

Peoples Natural Gas Company LLC
§ 53.53 II.A

8. State amount of debt interest utilized for income tax calculations, and details of debt interest computations, under each of the following rate case bases:
- a. Actual test year
 - b. Annualized test year-end
 - c. Proposed test year-end

* * * * *

Refer to page 5 of Exhibit No. 2, Schedule No. 4 (53.53 III.A.17).

Peoples Natural Gas Company LLC
§ 53.53 II.A

9. State amount of debt interest utilized for income tax calculations which has been allocated from the debt interest of an affiliate, and details of the allocation, under each of the following rate case bases:
- a. Actual test year
 - b. Annualized test year-end
 - c. Proposed test year-end

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The Company calculates interest consistent with the Commission-approved Intercompany Demand Note and Intercompany Promissory Notes that it holds with its affiliate and Parent, PNG Companies LLC. Interest used in income tax calculations is calculated using the interest synchronization method.

Peoples Natural Gas Company LLC
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26. Provide the following income tax data:
- a. Consolidated income tax adjustments, if applicable.
 - b. Interest for tax purposes (basis).

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- a. Attached is a calculation of a consolidated tax adjustment for both the Peoples and Equitable Divisions. However, pursuant to Pa. ACT 40, Section 1301.1 of the Public Utility Code, no adjustment has been reflected in the determination of income tax expense. Refer to the testimony of Matthew D. Wesolosky.
- b. Refer to page 5 of Exhibit No. 2, Schedule No. 4 (53.53.III.A.17).

Consolidated Tax Adjustment

Federal Taxable Income	2015	2016	2017	3 Year Average	
<u>Tax Loss Entities*</u>					
LDC Funding LLC	(19,133,008)	(24,670,397)	(21,700,145)	(21,834,517)	
LDC Holdings LLC	(6,052,915)	(6,633,718)	(3,872,235)	(5,519,623)	
PNG Companies LLC	(3,193,456)	(3,776,968)	(5,562,517)	(4,177,647)	
LDC Holdings II LLC	(1,159,657)	(1,148,780)	(518,669)	(942,369)	
PNG Gathering	(100,231)	(132,688)	(164,303)	(132,407)	
PA Gas Marketing LLC	-	-	(19,595)	(6,532)	
Peoples Service Company LLC	-	-	(854,114)	(284,705)	
Total Tax Loss	(29,639,267)	(36,362,551)	(32,691,578)	(32,897,799)	
<u>Tax Positive Entities</u>					
					<u>% of Total</u>
Delta Group	-	-	4,469,013	1,489,671	2.3%
PA Gas Marketing LLC	40,238	48	-	13,429	0.0%
Peoples Service Company LLC	735,595	53,989	-	263,195	0.4%
Peoples Home Works	2,302,539	2,425,449	2,276,717	2,334,902	3.6%
Peoples Gas WV	2,809,941	251,669	-	1,020,537	1.6%
Peoples TWP LLC	12,749,109	5,219,384	11,593,267	9,853,920	15.0%
Peoples EGC Division	26,794,666	17,147,732	32,309,302	25,417,233	38.8%
Peoples Natural Gas Co LLC	51,295,066	2,595,741	21,531,419	25,140,742	38.4%
Subtotal Taxable Income	96,727,154	27,694,012	72,179,718	65,533,628	100.0%
Total	67,087,887	(8,668,539)	39,488,140	32,635,829	
	<u>PNG</u>	<u>EGC</u>	<u>Combined</u>		
Allocated Average Tax Loss	(12,620,621)	(12,759,419)	(25,380,040)		
Tax Effect at 21%	(2,650,330)	(2,679,478)	(5,329,808)		

*Excludes tax losses of regulated entities

Peoples Natural Gas Company LLC
§ 53.53 III.A

51. Submit a schedule showing for the last five years the income tax refunds, plus interest (net of taxes), received from the federal government due to prior years' claims.

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The Company has not had any refunds received from the federal government due to prior years' claims.

Peoples Natural Gas Company LLC

§ 53.53 III.A

52. Provide detailed computations showing the deferred income taxes derived by using accelerated tax depreciation applicable to post-1969 utility property increases productive capacity, and ADR rates on property. (Separate between state and federal; also, rate used)
- a. State whether tax depreciation is based on all rate base items claimed as of the end of the test year, and whether it is the annual tax depreciation at the end of the test year.
 - b. Reconcile any difference between the deferred tax balance, as shown as a reduction to measures of value (rate base), and the deferred tax balance as shown on the balance sheet.

* * * * *

Exhibit No. 7, Schedule 8, Attachment 2 (53.53.III.A.55) includes the calculation of deferred income taxes derived from the use of accelerated depreciation. The attachment has been prepared both individually and on a combined basis for Peoples and the Equitable Division.

- a. Tax depreciation is based on all rate base items claimed as of the end of the test year. Tax depreciation is the annual tax depreciation at the end of the test year.
- b. Attachment 2 includes a reconciliation of deferred income tax balances to the amount shown as a reduction to measures of value.

Peoples Natural Gas Company LLC
§ 53.53 III.A

53. Submit a schedule showing a breakdown of the deferred income taxes by state and federal per books, pro-forma existing rates, and under proposed rates.

* * * * *

Refer to Exhibit No. 7, Schedule 8, Attachments 1 and 2 (53.53.III.A.55). The attachments have been prepared both individually and on a combined basis for Peoples and the Equitable Division.

Peoples Natural Gas Company LLC
§ 53.53 III.A

54. Submit a schedule showing a breakdown of accumulated investment tax credits (3 percent, 4 percent, 7 percent, 10 percent and 11 percent), together with details of methods used to write-off the unamortized balances.

* * * * *

The Peoples and Equitable Divisions have no accumulated investment tax credits.

Peoples Natural Gas Company LLC
§ 53.53 III.A

55. Submit a schedule showing the adjustments for taxable net income per books (including below-the-line items) and pro-forma under existing rates, together with an explanation of any difference between the adjustments. Indicate charitable donations and contributions in the tax calculation for rate making purposes.

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Please refer to pages 2-16 of this Schedule.

