BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * *

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR APPROVAL OF ITS 2011 ELECTRIC RESOURCE PLAN	))))	**DOCKET NO. 11A-869E**

SUPPLEMENTAL DIRECT TESTIMONY AND EXHIBITS OF
CHRISTOPHER R. HAWORTH

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

February 13, 2012

LIST OF EXHIBITS

Exhibit No. CRH-1	Capital Lease Example

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * *

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR APPROVAL OF ITS 2011 ELECTRIC RESOURCE PLAN	**))))**	**DOCKET NO. 11A-869E**

<u>SUPPLEMENTAL DIRECT TESTIMONY AND EXHIBITS</u>

<u>OF CHRISTOPHER R. HAWORTH</u>

I. <u>INTRODUCTION AND PURPOSE</u>

Q. PLEASE STATE YOU NAME AND BUSINESS ADDRESS.

A. My name is Christopher R. Haworth. My business address is 1800 Larimer, Suite 1200, Denver, CO 80202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

A. I am employed by Xcel Energy Services Inc., a wholly-owned subsidiary of Xcel Energy Inc., the parent company of Public Service Company of Colorado. My job title is Senior Director, Utility Accounting.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of Public Service Company of Colorado ("Public Service" or the "Company").

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. The purpose of my testimony is to explain pending accounting guidance on leases, as well as provide details about the positive or negative financial accounting impacts on the Company acquiring certain resources.

Q. DID THE COMPANY PROVIDE A DESCRIPTION OF CERTAIN ACCOUNTING STANDARDS APPLICABLE TO THE RESOURCE ACQUISITON MATTERS AT ISSUE IN THE ELECTRIC RESOURCE PLAN ("ERP")?

A. Yes. At pages 2-36 to 2-41 of Volume II of the 2011 ERP, the Company outlined key accounting considerations associated with Power Purchase Agreements ("PPA"). It summarized the criteria and impact associated with Variable Interest Entity ("VIE") accounting, lease accounting, derivative accounting and the impact of certain transactions on credit rating agency assertions. It also stated that a revised lease standard was expected to be introduced in the fourth quarter of 2011 (and effective in approximately 2015) that would require that all transactions classified as leases be given financial statement recognition as lease assets and lease obligations.

Q. WAS A NEW LEASE STANDARD ISSUED IN THE FOURTH QUARTER OF 2011?

A. No. The Financial Accounting Standards Board's ("FASB") "Current Technical Plan" now shows that a new Lease Exposure Draft will be distributed in the first half of 2012. We believe that if the timeline is not pushed back any further that the exposure draft would likely be introduced late in the second quarter of 2012.

Q. DO YOU HAVE AN OPINION AS TO THE TIMING OF A FINAL LEASE ACCOUNTING STANDARD?

A. Yes. Following the release of an exposure draft, the public comment period typically lasts for four to six months. However, this accounting standard has been a highly sensitive topic for many industries and has resulted in greater scrutiny and consideration by stakeholders. If the exposure draft is distributed during the second quarter of 2012 it is possible that a final standard would be issued in early 2013 and effective in 2015 or 2016.

Q. DO YOU HAVE AN OPINION AS TO WHAT THE ACCOUNTING IMPLICATIONS MIGHT BE FOR THE PROPOSED LEASE STANDARD?

A. The proposed lease standard requires that all leases be given financial statement recognition as lease assets and lease obligations. Based on the ongoing work and tentative decisions of the FASB and the International Accounting Standards Board ("IASB"), determination of whether an arrangement contains a lease may require a qualitative analysis of a purchaser's control over a specified asset. Depending on the guidance in the final standard, it's possible that certain types of PPA arrangements will no longer be considered leases. However, we are cautious in developing any favorable expectations as the principles contained in the exposure draft and tentative decisions by the Boards are subject to change until incorporated into a final standard.

Q. GIVEN THE FACT THAT THE LEASE STANDARD IS PENDING, WHAT PRINCIPLES WILL BE APPLIED IN EVALUATING POTENTIAL RESOURCES IN THE 2011 ERP?

A. Public Service will assess PPAs during negotiation based on the applicable lease standard. If a new standard is issued, the Company will assess the PPA using the lease standards that will be in effect both before and after the effective date of the new standard, in order to identify all accounting implications.

