REVENUE LAG

Lags were computed for general business revenues, other customer service system (CSS) revenues, sales for resale, and wheeling and other miscellaneous revenues. The following is an explanation of how each of the separate components of the revenue lag was developed:

General Business Revenue Lag

The general business revenue lag was computed by subdividing the lag into three components: service lag, billing lag and collection lag (see Page 3.1). General business revenue customers include the revenue categories of residential sales, commercial sales, industrial sales, public street and highway lighting, and other sales to public authorities. Collectively, these categories are referred to as sales to ultimate customers. Special contract revenues are incorporated into the general business revenue lag calculation because these contracts are captured in CSS.

Service Lag

The service lag is the time period between when the customer begins receiving service for a billing cycle and when the customer's meter is read. The service lag equals the total number of days in the year (365), divided by the number of billing periods per year (12), divided by two, to arrive at the midpoint for each service period. This calculation would not change if the meter reading date fluctuated from month-to-month, since any shortage of days from one month would be reflected as an increase in days for the following month. Using this calculation, the average service lag is 15.2 days for general business customers. This is the amount shown in the "Service Lag" column of page 3.1.

Billing Lag

The billing lag is the period beginning when the meter is read and ending when the invoice is processed in CSS. This lag was calculated using extracts obtained from CSS. Page 3.2 shows the calculation of the billing lag days.

Collection Lag

The collection lag is the time interval from the invoice date until the customer pays for the service. There is no automated reporting process within CSS to track payments against specific bills. The payment patterns of some customers when paying only partial bills, multiple bills or combining payments for multiple agreements renders a logical programming approach to tracking the collection lag on specific agreements extremely difficult, if not impossible.

Due to these complexities, the Company has developed another process for determining the collection lag. Collection lag is calculated by summing the daily accounts receivable balances for the year and dividing by the total revenues for the same period, yielding an average age of the revenues in customer accounts receivable.

The collection lag for general business revenues is shown on page 3.3, with pages 3.3.1 through 3.3.16 as backup. The general business revenue collection lag calculation also includes the revenue categories of forfeited discounts and interest, miscellaneous service revenues, and rent from electric property. These revenues are referred to as other CSS revenues in this study since they are captured in CSS along with the general business revenues.

Revenues

Total electric revenues by state are obtained from SAP. The revenues used in the calculation of the general business collection lag are shown on page 3.3.1. These amounts tie to the totals included in the December 2012 Results of Operations Report (Tab 5.)

Sales and Other Taxes

Page 3.3.2 shows the amount of pass-through taxes for states in which the Company bills customers directly. These amounts must be considered in the collection lag calculation because the daily A/R balances include amounts owed for these items. As a result, these taxes are added to revenues as shown on page 3.3. to ensure that both the numerator (sum of daily A/R balances) and the denominator (total revenues) in the collection lag calculation are consistent.

Unbilled Revenues

The final adjustment needed for the general revenue collection lag calculation is the exclusion of the unbilled revenues. These amounts are included in electric revenues, but are not included in the CSS A/R balances. The 2012 amount of unbilled revenue by state is shown on page 3.3.3 and is also carried forward to page 3.3.

Daily Accounts Receivable

Daily A/R balances are obtained by state as shown on pages 3.3.4-3.3.16. These are totaled to give us the Sum of Daily A/R as shown on page 3.3

Sales for Resale, Wheeling, and Other Revenues

Sales for resale represent system revenues, so the lag days are identified at the total company level. The commercial and trading department calculated the lag days for these revenue categories. This calculation incorporates all energy transactions for the 12-months ending

December 2012. Each payment received was analyzed through an automated process that tracks the average lag in payment received from the mid-point of the service period until the payment was received. The individual lags are then weighted to develop a weighted average revenue lag for these accounts as shown on page 3.4. This page reflects only a small subset of the transactions for the year. See the provided CD for a complete record of the transactions analyzed in this study. The weighted average shown on the bottom of page 3.4 is carried forward to page 3.1.

Other CSS Revenues

Typical charges in these accounts would include late payment fees, miscellaneous connection fees, temporary service loop rental, etc. Given the nature of these accounts, there is no service lag or billing lag associated with them, because they do not reflect metered usage. Therefore, there is no service period information in CSS to use in calculating either of these lags. What service or billing lag there might be on some items in these accounts would be immaterial to the overall revenue lag calculation. The collection lag for these accounts is included in the calculation of the collection lag for general business revenue customers, so the lag is the same as that calculated for those customers.