

DPU Data Request 2.1

On October 21, 2015 Mr. Bob Lively sent an e-mail with an attached Excel spreadsheet purporting to show the Company's calculation of its AFUDC rate for 2014. Regarding this attachment please answer the following questions and provide supporting documentation.

- a. The average short-term debt balance is given as \$10,205,384.78. Please provide a description of the source of the short-term debt employed by the Company that makes up this balance, e.g. commercial paper, draws on credit lines, or other bank loans.
- b. Please provide the calculations and the supporting documentation showing the derivation of the short-term debt balance.
- c. Please describe the derivation of the 15.4979 percent interest rate that is associated with the short-term debt balance.
- d. Please explain why the interest rate applicable to the short-term debt balance is approximately more than twice the cost of long-term debt, preferred stock, and almost 60 percent higher than the rate on common stock.
- e. The spreadsheet indicates an AFUDC rate of 7.75783042 percent. Please provide the accounts where this rate was actually used to compute the amount of interest.

Response to DPU Data Request 2.1 (a) through (d)

See Attachment DPU 2.1 for the calculation of the short-term debt balance and interest rate. The average short-term balance components are commercial paper, with an average balance of \$8,621,917.81, and an intercompany note payable with Pacific Minerals Inc. (PMI) with an average balance of \$1,583,466.98.

The 15.4979% short-term debt rate is so high because of the effect of the fixed credit facility fees that are included in the interest rate calculation. To be able to issue commercial paper, the Company paid credit facility fees that are amortized over the life of the facility. These costs are the same regardless of how much commercial paper is held by the Company so when the amount of short-term debt is extremely low as in 2014, the effective rate is skewed by these fees. In the 2014 calculation, the commercial paper interest for the entire year was only \$22,279.16 and the interest on the note payable to PMI was only \$3,966.41. This compares with 2014 credit facility fees of \$1,555,376.96 also included in the calculation. In years where the amount of short-term debt is higher, the impact of these fees is spread over a much larger base and the short-term debt rate is low.

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November 9, 2015

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Response to DPU Data Request 2.1 (e)

The AFUDC processed by the Company is posted to the following general ledger accounts:

AFUDC – Equity component – FERC account 419.1 = \$50,655,903.98 for the year ended 12/31/14.

AFUDC – Borrowed Funds component – FERC account 432 = \$25,295,555.28 for year ended 12/31/14.