

Rebuttal Testimony

Mike Diller

Before the **North Dakota Public Service Commission**

Montana-Dakota Utilities Co.

North Dakota Electric Operations

Case No. PU-399-01-186

Staff Investigation of Excess Earnings

February 2002

1 Q: PROVIDE YOUR NAME AND POSITION AT THE PUBLIC SERVICE
2 COMMISSION.

3 A: My name is Mike Diller and I am the Director of Accounting. I am
4 responsible for the Commission's accounting and data processing
5 operations and any assigned public utility matters.

6

7 Q: ARE YOU THE SAME MIKE DILLER THAT PROVIDED DIRECT
8 TESTIMONY IN THIS CASE?

9 A: Yes, I am.

10

11 Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

12 A: The purpose of my testimony is to address the concerns I have
13 with the direct testimony of Montana-Dakota Utilities Co. (MDU) filed
14 January 11, 2002. I will give consideration to the issues raised by MDU
15 and any updated financial information that recently became available for
16 2001 operating results.

17

18 Q: SUMMARIZE THE POSITIONS REPRESENTED IN THIS CASE.

19 A: The direct testimony of staff argues for an 11% rate reduction to
20 reduce annual revenue collections by \$9.155 million. The direct
21 testimony of MDU argues that no rate reduction is necessary.

22

23 In developing its direct testimony, staff utilized actual revenues and costs
24 using a 2000 test year. Because of the tremendous growth in sales for
25 resale margins, staff made an adjustment to actual 2000 results for

1 additional margins occurring during the first 5 months of 2001. Staff did
2 not make any adjustments to reflect expected increases in 2001 costs
3 because of the growth in sales for resale margins. Staff believed that the
4 additional expected margins for 2001 would more than cover any
5 increased operating expenses.

6

7 In its direct testimony, MDU argues that things have changed in the
8 sales for resale market and that the increased margins seen in recent
9 years will no longer occur. Instead of total company margins used by
10 staff of \$13.667 million, MDU sponsors testimony arguing for \$7.247
11 million in sales for resale margins. MDU's sales for resale margin
12 projection reduces staff's case by \$4.266 million when allocated to North
13 Dakota. MDU further argues for the inclusion of lost revenues,
14 increased expenses, higher capital costs and additional investments.

15

16 Q: PLEASE SUMMARIZE YOUR REBUTTAL POSITION.

17 A: After giving consideration to MDU's arguments in direct testimony
18 and new financial information for the year ended 2001, staff has reduced
19 its initial complaint of excess earnings from \$9.155 million to \$7.327
20 million.

21

22 Q: HOW IS YOUR REBUTTAL TESTIMONY ORGANIZED?

23 A: I will work through the primary components of rate of return
24 regulation much like I did in my direct testimony. These components
25 include rate base, rate of return and net regulated income.

1 Rate Base

2 Q: PLEASE ADDRESS RATE BASE ISSUES BROUGHT FORTH BY
3 MDU'S WITNESSES.

4 A: In my direct testimony I drew attention to the fact that rate base
5 has been declining since MDU's last rate case. However, in recent
6 years, net plant in service along with overall rate base levels has
7 remained fairly steady. Therefore, staff's overall position to use 2000
8 rate base levels for establishing rates in this proceeding seemed
9 reasonable at the time.

10

11 MDU, through its witnesses Mr. Gress and Mr. Ball, argue that a number
12 of 2002 projects should be included as an adjustment to staff's 2000 rate
13 base. For purposes of this proceeding, staff will yield to the Company's
14 assertion that these costs are above normal capital budget levels and
15 therefore should be added to rate base. However, additional
16 considerations should also be given to the new 2001 financial results.
17 The following table from my direct testimony was updated to include
18 2001 information.