**Combined Divisions
Income Tax Provision**

FILING REQUIREMENTS

53.53.III.A.55
53.53.III.A.53

		Test Year for the 12 Months Ended:								
		Historic			Future		Fully Projected Future			
		A	B	C	D	E	F	G	H	I
		Present Rates					Proposed Rates			
		9/30/2018		9/30/2018	9/30/2019		10/31/2020		10/31/2020	
Ref		Per Books	Adjustment	Pro-Forma	Adjustment	Pro-Forma	Adjustment	Pro-Forma	Adjustment	Pro-Forma
1	Operating Income Before Taxes and Interest	\$ 167,432,940	(9,641,775)	\$ 157,791,164	(33,108,778)	\$ 124,682,386	(17,711,541)	\$ 106,970,845	92,635,235	\$ 199,606,080
2	Less: Interest Expense	36,632,781	(4,091,204)	32,541,577	3,934,474	36,476,051	3,776,278	40,252,328	-	40,252,328
3	Pretax Operating Income (Loss)	130,800,158	(5,550,571)	125,249,587	(37,043,252)	88,206,335	(21,487,819)	66,718,517	92,635,235	159,353,752
Adjustments to Taxable Income (Schedule M Items):										
Permanent Adjustments										
4	Meals & Entertainment	1,022,113	-	1,022,113	-	1,022,113	-	1,022,113	-	\$ 1,022,113
Deferred Adjustments										
5	Depreciation	(48,441,117)	(4,926,402)	(53,367,519)	(13,569,446)	(66,936,965)	(9,070,955)	(76,007,920)	-	(76,007,920)
6	Sec 165 Loss on Asset Retirements	(5,202,090)	-	(5,202,090)	2,446,090	(2,756,000)	-	(2,756,000)	-	(2,756,000)
7	Contributions in Aid of Construction	643,197	-	643,197	(279,197)	364,000	-	364,000	-	364,000
8	Cost of Removal	(8,578,258)	-	(8,578,258)	3,310,258	(5,268,000)	-	(5,268,000)	-	(5,268,000)
9	Other	15,468,512	(15,468,512)	-	-	-	-	-	-	-
10	Total Deferred Adjustments	(46,109,756)	(20,394,914)	(66,504,670)	(8,092,295)	(74,596,965)	(9,070,955)	(83,667,920)	-	(83,667,920)
11	Total Adjustments to Taxable Income	(45,087,643)	(20,394,914)	(65,482,557)	(8,092,295)	(73,574,852)	(9,070,955)	(82,645,807)	-	(82,645,807)
Adjustments to State Taxable Income										
12	PA Depreciation Adjustment	(1,714,602)	-	(1,714,602)	3,071	(1,711,531)	257,854	(1,453,677)	-	(1,453,677)
13	Income Subject to State Income Tax (Before NOL Utilization)	83,997,913	(25,945,485)	58,052,428	(45,132,476)	12,919,952	(30,300,920)	(17,380,967)	92,635,235	75,254,268
14	Prior Year PA NOL Utilization	(29,399,270)	9,080,920	(20,318,350)	15,796,367	(4,521,983)	4,521,983	-	(30,101,707)	(30,101,707)
15	PA Taxable Income	54,598,643	(16,864,565)	37,734,078	(29,336,109)	8,397,969	(25,778,937)	(17,380,967)	62,533,528	45,152,561
16	PA Income Tax Expense (Before Current Year NOL Adj)	9.99% 7,145,458	(3,375,824)	3,769,634	(2,930,677)	838,957	(2,575,316)	(1,736,359)	6,247,099	4,510,741
17	Current Year PA Net Operating Loss Adjustment	Att. 4 -	-	-	-	-	1,736,359	1,736,359	(1,736,359)	-
18	PA Deferred Income Tax Expense	(472,949)	472,949	-	-	-	-	-	-	-
19	Pennsylvania Income Tax Expense	6,672,509	(2,902,875)	3,769,634	(2,930,677)	838,957	(838,957)	-	4,510,741	4,510,741
		5.10%		3.01%		0.95%		0.00%		2.83%
20	Income Subject to Federal Income Tax (Before NOL Adjustment)	79,040,006	(23,042,610)	55,997,396	(42,204,870)	13,792,526	(32,627,171)	(18,834,644)	91,031,848	72,197,204
21	(Prior Year) Current Year Federal Net Operating Loss Adjustment	Att. 4 (23,898,075)	-	(23,898,075)	23,898,075	-	-	-	-	-
22	Federal Taxable Income	55,141,931	(23,042,610)	32,099,321	(18,306,795)	13,792,526	(32,627,171)	(18,834,644)	91,031,848	72,197,204
23	Federal Income Tax Expense Before Current Year NOL Adj	9,744,025	(3,003,168)	6,740,857	(3,844,427)	2,896,431	(6,851,706)	(3,955,275)	19,116,688	15,161,413
24	Current Year Federal Net Operating Loss Adjustment	Att. 4 -	-	-	-	-	3,955,275	3,955,275	(3,955,275)	-
25	Federal Current Income Tax Expense	9,744,025	(3,003,168)	6,740,857	(3,844,427)	2,896,431	(2,896,431)	-	15,161,413	15,161,413
26	Federal Deferred Income Tax Expense	Att. 5 28,824,664	(14,858,683)	13,965,981	1,699,382	15,665,363	1,904,901	17,570,263	-	17,570,263
27	Amortization of Excess Deferred Income Taxes	Att. 5 -	(1,088,416)	(1,088,416)	(552,558)	(1,640,974)	(139,402)	(1,780,376)	-	(1,780,376)
28	Current Year Federal Deferred NOL Adjustment	Att. 5 -	5,018,596	5,018,596	(5,018,596)	-	(3,344,731)	(3,344,731)	3,344,731	-
29	Federal Deferred Income Tax Expense	28,824,664	(10,928,504)	17,896,160	(3,871,772)	14,024,389	(1,579,232)	12,445,156	3,344,731	15,789,887
30	Total Federal Tax Expense (Current and Deferred)	38,568,689	(13,931,671)	24,637,018	(7,716,199)	16,920,819	(4,475,663)	12,445,156	18,506,144	30,951,300
31	Total Income Tax Expense	45,241,198	(16,834,546)	28,406,652	(10,646,876)	17,759,776	(5,314,620)	12,445,156	23,016,885	35,462,041
32 Other Income and Deductions:										
35	Other Income and Deductions	(3,945,852)	2,654,096	(1,291,756)	-	-	-	-	-	-
38	Taxes on Other Income and Deductions	(463,796)	836,080	372,284	(372,284)	-	-	-	-	-
39	Net Income	82,076,904		95,178,895		70,446,559		54,273,360		123,891,711

