

Development of Excess Deferred Taxes

| <u>Description</u> | <u>Source</u> | <u>A</u> <u>7/05-6/06</u> | <u>B</u> <u>7/06-6/07</u> | <u>C=B-A</u> <u>Delta</u> | <u>D=(A+B)*-.5</u> <u>Reserve Change</u> |
|-------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|---|
| 1 Total Company | Note 1 | \$44,040 | \$29,590 | (\$14,451) | (\$36,815) |
| 2 Interstate | Note 2 | \$7,827 | \$5,165 | (\$2,662) | (\$6,496) |
| | | 48.91% | 51.09% | | |
| | | Common Line | Special Access | Total | |
| 3 Excess Deferred Tax | Note 3 | (\$1,302) | (\$1,360) | (\$2,662) | |
| 4 Excess Deferred Tax Reserve | Note 3 | (\$3,177) | (\$3,319) | (\$6,496) | |
| 5 Net Rate base | Line 4 *-1.0 | \$3,177 | \$3,319 | \$6,496 | |
| 6 Return | Line 5 * 0.1125 | \$357 | \$373 | \$731 | |
| 7 Federal Income Tax Change | (Ln6-Ln3)*0.35/(1.0-.35)-Ln3 | \$2,195 | \$2,293 | \$4,488 | |
| 8 Revenue Impact | Line 6 + Line 7 | \$2,553 | \$2,667 | \$5,220 | |

Note 1: Column A from Transmittal No. 800 Form EXG-EDT. Column B from corporate tax.

Note 2: ARMIS 43-01 row 1840 interstate ratios = 0.17457

Note 3: SUM1Col. A used for Basket allocations

Corporate Tax

| <u>2006</u> | <u>2007</u> | <u>Total</u> | <u>Midpoint</u> |
|-------------|-------------|--------------|-----------------|
| \$35,397 | \$23,782 | \$59,179 | \$29,590 |

| | <u>Ratio</u> |
|--|----------------------|
| Interstate Common Line Revenues (t-1) Form Sum 1 line 120 | \$ 58,936,555 0.4891 |
| Interstate Special Access Revenues (t-1) Form Sum 1 line 340 | \$ 61,558,756 0.5109 |
| Total | \$ 120,495,311 1.00 |

Development of Investment Tax Credit (ITC)

| <u>Description</u> | <u>Source</u> | <u>A</u> <u>7/05-6/06</u> | <u>B</u> <u>7/06-6/07</u> | <u>C=B-A</u> <u>Delta</u> |
|-------------------------|-------------------|--|---|------------------------------|
| 1 Total Company | Note 1 | \$571,995 | \$502,221 | (\$69,774) |
| 2 Interstate | Note 2 | \$128,538 | \$113,041 | (\$15,497) |
| | | 48.91% <u>Common Line</u> | 51.09% <u>Special Access</u> | <u>Total</u> |
| 3 Investment Tax Credit | Note 3 | (\$7,580) | (\$7,917) | (\$15,497) |
| 4 Federal Income Tax | Line 3/(1-.35)*-1 | \$11,662 | \$12,182 | \$23,843 |
| 8 Revenue Impact | | \$11,662 | \$12,182 | \$23,843 |

Note 1: Column A from Transmittal No. 791 Form EXG-ITC. Column B from corporate tax.

Note 2: EXD-ITC. CBT internal worksheet used to calculate interstate amounts = 0.22508

Note 3: SUM1 Col A used Basket for allocations

| <u>Corporate Tax</u> | <u>2005</u> | <u>2006</u> | <u>Total</u> | <u>Midpoint</u> |
|----------------------|-------------|-------------|--------------|-----------------|
| | \$534,672 | \$469,770 | \$1,004,442 | \$502,221 |

| | | <u>Ratio</u> |
|---|----------------|--------------|
| Interstate Common Line R Form Sum 1 line 120 | \$ 58,936,555 | 0.4891 |
| Interstate Special Access Form Sum 1 line 340 | \$ 61,558,756 | 0.5109 |
| Total | \$ 120,495,311 | 1.00 |

Summary of Exogenous Changes

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| | <u>Description</u> | <u>Source</u> | <u>Common Line</u> | <u>Special Access</u> | <u>Total</u> |
|---|-----------------------|-------------------------|--------------------|-----------------------|--------------|
| 1 | ITC Amortization | EXG-ITC | \$11,662 | \$12,182 | \$23,843 |
| 2 | Excess Deferred Taxes | EXG-EDT | \$2,553 | \$2,667 | \$5,220 |
| | Total Exogenous | Sum (Line 1.... Line 2) | \$14,214 | \$14,849 | \$29,063 |