19

20

21

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

	(Thousands)				
	(CN 10799)				
<u>Description</u>	<u>TY 1986</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001 1/</u>
Plant in Service	\$259,898	\$359,461	\$366,890	\$375,347	\$378,437
Accum. Res. for Depreciation	87,017	184,135	193,286	202,071	210,278
Avg. Net Plant in Service	<u>\$172,881</u>	<u>\$175,326</u>	<u>\$173,604</u>	<u>\$173,276</u>	<u>\$168,159</u>
Constr. Work in Progress		517	2,572	850	684
Materials & Supplies	2,621	3,271	3,252	3,202	2,987
Fuel Stocks	1,457	1,305	1,192	1,277	1,173
Prepayments	413	249	265	209	110
Net Negative Salvage	2,247				
Accum. Def. Income Taxes	(28,253)	(42,366)	(42,124)	(41,564)	(40,437)
Accum. Invest. Tax Credits	(11,092)	(4,105)	(3,583)	(3,074)	(2,521)
Customer Advances	(18)	(8)	(309)	(509)	(264)
Average Rate Base	<u><u>\$140,256</u></u>	<u><u>\$134,189</u></u>	<u><u>\$134,869</u></u>	<u><u>\$133,667</u></u>	<u><u>\$129,891</u></u>

1/ Average of beginning of year and end of year balances.

As you can see from the table, net plant in service decreased in 2001. The reduction should therefore be considered along with the extra capital projects for 2002. Therefore, staff recommends that the commission adopt the new rate base levels reported by MDU and include all of the adjustments proposed by MDU in this proceeding, as follows.

1
2
3
4
5
6
7
8
9
10

<u>Description</u>	Projected 2002 (Thousands)			
	<u>Beginning Balance</u>	<u>MDU Adjustments</u>	<u>Ending Balance</u>	<u>Average Balance</u>
Plant in Service	\$379,126	\$4,325	\$383,451	\$381,289
Accum. Res. for Depreciation	215,094	71	215,165	215,130
Avg. Net Plant in Service	\$164,032	\$4,254	\$168,286	\$166,159
Constr. Work in Progress	518		518	518
Materials & Supplies	2,909		2,909	2,909
Fuel Stocks	1,255		1,255	1,255
Prepayments	99	15	114	107
Net Negative Salvage			0	-
Accum. Def. Income Taxes	(39,774)	(65)	(39,839)	(39,807)
Accum. Invest. Tax Credits	(2,229)		(2,229)	(2,229)
Customer Advances	(10)		(10)	(10)
Average Rate Base	<u>\$126,800</u>	<u>\$4,204</u>	<u>\$131,004</u>	<u>\$128,902</u>

11
12
13
14

Cost of Capital
Q: WHAT COST OF CAPITAL DOES STAFF RECOMMEND FOR THIS CASE?

15 A: Staff witness Charlie King is testifying to the appropriate cost of
16 capital. His recommended cost of capital is included here for purposes
17 of calculating MDU's excess revenue position at the end of my
18 testimony.

19
20
21
22

<u>Description</u>	<u>Capital Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	45.90%	8.62%	3.96%
Preferred Stock	5.23%	4.63%	0.24%
Equity	48.87%	11.70%	5.72%
Total	<u>100.00%</u>		<u>9.92%</u>

23
24
25

Net Regulated Income
Q: PLEASE ADDRESS NET REGULATED INCOME ISSUES BROUGHT FORTH BY MDU'S WITNESSES.

1 A: As with rate base, the commission should consider the operating
 2 results for 2001 when considering MDU's adjustments to bring costs
 3 forward. An approach similar to the rate base discussion above is made
 4 for net regulated earnings. The following table updates the net regulated
 5 income schedule from my direct testimony to include 2001 operating
 6 results.