Combined Divisions
Deferred Income Taxes

FILING REQUIREMENTS	Test Year for the 12 Months Ended:				
	Historic		Future	Fully Projected Future	
	9/30/2018 Per Books	9/30/2018 Pro-Forma	9/30/2019 Pro-Forma	10/31/2020 Pro-Forma	10/31/2020 Pro-Forma
	Present Rates			Proposed Rates	
53.53.III.A.52a					
53.53.III.A.53					
53.53.III.A.58					
53.53.III.A.62					
Deferred Adjustments					
Depreciation					
1	Book Depreciation	68,350,741	65,981,378	76,474,847	86,626,149
2	Tax Depreciation	(116,791,858)	(119,348,897)	(143,411,812)	(162,634,069)
3	Schedule M	(48,441,117)	(53,367,519)	(66,936,965)	(76,007,920)
Sec 165 Loss on Asset Retirements					
4	Book	-	-	-	-
5	Tax	(5,202,090)	(5,202,090)	(2,756,000)	(2,756,000)
6	Schedule M	(5,202,090)	(5,202,090)	(2,756,000)	(2,756,000)
Contributions in Aid of Construction					
7	Book	-	-	-	-
9	Tax	643,197	643,197	364,000	364,000
10	Schedule M	643,197	643,197	364,000	364,000
Cost of Removal					
11	Book	-	-	-	-
13	Tax	(8,578,258)	(8,578,258)	(5,268,000)	(5,268,000)
14	Schedule M	(8,578,258)	(8,578,258)	(5,268,000)	(5,268,000)
15	Non-Property Schedule M's	15,468,512	-	-	-
16	Total Schedule M's	(46,109,756)	(66,504,670)	(74,596,965)	(83,667,920)
Cumulative Timing Difference					
17	Depreciation	(486,847,067)	(506,347,677)	(573,284,642)	(655,626,555)
18	Sec 165 Loss on Asset Retirements	(18,475,651)	(18,475,651)	(21,231,651)	(24,217,318)
19	Contributions in Aid of Construction	4,313,259	4,313,259	4,677,259	5,071,592
20	Cost of Removal	(30,385,463)	(30,385,463)	(35,653,463)	(41,360,463)
21	Federal Net Operating Loss (Att. 4)	-	-	-	18,834,644
22	Total Timing Differences	(531,394,922)	(550,895,532)	(625,492,497)	(697,298,100)
Deferred Income Tax Asset (Liability) - Federal - 21% rate					
23	Depreciation	(102,237,884)	(106,333,012)	(120,389,775)	(137,681,577)
24	Sec 165 Loss on Asset Retirements	(3,879,887)	(3,879,887)	(4,458,647)	(5,085,637)
25	Contributions in Aid of Construction	905,784	905,784	982,224	1,065,034
26	Cost of Removal	(6,380,947)	(6,380,947)	(7,487,227)	(8,685,697)
27	Federal Net Operating Loss	-	-	-	3,955,275
28	Other (Non-Property)	29,905,520	-	-	-
29	Total Deferred Tax Asset (Liability)	(139,471,721)	(115,688,062)	(131,353,425)	(146,432,602)
30	Deferred Income Tax Asset (Liability) - State	-	-	-	-
Rate Base					
31	Net Deferred Tax Liability - Federal	-	(115,688,062)	(131,353,425)	(146,432,602)
32	Net Deferred Tax Liability - State	-	-	-	-
33	Excess Deferred Income Taxes	-	(68,250,379)	(66,609,405)	(64,680,664)
34	Historical Test Period Normalization Adjustment	-	-	-	7,219,056
35	Total Rate Base	-	(183,938,441)	(197,962,830)	(203,894,210)
			Att 5	Att 5	Att 5

Combined Divisions
Reconciliation of Deferred Income Taxes

FILING REQUIREMENTS	Historic		Future			Fully Projected Future					
	Present Rates									Proposed Rates	
	9/30/2018 <i>Per Books</i>	Normalization Adjustment*	9/30/2018 <i>Pro-Forma</i>	Test Year Adjustment	9/30/2019 <i>Pro-Forma</i>	Test Year Adjustment	10/31/2020 <i>Pro-Forma</i>	Test Year Adjustment	10/31/2020 <i>Pro-Forma</i>		
53.53.III.A.52b											
Ref											
1 Federal Deferred Income Taxes	(81,263,143)	(34,424,919)	(115,688,062)	(15,665,363)	(131,353,425)	(15,079,177)	(146,432,602)	(3,955,275)	(150,387,877)		
2 State Deferred Income Taxes	(58,208,578)	58,208,578	-	-	-	-	-	-	-		
Total Deferred Income Taxes	(139,471,721)	23,783,659	(115,688,062)	(15,665,363)	(131,353,425)	(15,079,177)	(146,432,602)	(3,955,275)	(150,387,877)		

* Deferred tax balances are calculated on Attachment 2. The normalization adjustment represents difference between the periods.

Combined Divisions
Carryforward Amounts

FILING REQUIREMENTS		Historic		Future	Fully Projected Future	
		9/30/2018	9/30/2018	9/30/2019	10/31/2020	10/31/2020
53.53.III.A.64		Present Rates			Proposed Rates	
Ref		Per Books	Pro-Forma	Pro-Forma	Pro-Forma	Pro-Forma
Federal NOL Carryforward						
1	Beginning Balance	23,898,075	23,898,075	-	-	-
2	NOL Utilized	(23,898,075)	(23,898,075)	-	-	-
3	NOL Generated	-	-	-	18,834,644	-
4	Ending Balance	-	-	-	18,834,644	-
State NOL Carryforward						
5	Beginning Balance	93,159,960	93,159,960	72,841,610	68,319,627	68,319,627
6	NOL Utilized	(29,399,270)	(20,318,350)	(4,521,983)	-	(30,101,707)
7	NOL Generated	-	-	-	17,380,967	-
8	Ending Balance	63,760,690	72,841,610	68,319,627	85,700,594	38,217,920

Peoples Division
Income Tax Provision

FILING REQUIREMENTS

Test Year for the 12 Months Ended:

