

REVENUE LAG

This section of the report explains how the revenue lag was computed for the 2007 lead/lag study. 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.

The basic sources for detailed data used to calculate the revenue lag are CSS, and the SAP accounting system. Revenue classes reported from these systems, which are detailed in this study, correspond to FERC operating revenue accounts. Page 3.1 shows the revenue lag associated with each of the sections mentioned above. These lag days are also shown on page 2.1.

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 were considered separately in the 2003 Rocky Mountain Power study. These contracts have now been incorporated into the general business revenue lag calculation since these contracts are now captured in CSS, whereas previously they were not.

Service Lag

The service lag is the time period beginning when the customer begins receiving service for a billing cycle and ends 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. Using this process, the collection lag is calculated by summing the daily accounts receivable balances for the year and dividing by the total revenues for the same period. This yields an average age of the revenues in customer accounts receivable, or in other words the collection lag. This is the same methodology used by the Company in the 2003 study.

The collection lag for general business revenues is shown on page 3.3, with pages 3.3.1 through 3.3.8 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.

Daily Accounts Receivable

Development of the collection lag begins with identifying the daily customer accounts receivable (A/R) balances for 2007 shown on page 3.3.1. Total company daily A/R balances are obtained by extracting the daily activity for each A/R general ledger account from SAP, the Company's accounting system. Each day's activity is added to the previous day's balance to come up with a daily balance. Zero activity is input for those days with no activity due to holidays and weekends and the previous day's balance is carried forward to the next day with activity.

The actual total company daily A/R balances from the SAP system were allocated to the various states. This allocation was developed using the actual beginning and ending monthly A/R balances which are available by state from a monthly A/R aging report generated from CSS included as page 3.3.2. The state to total company ratios of the beginning/ending average balances from page 3.3.2 are applied to the daily A/R balances from SAP. This procedure is shown on pages 3.3.3 and 3.3.4.

By following this process each month, page 3.3.5 was developed. This page shows the jurisdictional allocation of the sum of the daily customer A/R balances. The total company amount shown on this page ties to the total company amount shown on page 3.3.1.

Revenues

Next, the total electric revenues applicable to the customer A/R must be determined. 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 3.3.6. These amounts tie to the totals included in the December 2007 Results of Operations Report (Tab 5.)

Sales and Other Taxes

Page 3.3.7 shows the amount of sales taxes and other taxes for the states in which the Company bills these taxes directly on the customer bill each month. 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 2007 amount of unbilled revenue by state is shown on page 3.3.8 and is also carried forward to 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 12-months ending December 2007. 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 payment is 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

The collection lag for these accounts is included in the calculation of the collection lag for the general business revenue customers so the lag would be the same lag as that calculated for those customers. 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 lag or billing lag there might be on some items in these accounts would be immaterial to the overall revenue lag calculation.