		Thousands				
<u>Description</u>	<u>TY 1986</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	
Residential	\$32,003	\$32,347	\$32,099	\$31,916	\$33,403	
Small Commercial	33,926	17,329	17,170	17,275	17,603	
Large Commercial		26,148	26,667	26,840	28,802	
Public Street Lighting	1,458	1,456	1,451	1,420	1,450	
Sales to Public Authorities	1,334	1,221	1,180	1,141	1,213	
Other Operating Revenues		2,669	2,373	2,691	2,768	
Unbilled Revenue	1,162	(49)	(283)	646	(824)	
Sales for Resale		7,889	13,265	15,034	17,687	
Total Revenues	\$69,883	\$89,010	\$93,922	\$96,963	\$102,102	
Production Expense		\$35,161	\$37,160	\$38,365	\$40,671	
Transmission Expense		3,493	3,667	3,567	3,915	
Distribution Expense		4,099	4,586	4,660	5,010	
Customer Accounts		2,034	2,162	2,113	2,233	
Customer Service & Info.		84	96	105	113	
Sales Expense		192	258	269	281	
Administration & General		8,602	8,303	8,154	8,968	
Total Operating Expenses	\$40,654	\$53,665	\$56,232	\$57,233	\$61,191	
Depreciation	\$8,751	\$11,206	\$11,436	\$11,803	\$11,955	
Taxes Other Than Income	\$2,935	\$3,832	\$3,936	\$3,811	\$4,019	
Income Tax Expense	\$4,688	\$5,486	\$6,319	\$6,750	\$7,955	
Net Regulated Income	\$12,855	\$14,821	\$15,999	\$17,366	\$16,982	

1 Q: DISCUSS EACH REGULATED NET INCOME ADJUSTMENT
2 RECOMMENDED BY MDU'S WITNESSES.

3 *Sales for Resale*

4 A: The sales for resale margins is the biggest issue in this case. Mr.
5 Blinsky's testimony argues that the sales for resale market has changed
6 and then provides an estimate of the net effect of those changes on
7 future profits. Essentially, Mr. Blinsky argues that the supply and
8 demand characteristics of the marketplace have changed via the
9 downturn of the general economy; lower natural gas prices making it a
10 viable competitor to coal generation again; and new generation facilities
11 are expected to become available.

12

13 At the end of his testimony, Mr. Blinsky uses the futures market for
14 projecting margins in 2002. His results indicate that margins will
15 decrease by 55% when compared to 2001 which is equivalent to about
16 the same margins that MDU earned during the summer months of June,
17 July and August of 2001.

18

19 I agree with Mr. Blinsky that the concerns he addresses can and do
20 impact the supply and demand of electricity and thereby affect the price
21 of electricity. However, it is difficult to determine to what degree such
22 things will have on future off-system sales or the price of those sales. A
23 fair bit of judgment by the commission will be required to decide this
24 issue.

25

1 Q: DO YOU HAVE ANY COMMENTS RELATED TO THE
2 DOWNTURN OF THE GENERAL ECONOMY?

3 A: Some say the recession is over while others say it hasn't occurred
4 yet. I don't know whom to believe. I'm not sure the financial market as a
5 whole knows which direction the general economy is headed.

6

7 Q: DO YOU HAVE ANY COMMENTS RELATED TO THE
8 CORRELATION OF NATURAL GAS PRICES WITH OFF-SYSTEM
9 SALES MARGINS?

10 A: Staff agrees that natural gas prices can affect the price utilities
11 extract for off-system sales. It seems reasonable that if part of the
12 existing generation facilities are taken out of play that the remaining
13 players could charge more for the same product. To what extent and
14 under what conditions is much more difficult to determine.

15

16 Staff acknowledges that there have been times when a correlation
17 between natural gas prices and sales for resale margins appears to
18 exist. At the same time, there are also times when very little correlation
19 exists. For example, natural gas prices peaked at about \$9 per Mmbtu
20 in January 2001 and have steadily declined throughout the year. Yet,
21 sales for resale margins ignored the price decline of natural gas and
22 soared to new heights in 2001. The future cost of natural gas is worth
23 considering but not an end all solution to determining future off-system
24 sales margins.