Ref	Test Year for the 12 Months Ended:						
	Historic			Future		Fully Projected Future	
	A	B	C	D	E	F	G
	Present Rates						
	9/30/2018	9/30/2018	9/30/2018	9/30/2019	9/30/2019	10/31/2020	10/31/2020
	Per Books	Adjustment	Pro-Forma	Adjustment	Pro-Forma	Adjustment	Pro-Forma
1	Operating Income Before Taxes and Interest						
2	Less: Interest Expense						
3	Pretax Operating Income (Loss)						
	Adjustments to Taxable Income (Schedule M Items):						
	Permanent Adjustments						
4	Meals & Entertainment	739,960	-	739,960	185,040	925,000	925,000
	Deferred Adjustments						
5	Depreciation	(27,463,692)	(630,849)	(28,094,541)	(7,658,841)	(35,753,382)	(6,359,238)
6	Sec 165 Loss on Asset Retirements	(2,317,352)	-	(2,317,352)	1,194,352	(1,123,000)	(1,123,000)
7	Contributions in Aid of Construction	476,449	-	476,449	(152,449)	324,000	324,000
8	Cost of Removal	(2,741,909)	-	(2,741,909)	986,909	(1,755,000)	(1,755,000)
9	Other	7,139,384	(7,139,384)	-	-	-	-
10	Total Deferred Adjustments	(24,907,120)	(7,770,233)	(32,677,353)	(5,630,029)	(38,307,382)	(6,359,238)
11	Total Adjustments to Taxable Income	(24,167,160)	(7,770,233)	(31,937,393)	(5,444,989)	(37,382,382)	(6,359,238)
	Adjustments to State Taxable Income						
12	PA Depreciation Adjustment	(1,714,602)	-	(1,714,602)	3,071	(1,711,531)	257,854
13	Income Subject to State Income Tax (Before NOL Utilization)	40,898,453	(13,175,741)	27,722,712	(25,613,065)	2,109,647	(17,893,795)
14	Prior Year PA NOL Utilization	(14,314,458)	4,611,509	(9,702,949)	8,964,573	(738,376)	738,376
15	PA Taxable Income	26,583,995	(8,564,232)	18,019,763	(16,648,492)	1,371,271	(17,155,419)
16	PA Income Tax Expense (Before Current Year NOL Adj)	9.99%	3,373,740	(1,573,566)	1,800,174	(1,663,184)	136,990
17	Current Year PA Net Operating Loss Adjustment	Att. 4	-	-	-	-	1,576,836
18	PA Deferred Income Tax Expense	128,712	(128,712)	-	-	-	-
19	Pennsylvania Income Tax Expense	13%	3,502,452	(1,702,278)	1,800,174	(1,663,184)	136,990
20	Income Subject to Federal Income Tax (Before NOL Adjustment)	39,110,603	(11,473,463)	27,637,139	(23,952,952)	3,684,188	(20,922,013)
21	(Prior Year) Current Year Federal Net Operating Loss Adjustment	Att. 4	(23,898,075)	-	(23,898,075)	23,898,075	-
22	Federal Taxable Income	15,212,528	(11,473,463)	3,739,064	(54,877)	3,684,188	(20,922,013)
23	Federal Income Tax Expense Before Current Year NOL Adj	4.43%	674,272	110,932	785,204	(11,524)	773,679
24	Current Year Federal Net Operating Loss Adjustment	Att. 4	-	-	-	-	3,619,943
25	Federal Current Income Tax Expense	-	674,272	110,932	785,204	(11,524)	773,679
26	Federal Deferred Income Tax Expense	Att. 5	29,342,001	(22,479,757)	6,862,244	1,182,306	8,044,550
27	Amortization of Excess Deferred Income Taxes	Att. 5	-	(830,948)	(830,948)	(375,120)	(1,206,068)
28	Current Year Federal Deferred NOL Adjustment	Att. 5	-	5,018,596	5,018,596	(5,018,596)	-
29	Federal Deferred Income Tax Expense	29,342,001	(18,292,109)	11,049,892	(4,211,410)	6,838,482	(1,738,077)
30	Total Federal Tax Expense (Current and Deferred)	30,016,273	(18,181,178)	11,835,095	(4,222,934)	7,612,162	(2,511,756)
31	Total Income Tax Expense	33,518,725	(19,883,455)	13,635,270	(5,886,118)	7,749,152	(2,648,746)
	32 Other Income and Deductions:						
33	Other Income and Deductions	(2,485,142)	1,543,587	(941,555)	941,556	-	-
34	Taxes on Other Income and Deductions	(1,266,026)	1,537,382	271,356	(271,356)	-	-
35	Net Income	32,042,374	46,526,526	33,454,408	24,310,743		

Peoples Division
Deferred Income Taxes

FILING REQUIREMENTS	Test Year for the 12 Months Ended:				
	Historic		Future	Fully Projected Future	
	Present Rates				
	9/30/2018 Per Books	9/30/2018 Pro-Forma	9/30/2019 Pro-Forma	10/31/2020 Pro-Forma	
Deferred Adjustments					
Depreciation					
1	Book Depreciation	41,477,909	40,847,060	47,355,921	52,606,731
2	Tax Depreciation	(68,941,601)	(68,941,601)	(83,109,303)	(94,719,351)
3	Schedule M	(27,463,692)	(28,094,541)	(35,753,382)	(42,112,620)
Sec 165 Loss on Asset Retirements					
4	Book	-	-	-	-
5	Tax	(2,317,352)	(2,317,352)	(1,123,000)	(1,123,000)
6	Schedule M	(2,317,352)	(2,317,352)	(1,123,000)	(1,123,000)
Contributions in Aid of Construction					
7	Book	-	-	-	-
8	Tax	476,449	476,449	324,000	324,000
9	Schedule M	476,449	476,449	324,000	324,000
Cost of Removal					
11	Book	-	-	-	-
12	Tax	(2,741,909)	(2,741,909)	(1,755,000)	(1,755,000)
13	Schedule M	(2,741,909)	(2,741,909)	(1,755,000)	(1,755,000)
14	Schedule M	(2,741,909)	(2,741,909)	(1,755,000)	(1,755,000)
15	Non-Property Schedule M's	7,139,384	-	-	-
16	Total Schedule M's	(24,907,120)	(32,677,353)	(38,307,382)	(44,666,620)
Cumulative Timing Difference					
17	Depreciation	(360,546,703)	(361,177,555)	(396,930,937)	(442,552,942)
18	Sec 165 Loss on Asset Retirements	(9,784,811)	(9,784,811)	(10,907,811)	(12,124,394)
19	Contributions in Aid of Construction	3,830,443	3,830,443	4,154,443	4,505,443
20	Cost of Removal	(15,775,470)	(15,775,470)	(17,530,470)	(19,431,720)
21	Federal Net Operating Loss (Att. 4)	-	-	-	17,237,812
22	Total Timing Differences	(382,276,541)	(382,907,393)	(421,214,775)	(452,365,801)
Deferred Income Tax Asset (Liability) - Federal - 21% rate					
23	Depreciation	(74,500,564)	(75,847,287)	(83,355,497)	(92,936,118)
24	Sec 165 Loss on Asset Retirements	(2,180,304)	(2,054,810)	(2,290,640)	(2,546,123)
25	Contributions in Aid of Construction	823,176	804,393	872,433	946,143
26	Cost of Removal	(3,331,711)	(3,312,849)	(3,681,399)	(4,080,661)
27	Federal Net Operating Loss	-	-	-	3,619,941
28	Other (Non-Property)	29,886,203	-	-	-
29	Total Deferred Tax Asset (Liability)	(49,303,200)	(80,410,553)	(88,455,103)	(94,996,818)
30	Deferred Income Tax Asset (Liability) - State	(36,293,077)	-	-	-
Rate Base					
31	Net Deferred Tax Liability - Federal	-	(80,410,553)	(88,455,103)	(94,996,818)
32	Net Deferred Tax Liability - State	-	-	-	-
33	Excess Deferred Income Taxes	-	(50,829,230)	(49,623,162)	(48,247,127)
34	Historical Test Period Normalization Adjustment	-	-	-	3,707,761
35	Total Rate Base	-	(131,239,783)	(138,078,265)	(139,536,184)

Att. 5

Att. 5

Peoples Division
Reconciliation of Deferred Income Taxes

FILING REQUIREMENTS

		Historic		Future		Fully Projected Future		
		9/30/2018 <i>Per Books</i>	Normalization Adjustment*	9/30/2018 <i>Pro-Forma</i>	Test Year Adjustment	9/30/2019 <i>Pro-Forma</i>	Test Year Adjustment	10/31/2020 <i>Pro-Forma</i>
		Present Rates						
	Ref							
1 Federal Deferred Income Taxes		(49,303,200)	(31,107,353)	(80,410,553)	(8,044,550)	(88,455,103)	(6,541,713)	(94,996,816)
2 State Deferred Income Taxes		(36,293,077)	36,293,077	-	-	-	-	-
Total Deferred Income Taxes	Att. 2	(85,596,277)	5,185,724	(80,410,553)	(8,044,550)	(88,455,103)	(6,541,713)	(94,996,816)

* Deferred tax balances are calculated on Attachment 2. The normalization adjustment represents difference between the periods.

