

Exercise JLUNA1

Evaluation of Cost of Service Components

Assumptions:

Utility Palo Blanco is a fully integrated Company is requesting a \$60,000,000 increase in revenue requirement.

Test Year Period 1/2013 through 12/31/2013

Present Revenue Requirement	\$150,000,000
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Deficient in Revenue Requirement	\$60,000,000
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Total Request including Return on Rate Base of \$20,000,000	\$210,000,000
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Total Rate Base for Utility Palo Blanco 12/2013	\$222,222,222
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Rate of Return is .09

Increase in all expenses is approximately	\$40,000,000
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Based on your understanding of the standards for expenses in a rate case which of the following expenses should be allowed to be recovered in rates? Yes, No or Maybe

The following expenses are being requested by Palo Blanco. Please answer the following assumptions.

1. Salaries increase for employees of \$10,000,000.

Assumptions:

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- A. The board of directors did not approve the increase in salaries.
 - B. The board of directors have approved the increase but for a future year.
 - C. The Company provided a number of \$10,000,000 but no support.
 - D. The board of directors approved the increase for the rate year.
2. The Company is asking for an increase in litigation expense of \$ 7,000,000 related to the Department of Justice investigation that started in 2010.
- E. In reviewing the documentation provided by the Company, the DOJ has not had any activity in the year 2013 and no new case of similar type has arisen.
 - F. If the Company has incurred litigation expenses for 2010, 2011, 2012 & 2013 of \$2,000,000 every year, would you approve the \$7,000,000 expense?
3. The Company is requesting a Human Capital Management (HCM) Study of \$13,000,000 to be included in the Revenue Requirement. The study was performed in 2012 and this type of study has never been performed in the past. The HCM was a study to evaluate operations of the company and identify saving in costs.
- G. The savings of the HCM study were not identified or included in their filing.

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- H. The Company identified \$6,500,000 in saving for the test period and is requesting \$13,000,000 to be included in the revenue requirement.
4. The Company is requesting the recovery of \$10,000.000 in costs to sell their transmission lines to Lone Star Texas. The company has represented that the rate payers will benefit in saving in the amount of millions once the transaction is complete. The transaction to complete will take four years to close.
- I. The transaction has not been approved by the Commission.
5. What should be the total disallowance of costs in the following scenario's:
1. $A+E+G+I =$ _____
 2. $B+E+G+I =$ _____
 3. $C+E+G+I =$ _____
 4. $D+E+G+I =$ _____
 5. $A+F+H+I =$ _____
 6. $B+F+H+I =$ _____
 7. $C+F+H+I =$ _____
 8. $D+F+H+I =$ _____

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