

## **EXPENSE LAG**

This section of the report documents how the expense lag was developed. The lead/lag analysis identifies the expense lag as the elapsed time from the receipt of goods and services to the time the utility pays for the goods and services. In most cases, this study uses the invoice date to represent the date goods and services were received and the check date to represent the date payment occurred. The expense lag is comprised of the following elements: coal expense, natural gas purchases, purchased power, wheeling, labor and benefits, incentive, other operation and maintenance expenses, property taxes, other taxes, federal income taxes, and state income taxes. The calculation conforms to the method sponsored by the FERC in Docket No. RM84-9-000.

The following narrative explains the method and assumptions underlying the expense lag analysis. The explanation begins with the summarized expense lag and illustrates how the lag days were calculated. It then gives key assumptions and components specific to each element (or group) within expense (i.e. coal expense, natural gas purchases, etc.)

By accessing information from the accounts payable office, commercial and trading back office, fuels group, payroll department, tax department, and others, reports were used to calculate the elapsed time from the invoice date to the check date (payment lag) for transactions processed during the twelve-months ending December 2007. A description of each section is provided below, and any assumptions made are explained. The expense lag summary can be found on page 4.1.

### ***Coal Lag***

The coal expense lag is calculated from multiple sources. Page 4.2 is the coal expense lag summary which consists of expenses for coal and transportation of coal (detailed in 4.2.1 - 4.2.3,) steam purchases (also included in 4.2.1 - 4.2.3), Energy West payables (4.2.4), Bridger payables (4.2.5), adjustment for joint owner billings (4.2.6), Energy West management payroll (4.2.7), Energy West workforce payroll (4.2.8) and Bridger payroll (4.2.9). The total weighted lag days as calculated on page 4.2 are multiplied by the actual coal expense for the 12-months period ending December 2007 (5.15) and summarized on page 2.1.

The coal and transportation lag analysis on page 4.2 includes the following groups of fuel expenses: coal purchases, captive coal operations, steam purchases for the Blundell plant and coal transportation.

This analysis is based on a number of assumptions, which include the following: First, the lag for coal expense can be approximated by the lag for delivered coal. Second, purchased coal lag should be divided into coal contracts and transportation contracts since the lags may be different depending on contract terms. Third, any non-cash costs that can be identified in the fuel

should be excluded since there is no lag related to non-cash costs. Fourth, where possible, delivered dollars should be adjusted to exclude any period-end estimates that are included in delivered fuel costs. Finally, for purchased coal, it is assumed that the product is received evenly over the invoice period.

***Coal Lag: Energy West and Bridger Lag***

In addition to the amounts in the coal and transportation summary worksheet, the coal expense lag incorporates accounts payable data from Energy West and Jim Bridger Mines. Because Rocky Mountain Power funds the daily operations of the captive mines, an analysis of the various cash expenditures of the mines is necessary. This analysis incorporates the accounts payable lag and the payroll lag for each of the mines. It should be noted that only 66.67% of amounts relating to the Bridger mine are used as this is the portion Rocky Mountain Power owns.

***Coal Lag: Payroll Lag Days – Coal***

The calculation of the payroll lag for each mining operation is shown on pages 4.2.7 through 4.2.9, and is carried forward to page 4.2. For Bridger, both union and management are on the same payroll schedule, while at Energy West, these two categories are split into separate schedules.

***Coal Lag: Joint Owner Billings Lag***

The Company bills the Hunter plant joint owners monthly based on budgeted amounts. Page 4.2.6 reflects the true-up entries each month calculated based on the difference between the amounts billed and actual expenses incurred. The results of this calculation are carried forward to the coal expense lag summary on page 4.2.

***Natural Gas Purchases Lag***

The natural gas purchases lag is displayed on page 4.3. This page shows a summary of the data prepared by the commercial and trading back office based on data from vendor invoices. It shows the total amount of purchases and the lag days associated with each transaction. Natural gas receivables have been included with the purchases as negative amounts. The total weighted lag days as calculated on page 4.3 are multiplied by the actual natural gas expense for 12-months ending December 2007 (5.15) and summarized on page 2.1.

