

Exercise JLUNA2

Evaluation of Rate Base Components

Assumptions:

Utility Palo Blanco is a fully integrated electric utility Company and 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 in 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 costs in rate base should the following investments be allowed a rate of return? Yes, No or Maybe

The following investments are being requested by Palo Blanco in their Plant in Service:

1. An \$8,000,000 investment was made to purchase a boiler in the test period.

Assumptions:

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- A. The boiler that was purchased for \$5,000,000 had to be replaced by a smaller boiler with a cost of \$3,000,000. The original boiler did not meet environmental standards and had to be scrapped.
 - B. The boiler that was purchased was not approved by the appropriate management and was not necessary.
2. The Company is asking for an increase in rate base for the acquisition of land acreage of \$10,000,000 in 2012.
- C. In reviewing the documentation provided by the Company, the land will be used to build a nuclear plant in 5 years.
 - D. The Company completed the land purchase project within the test period.
3. The Company is requesting the cost of \$2,000,000 for an ongoing study dealing with transmission efficiency to be included in rate base. The study started in 2010, and this type of study has never been performed in the past. The transmission study was supported by the Department of Energy (DOE) when it commenced but is no longer funded by DOE. The total cost of the transmission study to date is \$8,000,000 but the DOE funded \$6,000,000.
- E. The savings of the transmission study were not identified or included in their filing.
 - F. The use of the study is not known and has no future use due to funding.

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4. What should be the total rate base in the following scenario's:

1. $A+C+E=$ _____

2. $B+C+E=$ _____

3. $A+D+F=$ _____

4. $B+D+F=$ _____