

Q. Please confirm that based on a 2005 Unbilled Revenue figure of \$22,539,020 the actual tax expense incurred in 2006 due to the tax settlement was \$2,714,000, which is \$207,000 less than “the \$2.921 million related to the recognition of the 2005 Unbilled Revenue for income tax purposes equally over 2006-2008.” (P.U. 40(2005), p. 13).

A. Confirmed.

Income taxes of \$2,714,000 related to the actual 2005 Unbilled Revenue amount of \$22,539,000 used for income tax purposes is \$207,000 less than the forecast income tax effect of \$2,921,000 that was based on the forecast 2005 Unbilled Revenue provided in the 2006 *Accounting Policy Application*.

The \$207,000 reduction in income taxes is the result of actual electricity deliveries in December 2005 that were billed in January 2006 being less than the forecast in the 2006 *Accounting Policy Application*.

Forecast 2005 Unbilled Revenue for income tax purposes, 2006 APA ¹	24,262,000
Actual 2005 Unbilled Revenue for income tax purposes, 2007 ACDA ²	<u>22,539,000</u>
Variance	1,723,000
Income Tax Rate	<u>36.12%</u>
Income taxes related to forecast variance	<u>622,000</u>
Portion of forecast variance related to 2006 (622,000/3) ³	<u>\$ 207,000</u>

¹ 2006 *Accounting Policy Application*.

² 2007 *Amortization and Cost Deferrals Application*.

³ The tax settlement recognizes, for income tax purposes, 1/3 of the 2005 Unbilled Revenue as taxable income beginning in 2006.