IX. AVERAGE SYSTEM COST METHODOLOGY APPENDIX 1 ENDNOTES

a/ Contract System Costs shall reflect the costs and the revenues arising from conservation and/or retail rate schedules.

b/ The overall rate of return (ROR) to be applied to a Utility's Exchange Period rate base as shown in Appendix 1 shall be equal to its weighted cost of capital (WCC), including debt, preferred stock and equity, from its most recently approved Regulatory Body Rate Order. For multi-Jurisdictional Utilities, a Utility will first determine the WCC for each Jurisdiction. The Utility will then determine a region-wide WCC based on applying the WCC times the Regulatory Body approved rate base from the same rate order used for the WCC.

The ROE used in the WCC calculation will then be grossed up for Federal income taxes at the marginal Federal income tax rate using the following formula to determine the percentage increase in the ROE used for ASC determination:
FIT Adder = {(WCC – (Cost of Debt * (Debt / (Total Capital))} * {(Federal Tax Rate / (1-Federal Tax Rate)}

The sum of the FIT Adder plus the ROE equals the Federal income tax adjusted ROE (TAROE). The TAROE will replace the ROE in the WCC calculation to determine a Federal income tax adjusted weighted cost of capital (TAWCC). The TAWCC will be multiplied by the total rate base from Schedule 1 to determine the return component on Schedule 2.

For Utilities that do not use depreciation for Jurisdictional rate setting, the return will be equal to the weighted cost of debt times the rate base included in the ASC filing.

c/ A tax-exempt Utility may include in-lieu taxes up to an amount that is comparable, for each unit of government paid in-lieu taxes, with taxes that would have been paid by a non-tax exempt utility to that unit of government. In no event shall the Utility's regional total be greater than the actual amount paid or the amount used to determine the total revenue requirement. In-lieu taxes shall be functionalized according to the PTDG ratio.

d/ The cost of additional resources sufficient to serve any New Large Single Load (NLSL) that was not contracted for, or committed to, prior to September 1, 1979, is to be determined as follows:

1). To the extent that any NLSLs are served by dedicated resources at the cost of those resources, including applicable transmission;

2) In the amount that NLSLs are not served by dedicated resources, at BPA's New Resources (NR) rates as established from time to time pursuant to section 7(f) of the Northwest Power Act, and as applicable to the Utility, and applicable BPA transmission charges if transmission costs are excluded in the determination of BPA's NR rate, to the extent such costs are recovered by the Utility's retail rates in the applicable Jurisdiction; and