25

1 Q: DO YOU HAVE ANY COMMENTS WITH REGARD TO THE
2 ADDITION OF NEW GENERATION FACILITIES?

3 A: Based on information provided by MDU, as projected by MAPP, it
4 appears that planned additions in the near future will outstrip the
5 projected growth in demand. On the other hand, some believe that the
6 recent events surrounding Enron has tainted the energy market in
7 general, including the independent power producers. The effect of such
8 an event may very well impact the number of generation plants built in
9 the future. Again, the overall impact to off-system sales and margins of
10 these new generation facilities, if built, is not determinable.

11

12 Q: WHAT RESERVATIONS DO YOU HAVE WITH MR. BLINSKY'S
13 METHOD OF FORECASTING 2002 MARGINS ON SCHEDULE TLB-3?

14 A: Staff can agree to the use of actual information for 2001 because
15 sales levels for 2001 have remained relatively unchanged from 1999 and
16 2000. MDU has sold 943,520,616 kWh, 930,318,472 kWh and
17 898,178,160 kWh during 1999, 2000 and 2001, respectively. However,
18 staff cannot agree with the use of non-actual assumptions thereafter.

19

20 MDU's estimate of 2002 off-system sales margins begins by dividing the
21 total sales into on-peak and off-peak units. MDU estimates that off-peak
22 sales (sales from 10 p.m. until 6 a.m. and all day Sunday) comprise
23 about 47% of the total sales and are priced below the cost of fuel. Such
24 an assumption results in a net loss contribution of \$144,319 for 2002.

25 Staff can understand why, on occasion, a company might make off-

1 system sales at a small loss to avoid shutting down a plant but seriously
2 questions the idea that all off-peak sales throughout a given year would
3 result in a net margin loss.

4

5 Staff requested source data for Mr. Blinsky's off-peak prices. MDU
6 replied that off-peak prices are estimates based on recent experience.
7 Without the source data and some historical perspectives, staff is unable
8 to conclude anything from this calculation.

9

10 With regard to on-peak sales, MDU calculates expected margins based
11 on futures prices as of January 2, 2002. Staff understands the concept
12 but is concerned with placing too much emphasis on futures prices.

13

14 Q: DO YOU HAVE ANY SUGGESTIONS TO HELP THE
15 COMMISSION DECIDE THIS ISSUE?

16 A: Staff believes that the commission should rely primarily on actual
17 results in making its determination. In recent years, MDU has benefited
18 greatly as the actual sales for resale margins continued to increase.

19 Abandoning actual results now in favor of Mr. Blinsky's projection model
20 seems inappropriate.

21

22 Staff filed direct testimony in August 2001 advocating a level of total
23 company margins of \$13,667,000 for ratemaking purposes. Since then,
24 actual 2001 results yielded total company margins of \$15,937,892. Staff
25 believes that the 2001 actual operating results require no adjustment

1 other than to eliminate some insurance recoveries applicable to 2000 but
2 recorded in 2001. Therefore, staff proposes to reduce reported margins
3 by \$810,841 on a total company basis to eliminate these out-of-period
4 costs. Similar to its direct testimony, staff has updated its sales for
5 resale margins schedule by month through 2001 as Rebuttal Attachment
6 MRD-1.

7

8 Q: PLEASE DISCUSS THE REMAINING ISSUES RELATED TO NET
9 REGULATED INCOME.

10

11 *Demand Penalty*

12 A: Mr. Ball argues for demand penalties assessed by the Mid-
13 American Power Pool (MAPP) for failure to have sufficient reserve
14 capacity to meet its reserve requirement for retail customers. The
15 updated 2001 costs include demand penalties of \$375,000 for 2000 and
16 \$82,836 for 1999 totaling demand penalties of \$457,836. MDU also
17 testifies that it will incur a penalty of about \$1,007,000 for 2001
18 deficiencies.

