ATTACHMENT A

(U-100522)

Based upon the estimated growth rates for revenue, expenses and rate base, the witness determined the rate of return the company will earn in the year ending November 30, 1982, which is the first year rates resulting from this proceeding will be in effect, calculated as follows. NOI will increase from $30,833,000 to $33,459,000. The rate base will increase from $268,077,000 to $356,000,997, resulting in a decrease in the rate of return from 11.52% (the rate of return recommended by the staff) to 9.37%, or a rate of attrition of 215 basis points over the 23-month period. The witness recommended, therefore, that an allowance of 2.15% is required to compensate the company for the attrition it will experience for the year ending November 30, 1982 and equals $14,807,000 in gross operating revenue requirement. The witness then adjusted the latter figure by the revenue compound growth factor of 1.1082 resulting in a recommended attrition allowance of $13,361,000 in gross operating revenue requirement.

The staff points out on brief that Mr. Louiselle projects that the company will by November 30, 1982, have approximately $75,349,000 of CWIP in the Colstrip project, an increase of $59,722,000 over December 31, 1980. This increase in CWIP accounts for $10,829,000 of the attrition allowance.

We have examined the testimony related to this adjustment with great care. Admittedly, attrition adjustments have been before the Commission in prior rate cases and have been rejected. However, both the circumstances we find in this case and the evidence in support of the adjustment are vastly different than what we have heretofore considered. It is clear on this record that the company's commitment to its construction projects to 1985, and its present program for major projects has created an imbalance in its ability to raise necessary construction funds from internal sources. This in turn has adversely affected the company's financial indices, upon which investors rely in examining the company's financial structure. Upon examination of the detailed analysis of Mr. Louiselle's testimony and supporting exhibits, we are convinced that in order to preserve and maintain the company's financial integrity and allow it to generate sufficient cash flow consistent with its needs for construction projects, and to attract investors at a reasonable cost, the staff's attrition allowance should be accepted. In accepting the attrition allowance proposed herein, we emphasize that such an adjustment for this or any other utility under our jurisdiction will be considered on a case-by-case basis only. We further state that the evidence adduced to support an attrition allowance must be of such a character that will lead us to a firm conviction that not to do otherwise will jeopardize the company's financial integrity and adversely affect the ability of the company to render required service to its customers at reasonable rates.

The Commission's findings on pro forma net operating income are summarized as follows:

12.44% to 11.93%. The company cites the Commission's acceptance in three previous rate proceedings of attrition allowances.

The Commission staff opposes an attrition adjustment. Although the Commission staff has in the past recommended attrition adjustments, the Commission staff in this matter asserts that information included in the record demonstrates that there is no need for an attrition adjustment. Because the Commission staff opposed an attrition adjustment, the Commission staff witnesses did not comment on the details of the company's attrition study, did not track how closely past attrition adjustments have mirrored actual events, or review adjustments in prior cases. The Commission staff concludes that the company's reported rates of return justify rejection of an attrition adjustment.

DPC supports the Commission staff's recommended rejection of the company's attrition request, based upon the company's actual results of operations. DPC notes that the Commission's prior orders stressed that an attrition allowance was an extraordinary measure to be used only when the absence of such an allowance would jeopardize the company's financial integrity and adversely affect the ability of the company to render required service to its customers at reasonable rates.

On rebuttal, the company contended that a limited review of the company's actual rates of return for the first half of 1984 was not a reasonable basis for the Commission staff's recommended rejection. The company further noted that the Commission staff had not undertaken a review of the company's methodology.

The Commission rejects the company's proposed attrition adjustment. The company has the burden of proof to demonstrate that this extraordinary measure is necessary. The company has not demonstrated that in the current climate of reduced inflation, a winding-down in the company's previously massive construction program, reduced debt financing, and projections for revenue growth, an attrition allowance is necessary. On the contrary, the evidence in the record demonstrates that the use of historical periods in attempting to project attrition would produce misleading results.

Although the Commission has rejected the company's attrition adjustment, the Commission is concerned that the Commission staff's opposition to the attrition adjustment was not based on an attrition analysis conducted by the staff. While the burden of proof does not rest with the Commission staff, the Commission would expect the Commission staff to perform its own analyses in the future in the process of arriving at its proposals.

C. Results of Operations Summary

Based upon the Commission's determinations of specific matters as set out above, the Commission concludes that the net operating income of respondent during the test period, as adjusted, is $53,702,000. Table IV shows the effect on respondent of adjustments to its actual income which have been found appropriate for ratemaking purposes.