Q. 2013-2014 General Rate Application, Company Evidence

Pg. 1-6, lines 7-13 - Please provide a table showing each category of cost that contributes to the 1.6% increase and show the amount of each category.

A. Table 1 shows the forecast costs by category contributing to the 1.6% increase in customer rates based on a comparison of existing and proposed costs for 2014.

Table 1
Components of Rate Increase
($000s)

Cost	Revenue	Percent
Operating Costs	(3,497)	(0.50)
Employee Future Benefits[1]	4,202	0.60
Weather Normalization Amortization[2]	(2,335)	(0.33)
Amortization of Deferred Cost Recovery[3]	2,750	0.39
Depreciation Expense[4]	730	0.10
Other[5]	379	0.05
Other Transfers To RSA[6]	(881)	(0.13)
Elasticity Effects[7]	(503)	(0.07)
RSA & MTA Effects[8]	1,241	0.18
Rate Base Growth[9]	9,075	1.30
	11,161	**1.60**
Return on Equity[10]	12,303	1.77
Energy Supply Costs[11]	18,310	2.63
Required Revenue Increase[12]	41,774	6.00

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1 Comprised of the following amounts ($000s):

2014 Change in Employee Future Benefits Cost	(573)
2014 Rebasing for Existing Employee Future Benefits transfer to RSA	4,775
Total	4,202

See *Volume 2, Exhibits and Supporting Materials, Exhibit 9*, page 2 of 2, line 4; and *Volume 1, Application and Company Evidence, Section 3.2.1 Revenue*, Table 3-1 for the transfers to the RSA related to Employee Future Benefits.

2 See *Volume 2, Exhibits and Supporting Materials, Exhibit 9*, page 2 of 2, line 17.

3 See *Volume 1, Application and Company Evidence, Section 4.3.2 Costs and Depreciation*, Table 4-5, page 4-5.

4 See *Volume 1, Application and Company Evidence, Section 4.3.2 Costs and Depreciation*, Table 4-6, page 4-6.

5 Other impacts are related to changes in income taxes related to the Company’s proposals ($286,000) and changes in other revenue related to interest on the RSA ($93,000).

[6] Other changes in RSA transfers. Excludes existing Energy Supply Cost Variance and existing Employee Future Benefit transfers ($000s):

2014 Existing DMI Transfer	(443)
2014 Proposed Conservation Cost Amortization	(438)
	(881)

See *Volume 1, Application and Company Evidence, Section 3.2.2 Power Supply,* Table 3-3, page 3-6, for RSA transfers related to the DMI.
See *Volume 1, Application and Company Evidence, Section 3.4.3 Conservation Program Costs,* Table 3-20, page 3-50, for RSA transfers related to the proposed amortization of conservation program costs.

[7] This is equal to the elasticity effects on revenue and purchased power due to the change in forecast sales associated with the proposed increase in customer rates and is calculated as follows ($000's):

Elasticity Effect – Revenue	6,326
Elasticity Effect – Purchased Power	(6,829)
Elasticity Impacts	(503)

See *Volume 2, Exhibits and Supporting Materials, Exhibit 11*, page 2 of 2, line 1 for revenue elasticity effects.
See *Volume 1, Application and Company Evidence, Section 4.3.2, Costs and Depreciation,* Table 4-2, page 4-3, for purchased power elasticity effects.

[8] See *Volume 2, Exhibits and Supporting Materials, Exhibit 11, page 2 of 2, lines 3 and 5* for RSA and MTA effects.

[9] This is the increase required to bring return on equity back to the levels used to determine existing customer rates. (8.38%). The forecast 2014 Existing return on equity is 6.89%. Existing rates in 2014 are based on a return on equity of 8.38%. The existing revenue shortfall in 2014 between the existing return on equity of 6.89% and 8.38% is substantially due to the effect of rate base growth. The revenue amount required to bring the return on equity back to a level built into customer rates is calculated as follows ($000s):

ROE reflected in current rates	8.38%	A
2014 Existing ROE forecast	6.89%	B
	1.49%	C=A-B
2014 Average Equity-Proposed	432,434	D
Shortfall in Equity Return	6,443	E=C*D
Income Taxes (@29%)	2,632	F=(E/0.71)*0.29
Required Revenue (@8.38% ROE)	9,075	G=E+F

In 2012, the Company is forecast to achieve a return on equity of approximately 8.80%. The average rate base is expected to grow from $884 million in 2012 to an existing forecast amount of $948 million in 2014. The increase in Rate Base of $64 million requires approximately $6.3 million in revenue.

[10] The 2014 proposed return on equity is 10.40%. Existing rates in 2014 are based on a return on equity of 8.38%. The revenue amount attributable to the proposed return on equity for 2012 is calculated as follows ($000's):

2014 Proposed ROE	10.40%	A
2014 Existing ROE (reflected in rates)	8.38%	B
	2.02%	C=A-B
2014 Average Equity-Proposed	432,434	D
Shortfall in Equity Return	8,735	E=C*D
Income Taxes (@29%)	3,568	F=(E/0.71)*0.29
Required Revenue (@10.40% ROE)	12,303	G=E+F

The Company's proposed ROE for 10.40% is shown in *Volume 2, Exhibits and Supporting Materials, Exhibit 10,* page 2 of 2, line 17.
The Existing return on equity of 8.38% reflected in current rates was approved in Order No. P.U. 32 (2010).
The 2014 Proposed Average Equity is shown in *Volume 2, Exhibits and Supporting Materials, Exhibit 10,* page 2 of 2, line 5.

[11] The increase in revenue requirement due to increases in energy supply costs is shown in *Volume 2, Exhibits and Supporting Materials, Exhibit 9,* page 2 of 2, line 18.

[12] See *Volume 2, Exhibits and Supporting Materials, Exhibit 11,* page 2 of 2, line 7 for the proposed increase in customer rates for 2014.