**Peoples Division
Carryforward Amounts**

<u>FILING REQUIREMENTS</u>		<u>Historic</u>	<u>Future</u>	<u>Fully Projected Future</u>	
53.53.III.A.64		Present Rates			
Ref		9/30/2018 Per Books	9/30/2018 Pro-Forma	9/30/2019 Pro-Forma	10/31/2020 Pro-Forma
Federal NOL Carryforward					
1	Beginning Balance	23,898,075	23,898,075	-	-
2	NOL Utilized <i>Att. 1</i>	(23,898,075)	(23,898,075)	-	-
3	NOL Generated <i>Att. 1</i>	-	-	-	17,237,825
4	Ending Balance <i>Att. 2</i>	-	-	-	17,237,825
State NOL Carryforward					
5	Beginning Balance	93,159,960	93,159,960	83,457,011	82,718,635
6	NOL Utilized <i>Att. 1</i>	(14,314,458)	(9,702,949)	(738,376)	-
7	NOL Generated <i>Att. 1</i>	-	-	-	15,784,148
8	Ending Balance	78,845,502	83,457,011	82,718,635	98,502,783

Equitable Division
Income Tax Provision

FILING REQUIREMENTS		Test Year for the 12 Months Ended:							
		Historic			Future		Fully Projected Future		
		A	B	C	D	E	F	G	
		Present Rates							
		9/30/2018	9/30/2018	9/30/2018	9/30/2019	10/31/2020			
Ref		Per Books	Adjustment	Pro-Forma	Adjustment	Pro-Forma	Adjustment	Pro-Forma	
1	Operating Income Before Taxes and Interest	Ex. 2, Sch. 4	\$ 82,105,092	(3,740,889)	78,364,203	(15,386,233)	62,977,970	(7,783,060)	55,194,910
2	Less: Interest Expense	Ex. 2, Sch. 4	18,085,148	(2,477,611)	15,607,537	3,008,310	18,615,848	525,047	19,140,895
3	Pretax Operating Income (Loss)		64,019,943	(1,263,278)	62,756,666	(18,394,543)	44,362,122	(8,308,107)	36,054,016
Adjustments to Taxable Income (Schedule M Items):									
Permanent Adjustments									
4	Meals & Entertainment		282,153	-	282,153	70,847	353,000	-	353,000
Deferred Adjustments									
5	Depreciation		(20,977,425)	(3,184,717)	(24,162,142)	(5,578,494)	(29,740,636)	(2,862,220)	(32,602,856)
6	Sec 165 Loss on Asset Retirements		(2,884,738)	-	(2,884,738)	1,251,738	(1,633,000)	-	(1,633,000)
7	Contributions in Aid of Construction		166,748	-	166,748	(126,748)	40,000	-	40,000
8	Cost of Removal		(5,836,349)	-	(5,836,349)	2,323,349	(3,513,000)	-	(3,513,000)
9	Other		8,329,128	(8,329,128)	-	-	-	-	-
10	Total Deferred Adjustments	Att. 2	(21,202,636)	(11,513,845)	(32,716,481)	(2,130,155)	(34,846,636)	(2,862,220)	(37,708,856)
11	Total Adjustments to Taxable Income		(20,920,483)	(11,513,845)	(32,434,328)	(2,059,308)	(34,493,636)	(2,862,220)	(37,355,856)
Adjustments to State Taxable Income									
12	PA Depreciation Adjustment		-	-	-	-	-	-	-
13	Income Subject to State Income Tax (Before NOL Utilization)		43,099,460	(12,777,123)	30,322,338	(20,453,851)	9,868,486	(11,170,327)	(1,301,840)
14	Prior Year PA NOL Utilization	Att. 4	-	-	-	-	-	-	-
15	PA Taxable Income		43,099,460	(12,777,123)	30,322,338	(20,453,851)	9,868,486	(11,170,327)	(1,301,840)
16	PA Income Tax Expense (Before Current Year NOL Adj)	9.99%	3,771,718	(742,516)	3,029,202	(2,043,340)	985,862	(1,115,916)	(130,054)
17	Current Year PA Net Operating Loss Adjustment	Att. 4	-	-	-	-	-	130,054	130,054
18	PA Deferred Income Tax Expense		(601,661)	601,661	-	-	-	-	-
19	Pennsylvania Income Tax Expense	9%	3,170,057	(140,855)	3,029,202	(2,043,340)	985,862	(985,862)	-
20	Income Subject to Federal Income Tax (Before NOL Adjustment)		39,929,403	(12,636,267)	27,293,136	(18,410,511)	8,882,625	(10,184,465)	(1,301,840)
21	(Prior Year) Current Year Federal Net Operating Loss Adjustment	Att. 4	-	-	-	-	-	-	-
22	Federal Taxable Income		39,929,403	(12,636,267)	27,293,136	(18,410,511)	8,882,625	(10,184,465)	(1,301,840)
23	Federal Income Tax Expense Before Current Year NOL Adj	22.71%	9,069,753	(3,338,194)	5,731,559	(3,866,207)	1,865,351	(2,138,738)	(273,386)
24	Current Year Federal Net Operating Loss Adjustment	Att. 4	-	-	-	-	-	273,386	273,386
25	Federal Current Income Tax Expense		9,069,753	(3,338,194)	5,731,559	(3,866,207)	1,865,351	(1,865,351)	-
26	Federal Deferred Income Tax Expense	Att. 5	(517,337)	7,387,798	6,870,461	447,333	7,317,794	601,066	7,918,860
27	Amortization of Excess Deferred Income Taxes	Att. 5	-	(257,468)	(257,468)	(177,438)	(434,906)	(75,284)	(510,190)
28	Current Year Federal Deferred NOL Adjustment	Att. 5	-	-	-	-	-	(273,386)	(273,386)
29	Federal Deferred Income Tax Expense		(517,337)	7,130,330	6,612,993	269,895	6,882,888	252,396	7,135,283
30	Total Federal Tax Expense (Current and Deferred)		8,552,416	3,792,136	12,344,552	(3,596,313)	8,748,239	(1,612,955)	7,135,283
31	Total Income Tax Expense		11,722,473	3,651,280	15,373,753	(5,639,653)	9,734,101	(2,598,817)	7,135,283
32 Other Income and Deductions:									
33	Other Income and Deductions		(1,460,710)	1,110,509	(350,201)	350,201	-	-	-
34	Taxes on Other Income and Deductions		802,230	(701,302)	100,928	(100,928)	-	-	-
35	Net Income		50,034,530	46,931,784	46,931,784	34,628,022	34,628,022	28,918,732	28,918,732