Q. PLEASE PROVIDE A SUMMARY OF THE CURRENT LEASE ACCOUNTING STANDARD THAT IS CURRENTLY IN EFFECT.

A. A summary of the existing lease standard was included in Volume II of the 2011 ERP, Pages 2-36 to 2-41. The Accounting Standards Codification ("ASC") 840 "Leases" provides the primary accounting guidance in determining whether an arrangement, such as a PPA, contains a lease. Under ASC 840, a lease is evident when each of the following criteria is met:

1. Specific property, plant, and equipment ("PP&E") is identified;
2. The fulfillment of the arrangement is dependent on the use of the identified PP&E; and
3. The arrangement conveys to the purchaser (lessee) the right to control the identified PP&E.

The right to control the use of the underlying PP&E is conveyed if any one of the following conditions is met while the purchaser obtains or controls more than a minor amount of the output of the facility:

a. The purchaser has the ability or right to operate the PP&E or direct others to operate the PP&E in a manner it determines;

b. The purchaser has the ability or right to control physical access to the underlying property, plant, or equipment; or

c. It is remote that other parties other than the purchaser will take more than a minor amount of the output of the asset, and the price that the purchaser (lessee) will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output at the time of delivery.

Currently, leases are classified into two categories, operating leases or capital leases. Significant accounting challenges may be present for the Company if the PPA is determined to be a capital lease. A capital lease exists if any one of the following PPA attributes is present:

- Transfer of title to the assets to the power purchaser at the end of lease term (ASC 840-10-25-1a)
- Presence of a bargain purchase option for the assets (ASC 840-10-25-1b)
- Lease term is greater than or equal to 75% of the asset's estimated remaining useful life (ASC 840-10-25-1c)

- Present value of certain PP&E related capacity and/or dispatchability payments (fixed payments) are greater than or equal to 90% of the asset's fair market value (ASC 840-10-25-1d)).

Q. IN DOCKET NO. 07A-447E, THE COMPANY'S 2007 COLORADO RESOURCE PLAN, THE COMPANY RAISED CONCERNS ABOUT CAPITAL LEASE ACCOUNTING. DOES THE COMPANY STILL HAVE THESE CONCERNS?

A. Yes. In that docket, the Company presented the direct testimony and exhibits of Ms. Madden, then Vice President and Controller, explaining the accounting treatment of PPAs under Generally Accepted Accounting Principals ("GAAP") in 2007.

Q. DOES THE COMPANY HAVE CONCERNS ABOUT TYPICAL INDEPENDENT POWER PRODUCER ("IPP") PROPOSALS RESULTING IN CAPITAL LEASE ACCOUNTING TREATMENT?

A. Yes. Because no terms and conditions of the PPAs have been negotiated at this point, the ultimate cost of the projects to customers, even if the price remains as currently modeled, is not known at this time.

Q. HOW DO YOU ANALYZE WHETHER CERTAIN GAAP "TESTS" WOULD BE TRIGGERED BY A PPA SUCH THAT PUBLIC SERVICE WOULD BE REQUIRED TO ACCOUNT FOR THE PPA AS A CAPITAL LEASE?

A. First, we must analyze whether a lease exists for accounting purposes within the PPA. One of the primary indicators is that the PPA provides for a payment stream which is not directly associated with the output of the facility. Such is the case with a Capacity Payment or Charge. Because a capacity charge is generally associated with the capital costs of the plant, rather than the actual output of energy produced by the facility, it is often an indicator that a lease exists.

Q. ONCE YOU HAVE DETERMINED THAT A LEASE EXISTS FOR ACCOUNTING PURPOSES WITHIN A PPA AGREEMENT, WHAT IS THE NEXT STEP IN THE ANALYSIS?

A. Once we have established that a lease exists within a PPA, under current accounting rules we must evaluate whether the lease would be treated as an operating or capital lease. The first test is to determine whether the present value of future minimum lease payments is greater than or equal to 90% of the fair market value of the asset.

