

PPL ELECTRIC UTILITIES CORPORATION

Computation of Income Taxes - Electric
Year Ended December 31, 2010
(Thousands of Dollars)

Line No.	Description	Total Amount Per Budget	Less: Automatic Recovery Clauses/Riders	T&D Operations Per Budget	Pro forma Adjustments	T&D Pro forma at Present Rates
1	Operating Revenues	\$ 3,823,931	\$ (2,940,715)	\$ 883,216	\$ 5,938	\$ 889,154
	Operating Expenses					
2	Operation and maintenance	3,203,196	(2,792,297)	410,899	1,995	412,894
3	Depreciation and amortization	130,331	323	130,654	14,968	145,622
4	Regulatory Debits and Credits	0	0	0	0	0
5	Taxes Other than Income	231,638	(174,555)	57,083	(1,122)	55,961
6	Income Taxes - Federal	20,484	8,006	28,490	1,520	30,010
7	Income Taxes - State	5,303	2,539	7,842	1,239	9,081
8	Deferred Income Taxes	39,257	300	39,557	(11,146)	28,411
9	Investment Tax Credit - Amortization	(1,708)	0	(1,708)	0	(1,708)
10	Gains and Losses on Property Dispositions	0	0	0	0	0
11	Total Operating Expense	<u>3,628,501</u>	<u>(2,955,684)</u>	<u>672,817</u>	<u>7,454</u>	<u>680,271</u>
12	Operating Income	195,430	14,969	210,399	(1,516)	208,883
13	Less: Interest Expense	93,030	0	93,030	(7,340)	85,690
14	Net Operating Income	<u>102,400</u>	<u>14,969</u>	<u>117,369</u>	<u>5,824</u>	<u>123,193</u>
	Income Tax Adjustments					
15	Federal Income Tax	20,484	8,006	28,490	1,520	30,010
16	State Income Tax	5,303	2,539	7,842	1,239	9,081
17	Deferred Income Taxes	39,257	300	39,557	(11,146)	28,411
18	Investment tax credit amortization	(1,708)	0	(1,708)	0	(1,708)
19	Book Depreciation	130,331	323	130,654	14,968	145,622
20	Tax Depreciation	(178,386)	0	(178,386)	0	(178,386)
21	Post - retirement/employment benefits	(344)	0	(344)	0	(344)
22	Business Meals Not Deductible	360	0	360	0	360
23	Pension and supplemental retirements	(35,584)	0	(35,584)	0	(35,584)
24	Environmental Clean-up	(162)	0	(162)	0	(162)
25	Reacquired debt costs	5,153	0	5,153	0	5,153
26	Bad debts & Property damage	11,555	0	11,555	0	11,555
27	Removal costs - Transmission	(2,720)	0	(2,720)	0	(2,720)
28	Removal costs - Distribution	(13,342)	0	(13,342)	0	(13,342)
29	Vacation Pay	251	0	251	0	251
30	ESOP dividend paid in cash	(5,231)	0	(5,231)	0	(5,231)
31	Contributions in aid of construction - Trans.	4,187	0	4,187	0	4,187
32	Contributions in aid of construction - Dist.	22,722	0	22,722	0	22,722
33	Tax Gains/(Losses) on Plant Dispositions-Trans.	(694)	0	(694)	0	(694)
34	Tax Gains/(Losses) on Plant Dispositions-Dist.	(2,121)	0	(2,121)	0	(2,121)
35	Tax Gains/(Losses) on Plant Dispositions-Gen.	3,390	0	3,390	0	3,390
36	Deferred Compensation - Officers	89	0	89	0	89
37	Rate Case Expense	833	0	833	0	833
38	Ice Storm Deferral	1,611	0	1,611	0	1,611
39	Other 263A & Repair Allowance - Trans.	(4,195)	0	(4,195)	0	(4,195)
40	Other 263A & Repair Allowance - General	685	0	685	0	685
41	Other 263A & Repair Allowance - Dist.	(40,293)	0	(40,293)	0	(40,293)
42	RAR Adjustments	(981)	0	(981)	0	(981)
43	Workers Compensation	(120)	0	(120)	0	(120)
44	Miscellaneous Deferred Book Expenses	748	0	748	0	748
45	Prepaid Expenses	(183)	0	(183)	0	(183)
46	Default Service Plan	(1,379)	1,379	0	0	0
47	Conservation Program	2,148	(2,148)	0	0	0
48	Smart Meter Technology	(46)	46	0	0	0
49	Book Depreciation Capitalized	0	0	0	0	0
50	Income Tax Adjustments	<u>(38,382)</u>	<u>10,445</u>	<u>(27,937)</u>	<u>6,581</u>	<u>(21,356)</u>
51	Taxable Net Income Before Special Deductions	<u>\$ 64,018</u>	<u>\$ 25,414</u>	<u>\$ 89,432</u>	<u>\$ 12,405</u>	<u>\$ 101,837</u>