Equitable Division
Deferred Income Taxes

FILING REQUIREMENTS	Test Year for the 12 Months Ended:				
	Historic	Future		Fully Projected	
	Present Rates				
	9/30/2018 Per Books	9/30/2018 Pro-Forma	9/30/2019 Pro-Forma	10/31/2020 Pro-Forma	
Deferred Adjustments					
Depreciation					
1	Book Depreciation	26,872,832	26,245,154	30,561,873	35,311,862
2	Tax Depreciation	(47,850,257)	(50,407,296)	(60,302,509)	(67,914,718)
3	Schedule M	(20,977,425)	(24,162,142)	(29,740,636)	(32,602,856)
Sec 165 Loss on Asset Retirements					
4	Book	-	-	-	-
5	Tax	(2,884,738)	(2,884,738)	(1,633,000)	(1,633,000)
6	Schedule M	(2,884,738)	(2,884,738)	(1,633,000)	(1,633,000)
Contributions in Aid of Construction					
7	Book	-	-	-	-
8	Tax	166,748	166,748	40,000	40,000
9	Schedule M	166,748	166,748	40,000	40,000
10	Schedule M	166,748	166,748	40,000	40,000
Cost of Removal					
11	Book	-	-	-	-
12	Tax	(5,836,349)	(5,836,349)	(3,513,000)	(3,513,000)
13	Schedule M	(5,836,349)	(5,836,349)	(3,513,000)	(3,513,000)
14	Schedule M	(5,836,349)	(5,836,349)	(3,513,000)	(3,513,000)
15	Non-Property Schedule M's	8,329,128	-	-	-
16	Total Schedule M's	(21,202,636)	(32,716,481)	(34,846,636)	(37,708,856)
Cumulative Timing Difference					
17	Depreciation	(126,300,361)	(144,059,286)	(173,799,922)	(209,119,683)
18	Sec 165 Loss on Asset Retirements	(8,690,623)	(8,690,623)	(10,323,623)	(12,092,706)
19	Contributions in Aid of Construction	482,816	482,816	522,816	566,149
20	Cost of Removal	(14,609,993)	(14,609,993)	(18,122,993)	(21,928,743)
21	Federal Net Operating Loss (Att. 4)	-	-	-	1,301,825
22	Total Timing Differences	(149,118,161)	(166,877,086)	(201,723,722)	(241,273,158)
Deferred Income Tax Asset (Liability) - Federal - 21% rate					
23	Depreciation	(26,689,982)	(30,252,450)	(36,497,984)	(43,915,133)
24	Sec 165 Loss on Asset Retirements	(2,031,884)	(1,825,031)	(2,167,961)	(2,539,468)
25	Contributions in Aid of Construction	105,616	101,391	109,791	118,891
26	Cost of Removal	(3,363,010)	(3,068,099)	(3,805,829)	(4,605,036)
27	Federal Net Operating Loss	-	-	-	273,383
28	Other (Non-Property)	19,317	-	-	-
29	Total Deferred Tax Asset (Liability)	(31,959,943)	(35,044,188)	(42,361,983)	(50,667,363)
30	Deferred Income Tax Asset (Liability) - State	(21,915,501)	-	-	-
Rate Base					
31	Net Deferred Tax Liability - Federal	-	(35,044,188)	(42,361,983)	(50,667,363)
32	Net Deferred Tax Liability - State	-	-	-	-
33	Excess Deferred Income Taxes	(17,421,149)	(16,986,243)	(16,986,243)	(16,433,537)
34	Historical Test Period Normalization Adjustment	-	-	-	3,387,207
35	Total Rate Base	(17,421,149)	(52,030,431)	(59,348,226)	(63,713,693)

Att. 5

Att. 5

Equitable Division
Reconciliation of Deferred Income Taxes

<u>FILING REQUIREMENTS</u>		<u>Historic</u>		<u>Future</u>		<u>Fully Projected Future</u>		
		<u>9/30/2018</u>	Normalization	<u>9/30/2018</u>	Test Year	<u>9/30/2019</u>	Test Year	<u>10/31/2020</u>
53.53.III.A.52b		<i>Present Rates</i>						
	Ref	<i>Per Books</i>	Adjustment*	<i>Pro-Forma</i>	Adjustment	<i>Pro-Forma</i>	Adjustment	<i>Pro-Forma</i>
1	Federal Deferred Income Taxes	(31,959,943)	(3,084,245)	(35,044,188)	(7,317,795)	(42,361,983)	(8,305,377)	(50,667,360)
2	State Deferred Income Taxes	(21,915,501)	21,915,501	-	-	-	-	-
	Total Deferred Income Taxes	(53,875,444)	18,831,256	(35,044,188)	(7,317,795)	(42,361,983)	(8,305,377)	(50,667,360)

* Deferred tax balances are calculated on Attachment 2. The normalization adjustment represents difference between the periods.

**Equitable Division
Carryforward Amounts**

<u>FILING REQUIREMENTS</u>		Ref	Historic		Future	Fully Projected Future
			9/30/2018 <i>Per Books</i>	9/30/2018 <i>Pro-Forma</i>	9/30/2019 <i>Pro-Forma</i>	10/31/2020 <i>Pro-Forma</i>
53.53.III.A.64			Present Rates			
Federal NOL Carryforward						
1	Beginning Balance		-	-	-	-
2	NOL Utilized	<i>Att. 1</i>	-	-	-	-
3	NOL Generated	<i>Att. 1</i>	-	-	-	1,301,840
4	Ending Balance	<i>Att. 2</i>	-	-	-	1,301,840
State NOL Carryforward						
5	Beginning Balance		-	-	-	-
6	NOL Utilized	<i>Att. 1</i>	-	-	-	-
7	NOL Generated	<i>Att. 1</i>	-	-	-	1,301,840
8	Ending Balance		-	-	-	1,301,840

Peoples Natural Gas Company LLC

§ 53.53 III.A

56. Submit detailed calculations supporting taxable income before state and federal income taxes where the income tax is subject to allocation due to operations in another state, or due to operation of other taxable utility or non-utility business, or by operating divisions or areas.

* * * * *

Peoples Natural Gas Company LLC's operations are solely within Pennsylvania. Therefore, no income tax is allocable to another state. However, both divisions have contract storage inventory in other states that it pays taxes on value of inventory. Refer to Exhibit No. 6, Schedule No. 2 (53.53 III.A.50) for the amount of such tax.