Q. HOW IS THIS DETERMINED?

A. We make this determination using financial modeling. I am including as Exhibit No. CRH-1 an illustrative financial model that uses pricing estimates for a 25-year PPA for a double combustion turbine. As I stated before, these estimates are included in the 2011 ERP. In the model, I show how certain of the GAAP “tests” described above would be triggered and would require Public Service to account for such a PPA as a capital lease. Additionally, in the model I present the difference (both the annual difference as well as the cumulative difference) between the payment stream associated with the example PPA and the GAAP expense which would be recognized by Public Service.

Q. WHAT DATA ASSUMPTIONS SET FORTH IN THE 2011 ERP WERE USED IN YOUR ILLUSTRATIVE MODEL?

A. Listed below are the pricing assumptions used in the illustrative model. These assumptions were also provided in the 2011 ERP:

- <u>Capacity Charge per $kW-mo</u> – Starting at $4.95/kW-mo or $23M year for 2018 (Average cost of a double combustion turbine (1st and 2nd), Table 2.8-3(a), Page 2-227 of Volume II of the 2011 ERP)
- <u>Term</u> - 25 year (Attachment 3.1-1_Dispatchable RFP, page 7, Volume III of the 2011 ERP)
- <u>Discount Rate</u> – 7.61% (Page 2-263 of Volume II of the 2011 ERP)
- <u>Estimated Cost to Build a 428MW Double CT on an Existing Brownfield Site</u> - ~$236M ($566/kW (Page 2-221 of Volume II of the 2011 ERP) x 214MW x 170% (Note 5, Pages 2-221 of Volume II of the 2011 ERP) x 1.028^5 (2.8% inflation factor 2011-2015; Attachment 2.8-1 Table 2, Page 2-274 of Volume II of the 2011 ERP = $236M).
- <u>Executory Costs</u> - $3.8M/year –These are based on internal estimates for insurance, property taxes and fixed O&M that are included in the base capacity charge.

Q. NOW THAT WE UNDERSTAND THE PURPOSE OF THE MODEL AND THE ASUMPTIONS USED IN THE MODEL, PLEASE DESCRIBE HOW THE

MODEL IS USED TO EVALUATE WHETHER THE LEASE WOULD BE TREATED AS AN OPERATING OR CAPITAL LEASE.

A. In the financial model set forth in Exhibit No. CRH-1, I am using the estimated cost to build the double combustion turbine (which in this example is estimated at approximately $236M noted at the top of column (e)) as the estimate for the fair market value ("FMV"). Additionally, lease payments are equivalent to capacity charges less executory costs – noted calculated in column (d). Based on a discount rate of 7.61% the present value of the future minimum lease payments is approximately $274M, or approximately 116% of the FMV of the asset (noted at the bottom of column (d). Therefore, since the present value of the future minimum lease payments exceeds the FMV of the facility, this PPA would result in a capital lease (Test # 1d in ASC 840-10-25). GAAP requires the Company to recognize the capital lease at the lesser of the fair value of the leased asset or the present value of the future minimum lease payments on its balance sheet. Therefore, the Company would have to record a capital lease asset of $236M, as well as a corresponding capital lease liability of $236M on the balance sheet.

Q. WOULD THE COMPANY'S APPROVED DEBT TO EQUITY RATIO BE IMPACTED BY THE EXAMPLE CAPITAL LEASE?

A. Yes. In our example the addition of a $236M capital lease liability would increase the debt ratio of Public Service's capital structure by approximately 1.6 percentage points.

Q. DOES THE EXISTENCE OF A CAPITAL LEASE IMPACT RECOGNIZED GAAP EXPENSE?

A. Yes. Capital lease accounting imposes additional requirements on recognized GAAP expense other than the gross-up on the balance sheet of the capital lease asset and capital lease liability. As with other plant assets, the capital lease asset would be depreciated over time which would result in incremental depreciation expense for GAAP purposes. I have shown this in column (h) in Exhibit No. CRH -1. Additionally, the capital lease liability, or debt, would result in GAAP interest expense (noted in column (f)). The treatment of the minimum lease payments associated with the PPA would be separated between the calculated interest payment and the reduction of the capital lease liability (noted in column (g)). Both the interest expense as well as the depreciation expense would represent additional GAAP expense to the Company.

