

<u>Adjustment to Correct RMP Capitalization Ratio for Payroll Expense</u>			
Description	Date	Ratio	Expense
Payroll Expense Using Corrected Capitalization %	Dec 07	28.08%	\$215,254,729
Payroll Expense Using Base Year Capitalization %	Jun 07	26.61%	\$218,333,427
Division Adjustment to Recognize Corrected Capitalization %			(\$ 3,078,700)

139 This correction decreases the Division’s recommended revenue requirement by \$3,078,700.

140 **Q. What is the combined impact of the two corrections to the Company’s payroll expense?**

141 A. The combined impact to the two correcting adjustments to the Company’s payroll expense
142 are set forth in the table below. The net impact of these two adjustments decreases the
143 Division’s recommended revenue requirement by \$1,919,583.

<u>Division Adjustments to Correct Payroll Expense</u>	
Division Adjustment to Correct Payroll – Merit Increases	\$1,159,117
Division Adjustment to Recognize Corrected Capitalization %	(\$ 3,078,700)
Decrease to RMP Revenue Requirement from Division Corrections	(\$1,919,583)

144 **Q. Have you reviewed the rebuttal testimony of Mr. Wilson related to payroll expense?**

145 A. Yes. Mr. Wilson’s testimony, at lines 119 through 175, seeks to rebut my adjustment to
146 exclude the Company’s proposed increases associated with the merit pay raises. In essence,
147 his testimony contends that the mitigating factors I raise in my testimony that could
148 potentially offset the effects of the pay raises could, in fact, go the other way, and increase
149 payroll costs. However, his testimony in this area is largely no longer relevant in light of the