Peoples Natural Gas Company LLC

§ 53.53 III.A

57. Submit detailed calculations showing the derivation of deferred income taxes for amortization of repair allowance if such policy is followed.

* * * * *

The Peoples Division and the Equitable Division do not have deferred income taxes generated from amortization of a repair allowance.

Peoples Natural Gas Company LLC
§ 53.53 III.A

58. Furnish a breakdown of major items comprising prepaid and deferred income tax charges and other deferred income tax credits and reserves by accounting areas.

* * * * *

Refer Exhibit No. 7, Schedule No. 8, Attachment 2 (53.53.III.A.55), which presents deferred income taxes both individually and on a combined basis for the Peoples and the Equitable Divisions.

Peoples Natural Gas Company LLC

§ 53.53 III.A

59. Provide details of the Federal Surtax Credit allocated to the Pennsylvania jurisdictional area, if applicable.

* * * * *

No Federal Surtax Credit is available to the Peoples and Equitable Divisions.

Peoples Natural Gas Company LLC
§ 53.53 III.A

62. Provide the accelerated tax depreciation and the book depreciation used to calculate test year deferrals in amounts segregated as follows:

For:

- a. Property installed prior to 1970
- b. Property installed subsequent to 1969 (indicate increasing capacity additions and nonincreasing capacity additions).

* * * * *

- a. As a result of its deemed asset acquisition of Peoples division on February 1, 2010 and of the Equitable Division on December 17, 2013, neither division owns assets that are considered for income tax purposes as placed in service prior to that date.
- b. All of Peoples' assets were acquired on or after February 1, 2010 and Equitable Division's assets were acquired on or after December 17, 2013. Peoples and Equitable Division calculated their deferred taxes using the statutory tax rate.

Refer to Exhibit No 7, Schedule 8, Attachments 1 and 2 (53.53.III.A.55). Attachments 1 and 2 have been prepared both individually and on a combined basis for Peoples and the Equitable Division.

Peoples Natural Gas Company LLC
§ 53.53 III.A

63. State whether all tax savings due to accelerated depreciation on property installed prior to 1970 have been passed through to income. (If not, explain).

* * * * *

Refer to Exhibit No. 7, Schedule 13 (53.53 III.A.62).

Peoples Natural Gas Company LLC

§ 53.53 III.A

64. Show any income tax loss/gain carryovers from previous years that may affect test year income taxes or future year income taxes. Show loss/gain carryovers by years of origin and amounts remaining by years at the end of the test year.

* * * * *

Refer to Exhibit No 7, Schedule 8, Attachment 4 (53.53.III.A.55).

Peoples Natural Gas Company LLC

§ 53.53 III.A

60. Explain the reason for the use of cost of removal of any retired plant figures in the income tax calculations.

* * * * *

A difference exists between when cost of removal can be deducted for book purposes versus deducted on the income tax return. For book purposes, cost of removal is charged to accumulated depreciation and amortized over five years. For income tax purposes, cost of removal is deducted when incurred. This timing difference is reflected in calculating income tax expense in Exhibit No. 7, Schedule 8, Attachment 1.

Peoples Natural Gas Company LLC

§ 53.53 III.A

61. Submit the corresponding data applicable to Pennsylvania Corporate Income Tax deferment.
 - a. Show the amounts of straight line tax depreciation and accelerated tax depreciation, the difference between which gave rise to the normalizing tax charged back to the test year operating statement.
 - b. Show normalization for both Federal and State Income Taxes.
 - c. Show tax rates used to calculate tax deferment amount.

* * * * *

a-c: Refer to Exhibit No 7, Schedule 8, Attachments 1 and 2 (53.53.III.A.55). Attachments 1 and 2 have been prepared both individually and on a combined basis for the Peoples and the Equitable Divisions.

Peoples Natural Gas Company LLC

§ 53.53 III.A

65. State whether the company eliminates any tax savings by the payment of actual interest on construction work in progress not in rate base claim.

If response is affirmative:

- a. Set forth amount of construction claimed in this tax savings reduction. Explain the basis for this amount.
- b. Explain the manner in which the debt portion of this construction is determined for purposes of the deferral calculations.
- c. State the interest rate used to calculate interest on this construction debt portion, and the manner in which it is derived.
- d. Provide details of calculation to determine tax saving reduction. State whether state taxes are increased to reflect the construction interest elimination.

* * * * *

Peoples Natural Gas Company LLC does not.

Peoples Natural Gas Company LLC
§ 53.53 III.A

66. Provide a detailed analysis of Taxes Accrued per books as of the test year date. Also supply the basis for the accrual and the amount of taxes accrued monthly.

* * * * *

See page 2.

Peoples Natural Gas Company LLC
Accrued Taxes and Basis for Accruals
As of September 30, 2018

Taxes Accrued	Peoples	Equitable	Combined	Basis for Accrual of Tax
Federal Income Tax	2,324,449	9,574,557	11,899,006	Accrual is based on the taxable net income as defined by the Internal Revenue Code. The current tax rate is 21 percent of taxable income. The monthly accrual is an adjustment to the prior months' balance based on the percentage of actual year-to-date income to our latest estimated income for the year as applied to the estimated provision for the year.
Pennsylvania Corporate Net Income Tax	2,952,714	3,118,198	6,070,912	Accrual is based on the taxable net income as defined by the Internal Revenue Code before the deduction for the Pennsylvania corporate net income tax itself. The current rate for 2017 and 2018 is 9.99 percent of taxable income. The monthly accrual is an adjustment to the prior months' balance based on the percentage of actual year-to-date income to our latest estimated income for the year as applied to the estimated provision for the year.
Pennsylvania Public Utility Realty Tax	168,347	(98,344)	70,003	Accrual is based on the state taxable value of public utility land, buildings, and other structures at the 2017 PURTA Millage rate of 30.4009 mills (3.04009 percent) on each dollar of state taxable value. The monthly accrual is based on an estimate (1/12th) of the final tax liability.
West Virginia Natural Gas Storage Tax	8,565	162,373	170,938	Tax is based on total assessed value of property located in West Virginia. The assessed value is defined as 60% of the estimated FMV of the property. The average rate of tax is 1.42566 percent is applied to the assessed value. The monthly accrual is based on an estimate (1/12th) of the final tax liability.
Pennsylvania Use Tax	2,789,327	1,028,653	3,817,980	A Pennsylvania Managed Compliance Agreement exists in which use tax is calculated on purchases covered by the agreement by applying an agreed-upon rate to the aggregate of the taxpayer's covered purchases to determine a tax base. Once the tax base is determined, tax is calculated based upon the appropriate 6% state and 1% county use tax rates. Use tax is accrued for and then paid each month.
Federal Heavy Highway	(3,482)	(220)	(3,702)	Federal excise tax incurred by highway motor vehicles used during the period with a taxable weight of 55,000 pounds or more. The expense is recorded when the tax is paid.
Other Taxes	10,381	3,470	13,850	Tax assessed is the amount charged by various state jurisdictions for corporate registrations. The expense is recorded when the tax is paid.
Total, per Balance Sheet	8,250,301	13,788,687	22,038,987	

Peoples Natural Gas Company LLC
§ 53.53 III.A

67. For the test year as recorded on test year operating statement:
- a. Supply the amount of federal income taxes actually paid.
 - b. Supply the amount of the federal income tax normalizing charge to tax expense due to excess of accelerated tax depreciation over book depreciation.
 - c. Supply the normalizing tax charge to federal income taxes for the 10% Job Development Credit during test year.
 - d. Provide the amount of the credit of federal income taxes due to the amortization or normalizing yearly debit to the reserve for the 10% Job Development Credit.
 - e. Provide the amount of the credit to federal income taxes for the normalizing of any 3% Investment Tax Credit Reserve that may remain on the utility books.