PPL ELECTRIC UTILITIES CORPORATION
Computation of Income Taxes - Electric
Year Ended December 31, 2010
(Thousands of Dollars)

<u>Line No.</u>	<u>Description</u>	<u>Total Amount Per Budget</u>	<u>Less: CTC, POLR, TSC and USR</u>	<u>T&D Operations Per Budget</u>	<u>Pro forma Adjustments</u>	<u>T&D Pro forma at Present Rates</u>
<u>PA Corporate Net Income Tax Calculation</u>						
1	Taxable Net Income Before Special Deductions	\$ 64,018	\$ 25,414	\$ 89,432	\$ 12,405	\$ 101,837
PA Special Deductions						
2	Tax Preference Income	(86)	0	(86)	0	(86)
3	Dividends Paid Credit	(190)	0	(190)	0	(190)
4	Bonus Depreciation Adjustment	(8,466)	0	(8,466)	0	(8,466)
5	Federal Intercompany Tax Gain	(2,193)	0	(2,193)	0	(2,193)
6	State NOL Carryforward	0	0	0	0	0
7	PA Taxable Income	53,083	25,414	78,497	12,405	90,902
8	PA Tax @ 9.99%	5,303	2,539	7,842	1,239	9,082
9	PA Tax Credits	0	0	0	0	0
10	Accrual for Potential Deficiency	0	0	0	0	0
11	Prior Period Tax Return Adjustments	0	0	0	0	0
12	Total PA Income Tax	\$ 5,303	\$ 2,539	\$ 7,842	\$ 1,239	\$ 9,082
<u>Federal Income Tax Calculation</u>						
13	Taxable Net Income Before Special Deductions	\$ 64,018	\$ 25,414	\$ 89,432	\$ 12,405	\$ 101,837
Federal Special Deductions						
14	PA Income Tax Less Tax Credits	(5,303)	(2,539)	(7,842)	(1,239)	(9,082)
15	Dividends Paid Credit	(190)	0	(190)	0	(190)
16	State Income Tax Adjustment for Prior Year	0	0	0	0	0
17	Federal Taxable Income	58,525	22,875	81,400	11,166	92,565
18	Federal Tax @ 35%	20,484	8,006	28,490	3,908	32,398
19	Federal Tax Credits	0	0	0	0	0
20	Accrual for Potential Deficiency	0	0	0	0	0
21	Prior Period Tax Return Adjustments	0	0	0	0	0
22	Consolidated Income Tax Adjustment (D-11, page 4)	0	0	0	(2,388)	(2,388)
23	Total Federal Income Tax	\$ 20,484	\$ 8,006	\$ 28,490	\$ 1,520	\$ 30,010

PPL ELECTRIC UTILITIES CORPORATION

Adjustment to Interest Deduction for Income Tax Purposes
Year Ended December 31, 2010
(Thousands of Dollars)

This adjustment provides for the annualized interest on claimed measures of value at December 31, 2010.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Measures of value at December 31, 2010 (C-1)	\$ 2,918,456
2	Long-term debt ratio (B-9)	44.02%
3	Embedded cost of long-term debt (B-9)	6.67%
4	Annualized interest (line 1 x line 2 x line 3)	85,690
5	Less: Interest expense on T&D operations (D-11, page 1)	<u>93,030</u>
6	Net decrease in interest deduction (line 4 - line 5)	<u><u>\$ (7,340)</u></u>

PPL Electric Utilities Corporation

Consolidated Income Tax Adjustment
Year Ended December 31, 2010
(Thousands of Dollars)