19

20 Staff does not support inclusion of these costs in rates and makes an
21 adjustment to exclude them from 2001 results. The MAPP maintains a
22 reserve margin standard of 15% to protect against unforeseen events
23 and emergencies. MDU has failed to meet the standard 3 years in a row
24 and the penalties have been growing. The commission should not
25 encourage further penalties in the future by granting MDU rate recovery.

1 Instead, the commission should assume that appropriate margins will be
2 maintained in the future and no additional penalties will be incurred.

3

4 MDU recently attended the commission's periodic information exchange
5 (PIE) meeting held February 5, 2002. MDU represented, through its
6 employee Mr. Hoa Nguyen, that penalties for breaching reserve margin
7 requirements are effective regulators. Mr. Nguyen explained that Mid-
8 America Interconnected Network (MAIN) is ineffective in maintaining its
9 reserve margin requirements because it relies on peer pressure rather
10 than on effective financial penalties for noncompliance. Staff contends
11 the same is true here and strenuously opposes any inclusion of penalties
12 in rate recovery. The purpose of a penalty is to attempt to modify
13 behavior. Eliminating the cost of the penalty by assigning the cost to
14 ratepayers will seriously hinder the purpose of the penalty and what it is
15 trying to accomplish.

16

17 *AVS Major Maintenance*

18 Mr. Ball argues for the inclusion of one-third of the major maintenance
19 costs of the Antelope Valley generating station Unit II (AVS) incurred in
20 2001 totaling \$460,000 system-wide. Originally, Mr. Ball's argument
21 added these additional expenses to staff's 2000 test year because the
22 cost of the maintenance was not incurred until 2001. However, since
23 staff is now advancing the use of 2001 operating results, Mr. Ball's
24 testimony argues for a reduction in 2001 reported results by two-thirds of
25 the maintenance costs. Staff therefore reduces maintenance expense in

1 2001 by two-thirds of the total cost testified to by Mr. Ball to properly
2 reflect a 3 year amortization. An adjustment to reduce 2001 operating
3 expenses by \$920,000 is therefore necessary.

4

5 MISO RTO

6 Mr. Ball argues that revenue streams related to MAPP Service Schedule
7 F for power transmitted on or across its system will disappear as a result
8 of MDU joining the Midwest Independent System Operator Inc. (MISO)
9 regional transmission organization (RTO). MDU further asserts through
10 its responses to staff's inquiries that no savings or additional off-system
11 sales will occur because of MDU's decision to join MISO. Staff has no
12 proof to the contrary that these revenues will be lost and therefore
13 accepts Mr. Ball's 2000 adjustment totaling annual lost revenues of
14 \$563,000 on a system-wide basis.

15

16 *Labor*

17 Mr. Ball makes a labor adjustment of \$984,000 by annualizing 2000
18 labor expenses for wage increases occurring in 2001 and 2002. The
19 adjustment results in projected labor expense on a total company basis
20 of \$13,326,480. According to information provided by MDU, labor
21 expense included in 2001 totals \$13,400,600. It appears that less labor
22 expense was capitalized in 2001 thereby negating the need to make
23 additional adjustments for 2002 wage increases. The difference is not
24 material and staff will not make an adjustment to reduce 2001 expense
25 levels to MDU's original projection for 2002 wage levels.

1 *Pension and Post Retirement Benefits*

2 Mr. Ball argues for a small increase in pension costs of \$116,000 for
3 North Dakota operations based on information received from its actuary.
4 Staff asked for source data related to this adjustment but has not seen
5 any information provided by the actuary. While pension costs may
6 increase, other post retirement benefit costs may very well decrease
7 negating the need for this adjustment. For instance, total company
8 pension expense increased in 2001 compared to 2000. Still, when
9 considering the other post retirement benefits, the total company
10 pensions and benefits expense account decreased from \$2,451,051 in
11 2000 to \$2,415,359 in 2001. Staff is not convinced and proposes no
12 adjustment to 2001 expense levels.

