

Q.20. Explain the treatment given to costs of removal in the income tax calculation and the basis for such treatment.

A.20. Section 1.167(a)-11(d)(3) of the IRS regulations related to ADR provides: "The cost of dismantling, demolishing, or removing an asset in the process of a retirement from the vintage account shall be treated as an expense deductible in the year paid or incurred, and such costs shall not be subtracted from the depreciation reserve for the account." This applies to ADR property acquired after December 31, 1970.

In 1972, PPL Electric requested, and was granted, permission from the IRS national office in Washington, D.C. to deduct as expense all removal costs applicable to property retired after December 31, 1971. This accounting change applied to all property retired after December 31, 1971, regardless of when it was acquired or the method of depreciation used to recover the expenditure. The Company consistently has followed this method of accounting on all income tax returns filed since 1972.

PPL Electric provided deferred income taxes on these expense deductions through December 31, 1980. In accordance with the Commission's order dated January 31, 1981, at Docket No. R-80031114, the Company terminated provisions for deferred income taxes. The Company fully amortized the December 31, 1980 balance of deferred income taxes through December 31, 2006.