Q. ARE THERE OTHER ACCOUNTING CONSIDERATIONS ASSOCIATED WITH CAPITAL LEASES?

A. Yes. Capital leases may be considered "Phase-in Plans" under ASC 980. Capital leases considered "Phase-in Plans" under ASC 980 negatively impact the income statement in the early years of the PPA as a result of required recognition of an incremental expense equivalent to the difference between the actual cash payments and the amount that is recorded on a periodic basis under a capital lease accounting methodology.

Q. WHY MIGHT A CAPITAL LEASE BE CONSIDERED A "PHASE-IN PLAN" UNDER ASC 980?

A. Capital leases may be considered "Phase-in Plans" under ASC 980 because the method of accounting defers rates intended to recover allowable costs beyond the period in which those allowable costs would be charged to expense under GAAP applicable to enterprises in general.

Q. EXPLAIN THE PRIMARY DIFFERENCES BETWEEN ALLOWABLE COSTS AND COSTS CHARGED TO EXPENSE UNDER GAAP APPLICABLE TO ENTERPRISES IN GENERAL.

A. Cost recovery associated with PPAs is usually aligned with the cash flows paid by the Company for the capacity and energy purchased. For instance, Public Service has the Purchased Capacity Cost Adjustment (PCCA) recovery mechanism for the retail jurisdictional portion of capacity costs. The PCCA provides for cost recovery based on actual payments. However, as discussed earlier, the GAAP expense associated with a capital lease would normally be larger than the cash flow in the early years of a capital lease (as noted in columns (i), (j), and (k) in Exhibit No. CRH-1. This is because depreciation expense and interest expense recognized under capital lease accounting is typically higher in the early years versus the expense recognized under operating lease accounting.

Q. HOW IS THIS INFORMATION USED TO DETERMINE WHETHER CERTAIN COSTS COULD BE CONSIDERED PHASE-IN COSTS?

A. To assess the costs that could be considered phase-in costs, we identify the extent to which the expenses recognized under capital lease accounting exceed “allowable costs” for rate purposes under a contract. Allowable costs are currently based on the actual cash payments under the PCCA. The combination of calculated interest and depreciation exceed the actual cash payment allocated to PP&E during the first 15 years of the contract, which results in a Phase-in plan.

Q. USING YOUR ILLUSTRATIVE MODEL, WHAT NEGATIVE IMPACT DOES THE FACT THAT SOME OF THE COSTS ARE CONSIDERED PHASE-IN COSTS HAVE ON THE INCOME STATEMENT?

A. The negative impact to the income statement of a phase-in plan is presented in columns (j) and (k) in Exhibit No. CRH-1. In the example PPA, the difference would result in additional expense recognition of approximately $11.8M in the first year (noted in column (j), with the cumulative difference peaking in year 15 of the PPA at approximately $111M (noted in column (k) in Exhibit No. CRH -1.

Q. IS THE NEGATIVE FINANCIAL STATEMENT IMPACT ASSOCIATED WITH PHASE-IN PLAN GUIDANCE SIGNIFICANT?

A. Yes, as can be seen from the example it can be very significant depending on the terms of the PPA.

Q. ARE THERE REGULATORY ACTIONS THAT CAN BE USED TO REMEDY ANY OF THE NEGATIVE FINANCIAL STATEMENT IMPACTS ASSOCIATED WITH PPAS RESULTING IN CAPITAL LEASES?

A. Yes, however the creation of a regulatory asset for which there is a lag in recovery is not an option to resolve the GAAP expense difference. The specific GAAP guidance around “Phase-In Plans” in ASC980 specifically do not allow for deferral of the expense difference created.

However, if the Company was provided with a mechanism for recovering the GAAP expense associated with the PPA treated as a “Phase-In Plan” in the current period, rather than the cash cost of the PPA, the Company would not realize a GAAP earnings impact from such a PPA.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Attachment A

Statement of Qualifications

Christopher R. Haworth

I received my Bachelor of Business Administration degree in Accounting and Information Systems from Baylor University in 1990. I was a licensed Certified Public Accountant in Colorado from 1993 through 2001.