13

14 *SISP*

15 The Supplemental Income Security Plan (SISP) provides supplemental
16 pension benefits to key employees. According to Mr. Ball's testimony,
17 the extra pension benefits are necessary to attract and retain key
18 employees.

19

20 The staff does not support the inclusion of these costs in the
21 determination of rates. The staff reminds the commission that these
22 benefits are in addition to health insurance, life insurance, 401k
23 participation, profit sharing plans, incentive plans, defined benefit
24 pension plans, social security or any other benefits accruing to MDU's
25 employees.

1 The question before the commission is whether these costs are
2 necessary to provide service. It is not possible to say what key
3 employees would have done absent such a plan. Still, staff will try to
4 provide some indirect proof that these costs are not necessary to provide
5 electric service and should not be included in rates.

6

7 According to Mr. Ball, the plan has been in effect since 1982 yet the
8 company has never sought rate recovery in any subsequent electric or
9 gas rate cases. It seems that the company itself has not been convinced
10 that these costs should be borne by the ratepayers.

11

12 Staff also noticed from information provided by the Company that fewer
13 and fewer employees are participating in this plan. For instance,
14 Montana-Dakota Utilities Co. had 38 participants in 1996 compared to 27
15 in 2001. Perhaps MDU recognizes that many companies have been
16 reducing employee levels through mergers and consolidations and no
17 longer sees the same need for this plan.

18

19 Staff is also concerned with the lack of symmetry in the plan. For
20 instance, an employee making \$50,000 would receive a monthly
21 retirement benefit of \$1,330 compared to a monthly benefit of \$30,000
22 for an employee making \$600,000 per year. In the case of the low-end
23 employee, the monthly benefit would be 2.66% of annual salary
24 compared to the high-end employee who would receive 5%.

25

1 In the end, the commission will have to make a judgment as to the
2 necessity of these costs to provide electric service in North Dakota. In
3 staff's opinion, these costs are not necessary and should be excluded for
4 ratemaking purposes. The staff will not make an adjustment to 2001
5 expense levels as the company recorded these costs "below-the-line" as
6 a non-regulated expense.

7

8 *Insurance Expense*

9 Mr. Ball makes an argument for increased insurance costs due in part to
10 the September 11 tragedy. According to information provided for the
11 year ended 2001, insurance expense changed very little from 2000 to
12 2001. Staff appreciates the conversations MDU has had with its
13 insurance carriers but additional proof is necessary before staff is willing
14 to include an inflation adjustment.

15

16 *Contributions*

17 Staff agrees to include North Dakota's share of contributions made to
18 Energy Share of North Dakota and Lignite Energy Council as testified to
19 by Don Ball totaling \$33,000. An adjustment is necessary to 2001
20 results as charitable donations are recorded "below-the-line."

21

22 Q: DO YOU HAVE ANY OTHER RECOMMENDED ADJUSTMENTS
23 THE COMMISSION SHOULD CONSIDER BEFORE ESTABLISHING
24 BASE RATES?

25

1 A: Yes, I do. Staff compared 2001 results with previous years' results
2 to determine if there were any abnormal expense levels that should be
3 normalized for ratemaking purposes. Failure to make such an
4 assessment would result in establishing rates that are not representative
5 of normal expense levels. Because it is late in this proceeding, staff was
6 not overly critical of every fluctuation in each and every account.
7 Instead, staff identified accounts that fluctuated a great deal in
8 comparison to recent years.

9

10 *A & G Salaries*

11 Staff noticed that administrative and general salaries increased by 20%
12 in 2001 or \$843,000 on a total company basis and that transmission
13 supervision and engineering costs were up 35% or \$294,000 on a total
14 company basis. While the expense levels seem quite inflated in
15 comparison to recent years, staff agreed in principal with the Company's
16 2002 overall labor expense projection. Therefore, staff proposes no
17 adjustment to these inflated expense accounts, as they are primarily
18 labor related.

