). Therefore, no more than $116 million of Kern River's $250 million deferred tax liability represents income taxes that would have been collected through rates. The remainder of the deferred tax liability (about $134 million) is primarily the result of the unusually large Schedule M caused by electing bonus tax depreciation under the 2002 and 2003 tax statutes.

Q. Will rate base still be reduced by the gross amount of the deferred income tax liability in Accounts 282 and 283, even if a major portion of these deferred taxes do not represent actual cash tax savings to date?

A. Yes. However, Accounts 282 and 283 represent only two of the three deferred income tax accounts that need to be considered when computing rate base. There is a relatively large deferred tax asset (estimated to be about $120 million at October 31, 2004) in Account 190 that must also be included as an adjustment to rate base. The estimated net adjustment at October 31, 2004, after combining all three deferred tax accounts, is a reduction to rate base of about $130 million.

Q. Why is there a large deferred income tax asset balance in Account 190?

A. The large tax deductions, primarily related to bonus tax depreciation for the 2003 Expansion, resulted in Kern River having a "net operating loss" (NOL) for tax purposes for 2003. This means Kern River had more tax deductions than taxable income and explains why Kern River has not yet realized all of the expected cash tax savings associated with the election to use bonus tax depreciation. This NOL will be carried forward into future years until it has been offset by future taxable income. Most of the Account 190 balance recorded on the books represents the deferred tax benefit related to this NOL carryforward. If Kern River had been able to use all of the tax deductions claimed to offset an equal amount of taxable income, then a deferred tax asset would not need to be recorded. Just as a Schedule M or CTD must be multiplied by Kern River's overall statutory tax rate to calculate the amount of the deferred tax liability, the NOL also has to be multiplied by the same tax rate to calculate the deferred tax asset. This deferred tax asset is an offset to the deferred tax liabilities in Accounts 282 and 283.

Q. Does the Commission require NOLs to be recorded in Account 190?

A. Yes. In Accounting Guidance AI93-5-000, the Commission addressed the following question:

> "How should an entity account for the income tax effect of a net operating loss (NOL) carryforward or a tax credit carryforward?
>
> **Response**: An entity shall record the income tax effects of a NOL carryforward and a tax credit carryforward in a separate sub-account of Account 190, Accumulated Deferred Income Taxes Debit. In the event that it is more likely than not (a likelihood of more than 50 percent) that some portion of its deferred tax assets will not be realized, an entity shall record a valuation allowance in a separate sub-account of Account 190. The entity shall disclose full particulars as to the nature and amount of each type of operating loss and tax credit carryforward in the notes to the financial statements."

Q. Is there a likelihood that Kern River will need to record a "valuation allowance" in Account 190?

A. A valuation allowance would only be required if there was more than a fifty percent chance that Kern River would be unable to use the NOL before it expired. As shown in Exhibit KR-16, Kern River's NOL should clearly be utilized within the statutory carryforward period of 20 years (IRC Sec 172(b)(1)(A)(ii)).

Q. How is this deferred income tax asset treated in the rate filing?

A. Just as Kern River's levelized rate models consider future decreases to rate base caused by increases to the deferred tax liability account, the 2003 Expansion models also consider the reduction of this deferred tax asset each year going forward. As taxable income is recognized in the levelized rate model, it will gradually use up the NOL. As the NOL is used each year, the related deferred tax asset in Account 190 will be reduced until it reaches zero, which is projected to occur in 2009.

Q. Does this conclude your prepared direct testimony?

A. Yes.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Kern River Gas Transmission Company) Docket No. RP04-___-000

STATE OF NEVADA)
: ss
COUNTY OF CLARK)

AFFIDAVIT OF JEFFREY R. VALENTINE

Jeffrey R. Valentine, being first duly sworn, on oath states that he is the witness whose testimony appears on the preceding pages entitled "Prepared Direct Testimony of Jeffrey R. Valentine"; that, if asked the same questions that appear in the text of said direct testimony, he would give the answers that are herein set forth; and that affiant adopts the aforesaid testimony as his sworn, direct testimony in this proceeding.

Jeffrey R. Valentine

Jeffrey R. Valentine

SUBSCRIBED AND SWORN TO before me, a Notary Public in and for the State of Nevada, this 21st day of April, 2004.

NOTARY PUBLIC
STATE OF NEVADA
County of Clark
MATTHEW DOUBENMIER
Appt. No. 03-80682-1
My App. Expires March 5, 2007

Matthew

COUNTY OF CLARK
4/21/04

Matthew

Notary Public

KERN RIVER GAS TRANSMISSION COMPANY
PROJECTED USE OF 2003 EXPANSION NOL
AMOUNTS (000's)

Exhibit No. KR-16
Docket No. RP04-___-000

		10/31/04	2004 2 Months	2005	2006	2007	2008	2009
Pre-tax Book Income			14,300	84,500	76,500	69,200	63,100	58,300
Major Schedule Ms								
Regulatory Depreciation			5,200	32,700	42,200	51,500	60,200	68,100
Bonus Tax Depreciation			(1,600)	-	-	-	-	-
Regular Tax Depreciation			(11,200)	(69,600)	(62,700)	(56,400)	(50,700)	(48,000)
Equity AFUDC			-	-	-	-	-	-
Regulatory Asset - Equity AFUDC			-	-	-	-	-	-
Interest & Other			100	600	700	700	700	700
Total Temporary Differences			(7,500)	(36,300)	(19,800)	(4,200)	10,200	20,800
Taxable Income Before NOL			6,800	48,200	56,700	65,000	73,300	79,100
NOL Carryover (Used)			(6,800)	(48,200)	(56,700)	(65,000)	(73,300)	(78,900)
Taxable Income After NOL			-	-	-	-	-	200
NOL Carryover at End of Period		**(328,900)**	**(322,100)**	**(273,900)**	**(217,200)**	**(152,200)**	**(78,900)**	**-**
Deferred Tax Asset at End of Period	**38.12%**	**(125,400)**	**(122,800)**	**(104,400)**	**(82,800)**	**(58,000)**	**(30,100)**	**-**

Note: NOL as of 10/31/04 is primarily the result of tax deductions for bonus and regular tax depreciation of about $435 million related to the 2003 Expansion Project, including compressors. Book and taxable income amounts for future periods are based on rate model calculations that include projections by the tax department of tax depreciation and other schedule Ms. Amounts have been rounded to neared $100,000.