

Q. CA 1.0 NP

Reference: 2006 Accounting Policy Application, para. 15 (i)
Exhibit NP-6, Pro Forma Comparison of Recovery Alternatives

Preamble: NP proposes that: “the amount of \$9,579,000 be recognized in 2006 to satisfy the increased forecast 2006 depreciation expense described in paragraph 13 together with appropriate tax effects”.

Please confirm that the “appropriate tax effects” referred to at paragraph 15(i) are *not tax effects related to recognizing 2005 Unbilled Revenue*, but are the taxes payable under the tax settlement (see Exhibit NP-6 under Unbilled Revenue).

A. As the “appropriate tax effects” are both determined and limited by the *pro forma* taxes payable under the Tax Settlement, they are *not tax effects related to recognizing the 2005 Unbilled Revenue*.

The *pro forma* taxes payable for 2006 under the Tax Settlement, as provided in the Company’s Evidence are \$3,086,000.¹ The *pro forma* taxes payable for 2006 are based on recognizing unbilled revenue for income tax purposes totaling approximately \$8.5 million.²

Recognition of unbilled revenue for regulatory purposes in the amount of \$3,086,000 will offset the *pro forma* 2006 income tax effects.³

Recognizing unbilled revenue for regulatory purposes in 2006 in an amount that differs from the \$8.5 million to be recognized for income tax purposes under the Tax Settlement will not change the “appropriate tax effects”.

The amount of \$9,579,000 referred to in paragraph 15(i) of the Application is determined as shown in Table 1.

Table 1
(000s)

Increased Forecast 2006 Depreciation Expense	\$ 6,950
Appropriate Tax Effects	<u>3,086</u>
	10,036
Less: The Increase in Unbilled Revenue in 2006	<u>457</u>
Amount of 2005 Unbilled Revenue to be Recognized for Regulatory Purposes in 2006	<u>\$ 9,579</u>

¹ See Company Evidence, Page 12, Table 1, and Exhibit NP-2.

² See Exhibit NP-2, Page 1 of 1, line 9.

³ See Company Evidence, Pages 12 and 13, 2.2.3 *Income Tax Effects of the Tax Settlement*.