19

20 *Office Supplies*

21 Staff did make an adjustment to 2001 results related to office supplies
22 expense. The office supplies expense has been fairly stable in recent
23 years but ballooned in 2001, as follows:

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

(000's)

<u>Year</u>	<u>Expense</u>	
1995	\$ 1,954	Actual
1996	\$ 1,883	Actual
1997	\$ 1,903	Actual
1998	\$ 1,812	Actual
1999	\$ 2,112	Actual
2000	\$ 2,122	Actual
2001	\$ 2,906	Actual
2002	\$ 2,228	Projected
	\$ (678)	Adjustment

The staff's projection for office supplies expense in 2002 is based off of 2000 expenditure levels and adjusted upward by 5% for inflationary purposes. Staff is not aware of what caused the spike in 2001 but makes the adjustment to reflect a more normal operating expense level.

Depreciation Expense

Staff inflated depreciation expense to recognize additional capital projects as budgeted by MDU.

Income Tax Expense

Income tax expense was also adjusted to recognize the impact of other adjustments discussed above.

1 Q: PLEASE SUMMARIZE STAFF’S ADJUSTMENTS, NET
 2 REGULATED INCOME, AND ITS RECOMMENDED REVENUE
 3 EXCESS.

4 A: The following schedule depicts staff’s net regulated adjustments.

5

6 (Thousands)

Description	Total Company	N.D. Factor	North Dakota
Eliminate Ins. Recovery from Margins	\$ (810)	66%	\$ (538)
Eliminate demand penalties	\$ (458)	69%	\$ (316)
3 amortization of AVS maintenance	\$ (920)	69%	\$ (635)
Eliminate Sch. F revenues	\$ 563	66%	\$ 370
Include Energy Share & Lignite Council	\$ 46	72%	\$ 33
Normalize office supplies expense	\$ (678)	66%	\$ (447)
Adjust depreciation for capital projects			\$ 77
Tax impact of other adjustments			\$ 151

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 The following schedule depicts staff's resulting net regulated income.

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

	<u>2001</u>	<u>Adjustments</u>	Projected <u>2002</u>
<u>Description</u>			
Residential	\$33,403		\$33,403
Small Commercial	17,603		17,603
Large Commercial	28,802		28,802
Public Street Lighting	1,450		1,450
Sales to Public Authorities	1,213		1,213
Other Operating Revenues	2,768		2,768
Unbilled Revenue	(824)		(824)
Sales for Resale	17,687	(538)	17,149
Total Revenues	<u>\$102,102</u>	<u>(\$538)</u>	<u>\$101,564</u>
Cost of Fuel & Purchased Pwr			
<i>Other O&M:</i>			
Production Expense	\$40,671	(\$951)	\$39,720
Transmission Expense	3,915	370	4,285
Distribution Expense	5,010		5,010
Customer Accounts	2,233		2,233
Customer Service & Info.	113		113
Sales Expense	281		281
Administration & General	8,968	(414)	8,554
Total Other O&M	<u>\$61,191</u>	<u>(\$995)</u>	<u>\$60,196</u>
Depreciation	\$11,955	\$77	12,032
Taxes Other Than Income	\$4,019		4,019
Income Tax Expense	\$7,955	\$151	8,106
Net Regulated Income	<u>\$16,982</u>	<u>\$229</u>	<u>\$17,211</u>

1 The following schedule depicts staff's recommended excess earnings.

2

3

4

5

6

7

8

9

10

11

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

12

A: Yes, it does.

13

14

15

16

17

18

19

20

21

22

23

24

25

<u>Description</u>	<u>Projected 2002</u>
Rate Base	\$128,902
ROR Required	9.92%
Return Required	<u>\$12,787</u>
Return Earned	<u>\$17,211</u>
Return Deficiency (Excess)	(\$4,424)
Tax Factor	<u>1.656</u>
Revenue Deficiency (Excess)	<u><u>(\$7,327)</u></u>