***Purchased Power Lag***

Page 4.4 shows the calculation of the purchased power lag. This page provides the information on the net payment by Rocky Mountain Power to counter parties for purchased power for 12-months ending December 2007.

Wholesale power transactions are typically delivered throughout the month and invoiced after month end. The lag was calculated as the difference between the payment date and the end of service date, effectively combining the billing lag and payment lag into one amount. An additional 15.2 day product lag is added to the lag calculated above, to account for the receipt of energy that was assumed to occur evenly throughout the invoice month. The total weighted lag days as calculated on page 4.4 are multiplied by the actual purchased power expense for 12-months ending December 2007 (5.15) and summarized on page 2.1.

### ***Wheeling Expense Lag***

The wheeling expense lag used in this study is the same as the purchased power lag described above. When the Company enters into a contract to purchase power, the associated wheeling expense is included in the contract.

### ***Labor and Benefits Lag***

The labor and benefit lag is calculated on page 4.5, which shows the lag between the midpoint of each pay period and the pay date. On page 2.1 these lag days are multiplied by the actual labor and overhead expenses for 12-months ending December 2007 (4.5.1 – 4.5.2.)

### ***Incentive Lag***

The incentive lag is also calculated on page 4.5. This lag was developed by determining the days between the midpoint of the year and the incentive pay date, December 17, 2007. On page 2.1, these lag days are multiplied by the actual incentive expense incurred for the 12 month period ending December 2007 (4.5.1 – 4.5.2.)

### ***Other Operation and Maintenance (O&M) Expense Lag***

The other O&M expense lag is used for expenses not included in other sections of the study. Page 4.6 shows the calculated lag which was developed using monthly reports from the central accounts payable office. The invoices from each month of payables were pulled into reports which excluded all documents pertaining to the other expense lag categories accounted for separately in this study. See page 4.6.1 for a data sample of invoices for January 2007.

Invoices with payment terms of RECUR and R999 were also removed from the data. RECUR are associated with recurring payments that have the potential of being set up in SAP as a parked document since 1999 and would skew the study. The payment terms of R999 are the retention holdouts on invoice payments that are typically not due and payable until the end of a project. These types of payments are generally associated with capital projects. The Company could hold these invoices for up to 3 years or longer, depending on the project.

The database is only for company code 1000, which includes only the regulated electric

operations portion of the business. And like the other expense sections, the invoice date, payment date and amount of each invoice were used to calculate the lag days, effectively weighted by invoice amount. These lag days are multiplied by the remaining O&M expenses not accounted for elsewhere in the study as shown on page 2.1.

### ***Property Taxes Lag***

The property tax lag relates specifically to each individual state's property taxes. Because every state has different schedules for paying property taxes, the lags vary significantly by state. The total company property tax lag is the weighted average of the state lags and is shown on page 4.7.

### ***Other Taxes Lag***

The other taxes lag is the composite lag of various taxes included in FERC account 408 excluding property taxes. The lag days for this category vary by jurisdiction, caused by state specific fees and taxes. These lags were calculated from the midpoint of the tax period to the payment date from schedules obtained from the tax department for taxes paid for 12-months ending December 2007 and are summarized on pages 4.8 and 4.8.2.

### ***Income Tax Lag***

Federal and state Income tax lags were developed based on data provided by the tax department and shown on page 4.9. Federal income tax lag days were calculated as the number of days between the midpoint of each quarter and the quarterly tax payment date. The lags associated with each quarter were then weighted to arrive at a total federal tax lag. These lag days were multiplied by the total federal taxes as reported in the Results of Operations Report, shown on page 2.1.

State income tax lags follow the same procedure as federal taxes described above, with the exception of Utah, which includes an additional tax payment in April 2008 related to the 2007 tax year. The average state income tax lag is multiplied by the total state income taxes as reported in the Results of Operations Report, shown on page 2.1.