* * * * *

- a. During the twelve months ended September 30, 2018, Peoples and Equitable made federal tax payments of \$2.8 million and \$1.6 million, respectively.
- b. Refer to Exhibit No 7, Schedule 8, Attachment 1 (53.53.III.A.55). Attachment 1 has been prepared both individually and on a combined basis for the Peoples and the Equitable Divisions.
- c, d, e. The Peoples and Equitable Divisions have no federal Job Development or Investment Tax Credits.

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68. Provide the debit and credit in the test year to the Deferred Taxes due to Accelerated Depreciation for federal income tax, and provide the debit and credit for the Job Development Credits (whatever account) for test year.

* * * * *

To record federal deferred taxes due to accelerated depreciation:

		Debit (Credit)		
		<u>Peoples</u>	<u>Equitable</u>	<u>Combined</u>
<i>Historical Test Year</i>				
410.1	Provision for Deferred Income Taxes	5,899,854	5,074,050	11,207,179
282.1	Accumulated Deferred Income Taxes	(5,899,854)	(5,074,050)	(11,207,179)
<i>Future Test Year</i>				
410.1	Provision for Deferred Income Taxes	7,508,210	5,245,534	14,056,763
282.1	Accumulated Deferred Income Taxes	(7,508,210)	(5,245,534)	(14,056,763)
<i>Fully Forecasted Future Test Year</i>				
410.1	Provision for Deferred Income Taxes	8,843,650	6,846,600	15,961,663
282.1	Accumulated Deferred Income Taxes	(8,843,650)	(6,846,600)	(15,961,663)

Note: Deferred taxes above represent the current year Schedule M (Exhibit 7, Schedule 8, Attachment 2) for depreciation times the 21% federal income tax rate.

There were no Job Development Credits in the Historic Test Year.

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- 69. Reconcile all data given in answers to questions on income taxes charged on the test year operating statement with regard to income taxes paid, income taxes charged because of normalization and credits due to yearly write-offs of past years' income tax deferrals, and from normalization of investment tax and development credits. (Both state and federal income taxes.)

* * * * *

Refer to Exhibit No 7, Schedule 8, Attachment 1 (53.53.III.A.55), which details the complete tax calculation along with current income taxes payable, the adjustments for normalization and deferred income tax amounts.

Total income tax expense on Exhibit 7, Schedule 8, Attachment 1 agrees to the income taxes charged on the test year operating statement at Exhibit No. 2, Schedule 4 (53.53 III.A.17).

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70. With respect to determination of income taxes, federal and state:
- a. Show income tax results of the annualizing and normalizing adjustments to the test year record before any rate increase.
 - b. Show income taxes for the annualized and normalized test year.
 - c. Show income tax effect of the rate increase requested.
 - d. Show income taxes for the normalized and annualized test year after application of the full rate increase.

[It is imperative that continuity exists between the income tax calculations as recorded for the test year and the final income tax calculation under proposed rates. If the company has more than one accounting area, then additional separate worksheets must be provided in addition to those for total company.]

* * * * *

Refer to Exhibit No 7, Schedule 8, Attachment 1 (53.53.III.A.55) for the calculation of federal and state income taxes. Attachment 1 has been prepared both individually and on a combined basis for Peoples and the Equitable Division.

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71. In adjusting the test year to an annualized year under present rates, explain any changes that may be due to book or tax depreciation change and to debits and credits to income tax expense due to accelerated depreciation, deferred taxes, job development credits, tax refunds or other items.

(The above refers only the adjustments going from recorded test year to annualized test year.)

* * * * *

Various adjustments were made to test year revenues and operating expenses to annualize the test year under present rates. Refer Exhibit No. 2, Schedule 4 (53.53 III.A.17) for explanation of the adjustments.

Refer to the Testimony of Matthew Wesolosky for a description of adjustments made to deferred income taxes.

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10. Under Section 1552 of the Internal Revenue Code and Regulations 1.1552-1 thereunder, if applicable, Parent Company, in filing a consolidated income tax return for the group, must choose one of four options by which it must allocate total income tax liability of the group to the participating members to determine each member's tax liability to the federal government. (If this interrogatory is not applicable, so state.)
- a. State what option has been chosen by the group.
 - b. Provide, in summary form, the amount of tax liability that has been allocated to each of the participating members in the consolidated income tax return.
 - c. Provide a schedule, in summary form, of contributions, which were determined on the basis of separate tax return calculations, made by each of the participating members to the tax liability indicated in the consolidated group tax return. Provide total amounts of actual payments to the tax depository for the tax year, as computed on the basis of separate returns of members.
 - d. Provide annual income tax return for group, and if income tax return shows net operating loss, provide details of amount of net operating loss allocated to the income tax returns of each of the members of the consolidated group.

* * * * *

- a. For Earnings and Profits purposes under Section 1552, the company has not made an election. Under the law, if no election is made the tax liability shall be apportioned among the members of the group in accordance with the ratio which that portion of the consolidated taxable income attributable to each member of the group having taxable income bears to the consolidated taxable income.
- b. Refer to Exhibit 7, Schedule 3 for the tax liability of each member in the consolidated tax return.
- c. Peoples and Equitable are divisions within Peoples Natural Gas Company LLC which is a disregarded entity for income tax purposes and are included in the LDC Funding LLC income tax return. LDC Funding makes all necessary income tax payments to the IRS for the net tax liability that is due for its consolidated group.

- d. Additionally, it collects the allocated tax liability from members of its group with positive taxable income and reimburses members of its group with a taxable loss. Refer to Exhibit 7, Schedule 3 for an allocation of taxable income.

- e. The response to this question contains confidential information and is contained in a separate book of the filing marked confidential information. This information will be provided to parties upon execution of a CONFIDENTIALITY AGREEMENT, to be circulated by the Company, pursuant to the terms of that agreement. Peoples is a disregarded entity for federal income tax purposes and, therefore, discrete amounts for Peoples are not reported within the tax return.