I worked for Arthur Andersen, LLP from 1990 through 1998 in both the Audit and Business Consulting Practices. I was promoted to audit manager in 1995. My responsibilities as an audit manager included the coordination and supervision of concurrent engagements to audit clients' financial statements. I provided audit and accounting consulting services to a number of public clients, including a variety of regulated enterprises primarily in the telecommunications industry. Throughout my public accounting career, I developed experience with the application and interpretation of accounting principles, SEC rules and regulations and other regulatory filing requirements.

In 1998 I left Arthur Andersen to join the Regional Bell Operating Company headquartered in Denver, Colorado, USWEST, as a Director of Technical Accounting. In this capacity I was involved with establishing accounting policy for the organization as well as interpreting GAAP accounting pronouncements.

In 2001 I became the corporate controller for ADT Security Services, where I had full accounting and reporting responsibilities, including establishing accounting policies and Sarbanes-Oxley compliance, for the largest security services provider in the US – serving over 5 million customers with over 25,000 employees generating over $4 billion in annual revenue.

In 2006 I became the VP - Controller for Time Warner Telecom (now tw telecom), where I was responsible for accounting policy, monthly accounting processes, and internal as well as external (SEC) reporting for a $1 billion public competitive telecommunications provider.

I joined Xcel Energy Services in October 2008 as Director, CES Finance. In this role, I am responsible for the budgeting and forecasting processes for the CES organization, including Customer Care, Business Systems, Human Resources, and the Chief Administrative Office.

2011 PSCo ERP Exhibit No. CRH-1

Capital Lease Example - Double Combustion Turbine (428MW)

Year	Year	(a) Double Combustion Turbine ($/kw-mo)	(b) Assumed PPA Capacity Payment ($000)	(c) Executory Costs ($000)	(d) = (b) - (c) Net Lease Related Payment ($000)	(e) Cap Lease Liability ($000)	(f) Interest ($000)	(g) = (d) - (f) Principal ($000)	(h) Depreciation ($000)	(i) = (g) + (h) GAAP Expense (Dep + Int) ($000)	(j) = (d) + (i) Phase-in Plan Difference ($000)	(k) Cumulative Phase-in Plan Difference ($000)
						$236,398	**9.2%**					
2018	1	$4.95	$23,006	-$3,767	$19,238	$238,815	$21,655	-$2,416	$9,456	$31,111	-$11,872	-$11,872
2019	2	$5.09	$23,650	-$3,841	$19,809	$240,881	$21,876	-$2,067	$9,456	$31,332	-$11,523	-$23,395
2020	3	$5.24	$24,313	-$3,918	$20,396	$242,551	$22,065	-$1,669	$9,456	$31,521	-$11,125	-$34,520
2021	4	$5.38	$24,995	-$3,996	$20,999	$243,770	$22,218	-$1,219	$9,456	$31,674	-$10,675	-$45,195
2022	5	$5.53	$25,696	-$4,077	$21,619	$244,481	$22,330	-$711	$9,456	$31,786	-$10,167	-$55,362
2023	6	$5.69	$26,416	-$4,159	$22,256	$244,620	$22,395	-$139	$9,456	$31,851	-$9,594	-$64,957
2024	7	$5.85	$27,156	-$4,244	$22,912	$244,115	$22,408	$504	$9,456	$31,864	-$8,952	-$73,908
2025	8	$6.01	$27,917	-$4,331	$23,586	$242,891	$22,361	$1,225	$9,456	$31,817	-$8,231	-$82,140
2026	9	$6.18	$28,700	-$4,420	$24,280	$240,860	$22,249	$2,030	$9,456	$31,705	-$7,426	-$89,565
2027	10	$6.35	$29,504	-$4,512	$24,993	$237,931	$22,063	$2,929	$9,456	$31,519	-$6,527	-$96,092
2028	11	$6.53	$30,331	-$4,606	$25,726	$234,000	$21,795	$3,931	$9,456	$31,251	-$5,525	-$101,617
2029	12	$6.71	$31,182	-$4,702	$26,480	$228,956	$21,435	$5,045	$9,456	$30,891	-$4,411	-$106,029
2030	13	$6.90	$32,056	-$4,801	$27,255	$222,674	$20,973	$6,282	$9,456	$30,429	-$3,174	-$109,202
2031	14	$7.10	$32,954	-$4,902	$28,052	$215,019	$20,397	$7,655	$9,456	$29,853	-$1,801	-$111,004
2032	15	$7.29	$33,878	-$5,006	$28,872	$205,843	$19,696	$9,176	$9,456	$29,152	-$280	-$111,284
2033	16	$7.50	$34,828	-$5,994	$28,833	$195,866	$18,856	$9,978	$9,456	$28,312	$522	-$110,762
2034	17	$7.71	$35,804	-$6,117	$29,687	$184,120	$17,942	$11,745	$9,456	$27,398	$2,289	-$108,473
2035	18	$7.93	$36,807	-$6,242	$30,565	$170,421	$16,866	$13,699	$9,456	$26,322	$4,243	-$104,230
2036	19	$8.15	$37,839	-$6,371	$31,468	$154,564	$15,611	$15,857	$9,456	$25,067	$6,401	-$97,828
2037	20	$8.38	$38,900	-$6,503	$32,397	$136,325	$14,158	$18,238	$9,456	$23,614	$8,783	-$89,046
2038	21	$8.61	$39,990	-$6,638	$33,352	$115,461	$12,488	$20,864	$9,456	$21,944	$11,408	-$77,637
2039	22	$8.85	$41,111	-$6,777	$34,334	$91,704	$10,576	$23,758	$9,456	$20,032	$14,302	-$63,336
2040	23	$9.10	$42,263	-$6,919	$35,344	$64,760	$8,400	$26,944	$9,456	$17,856	$17,488	-$45,848
2041	24	$9.36	$43,448	-$7,065	$36,383	$34,309	$5,932	$30,451	$9,456	$15,388	$20,995	-$24,853
2042	25	$9.62	$44,666	-$7,215	$37,451	$0	$3,143	$34,309	$9,456	$12,599	$24,853	$0
Total Net Lease Related Payment					$686,287							
Net present value of future minimum lease payments @ WACC (l)					$273,999							