Line No.	2007 (1)	2008 (2)	2009 (3)	Three Year Average (4)=((1)+(2)+(3))/3
Non-Regulated Company				
Taxable Losses				
1	\$ 0	\$ (3)	\$ 0	\$ (1)
2	(315)	(15)	(47)	(126)
3	(9)	0	0	(3)
4	0	(295)	0	(98)
5	(18,427)	0	0	(6,142)
6	0	0	(140,066)	(46,689)
7	(43,374)	(19,734)	0	(21,036)
8	(205)	(457)	(137)	(266)
9	<u>\$ (62,330)</u>	<u>\$ (20,504)</u>	<u>\$ (140,250)</u>	<u>\$ (74,361)</u> (a)
10	\$ 1,295,233	\$ 909,030	\$ 597,964	934,076 (b)
Taxable Income - PA Utilities				
11	\$ 41,590	\$ 64,902	\$ 102,705	\$ 69,732
12	<u>\$ 41,590</u>	<u>\$ 64,902</u>	<u>\$ 102,705</u>	<u>\$ 69,732</u> (c)
13	3.2110%	7.1397%	17.1758%	9.1755% (d)
14	Adjustment for Consolidated Tax Savings Applicable to PA Utilities (e)=(a)*(d)			\$ (6,823) (e)
15	Adjustment to Federal Income Taxes (e) * 35%			\$ (2,388) (f)
16	% T&D Taxable Income to Total Taxable Income (D-11, page 2, Line 17)			100.0000% (g)
17	T&D pro forma adjustment to Federal Income Taxes (f)*(g)			<u>\$ (2,388)</u> (h)
Note 1:				
18	\$ 0	\$ (328,069)	\$ (170,746)	\$ (166,272)
Adjustment for Non-recurring Items:				
19	\$ 0	\$ 20,299	\$ 45,392	\$ 21,897
20	0	12,380	0	4,127
21	0	12,774	(14,712)	(646)
22	0	289,359	0	96,453
23	<u>\$ 0</u>	<u>\$ 334,812</u>	<u>\$ 30,680</u>	<u>\$ 121,831</u>
24	<u>\$ 0</u>	<u>\$ 6,743</u>	<u>\$ (140,066)</u>	<u>\$ (44,441)</u>
Note 2:				
25	\$ 38,437	\$ (57,137)	\$ 346,717	\$ 109,339
Adjustment for Non-regulated LLC's disregarded for income tax purposes:				
26	\$ (3)	\$ (3)	\$ 0	\$ (2)
27	(577)	(69,694)	(1,031)	(23,767)
Adjustment for Non-recurring items:				
28	\$ 0	\$ 68,299	\$ 54,474	\$ 40,924
29	2,426	116,999	0	39,808
30	1,307	6,438	(297,455)	(96,570)
31	<u>\$ 3,153</u>	<u>\$ 122,039</u>	<u>\$ (244,012)</u>	<u>\$ (39,607)</u>
32	<u>\$ 41,590</u>	<u>\$ 64,902</u>	<u>\$ 102,705</u>	<u>\$ 69,732</u>

PPL ELECTRIC UTILITIES CORPORATION

**Operating Revenue and Applicable Tax
Related to Proposed Rate Increase
Year Ended December 31, 2010
(Thousands of Dollars)**

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Additional operating revenue from proposed rate increase	\$ 114,695
	Less:	
2	Provision for uncollectible accounts expense (line 1 x 0.84%)	963
3	PA gross receipts tax (line 1 x 59 mills)	6,767
4	PA Capital stock tax (D-11, page 6, line 19)	<u>247</u>
5	Taxable income for PA Corporate net income tax	106,718
6	PA corporate net income tax (line 5 x 9.99%)	<u>10,661</u>
7	Taxable income for Federal income tax	96,057
8	Federal income tax (line 7 x 35%)	<u>33,620</u>
9	Operating income	<u><u>\$ 62,437</u></u>

PPL ELECTRIC UTILITIES CORPORATION

**Capital Stock Tax at Proposed Rates
Year Ended December 31, 2010
(Thousands of Dollars)**

Line No.	Description	Amount
1	PA Capital Stock Tax=50%((5 Year Average Net Income/0.095)+(75%(Net Worth)))	
	Net Income	
2	2006	\$ 85,102
3	2007	52,414
4	2008	87,403
5	2009	103,885
6	2010 (Note 1)	<u>112,685</u>
7	Total	<u>\$ 441,489</u>
8	Average	<u>\$ 88,298</u>
9	Net worth at December 31, 2010 (Note 2)	<u>\$ 1,653,527</u>
10	PA Capital stock value = 0.5(((\$88,298/0.095) + (0.75 x \$1,653,527)) =	\$ 1,084,799
11	Statutory Exemption	<u>160</u>
12	Value of Capital Stock less Statutory Exemption	1,084,639
13	Apportionment Percentage	<u>0.958008</u>
14	PA Capital Stock Taxable Value	<u>\$1,039,093</u>
15	PA Capital Stock Tax at 2.89 mills	\$ 3,003
16	Less: PA Education tax credit	<u>(259)</u>
17	Pa Capital Stock Tax at Proposed Rates	\$ 2,744
18	Less: PA Capital Stock Tax at Present Rates (D-10, page 1, line 1)	<u>2,497</u>
19	Additional PA Capital Stock Tax due to Proposed Rate Increase	<u>\$ 247</u>
	Note 1:	
20	Net Income at Present Rates (D-10, page 2, line 6)	\$ 50,248
21	Net Income from Proposed Rate Increase (D-11, page 5, line 9)	<u>62,437</u>
22	Total 2010 Net Income	<u>\$ 112,685</u>
	Note 2:	
23	Net Worth at Present Rates (D-10, page 2, line 9)	\$ 1,591,090
24	Net Worth from Proposed Rate Increase (D-11, page 5, line 9)	<u>62,437</u>
25	Total 2010 Net Worth	<u>\$ 1,653,527</u>