

INTRODUCTION

Lead/Lag Approach to Calculating Cash Working Capital

Working capital may be defined as the average amount of capital provided by investors in the Company, over and above the investment in plant and other specifically identified rate base items, to bridge the gap between the time expenditures are required to provide service and the time collections are received for that service. While individual regulatory commissions may differ as to the specific components of working capital, there is general agreement among working capital theorists that the following elements are included: (1) fuel inventory; (2) materials and supplies inventories; (3) prepayments; and (4) cash working capital. Of these elements, cash working capital has traditionally been the most controversial due to differences in definition and method of calculation.

Rocky Mountain Power has adopted the definition of cash working capital proposed by FERC in its Notice of Proposed Rulemaking (NOPR) on "Calculation of Cash Working Capital Allowance for Electric Utilities", Docket No. RM84-9-000, issued April 5, 1984. In this NOPR, FERC indicates that cash working capital is the amount of cash needed on-hand by a public utility to pay its day-to-day operating expenses, for the time period during which the utility has provided electric service to its customers and has not yet been fully paid for the service. If, on average, the time difference between providing the service and collecting the associated revenue exceeds the time difference between providing the service and paying the associated expenses, the utility is experiencing a "net revenue receipt lag". This necessitates maintaining a working cash balance that must be funded. On the other hand, if the lag in payment of expenses is longer than the lag in collecting revenues; there is a "net expense payment lag", meaning that the collection of revenues occurs in advance of paying expenses. A utility experiencing a "net revenue receipt lag" requires working cash in its revenue requirement.

The term describing the permissible net addition to rate base to reflect borrowed or investor-supplied working cash is the cash working capital allowance. With respect to the method of calculation of cash working capital, the FERC NOPR states that "a fully-developed and reliable lead/lag study is the most accurate method of determining the working cash needs of a particular utility". While the FERC NOPR was never fully adopted, it offered guidelines and is also consistent with Robert Hahne's text "Accounting for Public Utilities."

This report presents the results of the Company's recently completed lead/lag study based on 12-months ending December 2007 revenues and expenses. The revenues and expenses used in the study are consistent with the Company's December 2007 unadjusted results as published in the Results of Operations Report filed with the Commission. This report summarizes the amount of the cash working capital requirement and describes the method of its calculation. The elements, which the Company has included in its lead/lag study, are consistent

with those proposed in the FERC NOPR; namely, revenues, fuel costs, purchased power costs, labor, operation and maintenance expenses, income taxes, and property and other taxes. Separate lags were calculated for each major element in the study, based on information developed from the Company's accounting and customer information systems. The report describes the calculation of each element and provides source documents. It is the Company's intention to clearly explain the assumptions and calculations included in this study. However, due to the voluminous nature of many of the revenue and expense transactions, it is not feasible to detail every invoice and payment in this report. Full supporting detail is available for inspection on the Company's premises; additionally, the Company has provided a CD of the data files which are too lengthy to provide in print.