

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 payment 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:

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 - 4.2.2,) steam purchases (also included in 4.2.1 - 4.2.2), Energy West payables (4.2.3), Bridger payables (4.2.4), Energy West and Bridger management payroll (4.2.5), and Energy West and Bridger workforce payroll (4.2.6). The total weighted lag days as calculated on page 4.2 are multiplied by the actual coal expense for the 12-months ended December 2012 (5.13) 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 4.2.5 through 4.2.6, and is carried forward to page 4.2. For Energy West and Bridger, union and management employees are on different payroll schedules, requiring separate calculations.

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 the 12-months ended December 2012 (5.13) 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 the 12-months ended December 2012.

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 the 12-months ended December 2012 (5.13) 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 the 12-months ended December 2012 (4.5.1 – 4.5.3.)

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, 2012. On page 2.1, these lag days are multiplied by the actual incentive expense incurred for the 12-months ended December 2012 (4.5.1 – 4.5.3.)

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. Invoices from each month of payables were pulled into reports which excluded all documents pertaining to other expense lag categories accounted for separately in this study. See page 4.6.1 for a data sample of invoices from January 2012.

Invoices with payment terms of R999 were removed from the data. Invoices with R999 payment terms are retention holdouts on that are typically not due until the end of a project, generally associated with capital projects. The Company could hold these invoices for up to three years or longer, depending on the project.

In addition, all invoices greater than \$2 million (representative of capital expenditures) were excluded from the data. This adjustment was agreed upon for the 2010 Lead/Lag Study in the rebuttal testimony of Steven R. McDougal – Confidential, for the 2012 Utah General Rate Case, 11-035-200.

The accounts payable database is only for company code 1000, which only includes regulated electric operations portion of the business. Lag days have been calculated by using the difference between the invoice date and the payment date. This calculated lag is then multiplied by the remaining unadjusted 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. Lags vary by state because payment schedules can vary between states. 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 the 12-months ended December 2012 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.

The state income tax lag follows the same procedure as the federal tax lag described above; however each state's percentage of total state taxes paid is multiplied by the individual state lag days to arrive at a weighted number of lag days. The sum of the individual state weighted lag days yields the average state income tax lag, which is then multiplied by the total state income taxes as reported in the Results of Operations Report, shown on page 2.1.