Footnotes

(a) Capacity Charge $kW-mo – Based on the estimated economic carrying charges for a double combustion turbine (1st and 2nd), Table 2 8-3(a), Page 2-227 of Volume 2 of the 2011 ERP)

(b) Capacity payment (annual) is based on the average between Summer and Winter capacity of 346MW and 428MW, respectively, multiplied by the corresponding $/kW-mo (see (a)).

(c) Executory Costs – Executory costs are non-PP&E elements that are included in the base capacity charge and include items such as fixed O&M, Insurance and property taxes. Fixed O&M es imates are based on amounts disclosed in the 2011 ERP (($661/yr (Page 1-32 of Volume 2 of the 2011 ERP) x 2 x 1.0285 (2 8% inflation factor 2011-2017; Attachment 2.81 Table 2, Page 2-274 of Volume 2 of the 2011 ERP) = $1.609M)). Amounts included for insurance and property taxes are based on internal estimates. Charges do not include ongoing capital expenditures.

(e) Capital Lease Asset and Liability - Capital lease asset and liability are initially recorded at the lesser of the present value of future minimum lease payments or the fair market value of the asset (which is presumed to be cost in our example). Costs for the 2x1 and 1x1 combined cycle and combustion turbine represent an average of greenfield and brownfield estimates. These average costs are used to represent resources available in the resource acquisition plan. ($566/kW (Page 1-32 of Volume 2 of the 2011 ERP) x 214MW x 170% (Note 5, Pages 2-221 of Volume 2 of he 2011 ERP) x 1.0285 (2.8% inflation factor 2011-2015; Attachment 2.81 Table 2, Page 2-274 of Volume 2 of the 2011 ERP = $237M).

(f) Imputed interest - Because the FMV of the asset is less than the PVFMLP, we are required to impute interest based on the internal rate of return of related project cash flows.

(h) Depreciation - Depreciation is equivalent to the FMV of the asset divided by the term of the arrangement, 25 years in our example.

(k) Cumulative Phase-in Plan Difference - Per ASC 980, in certain accounting circumstances, including some capital leases, the difference between allowable recovery and GAAP expense recognition can not be deferred as a regulatory asset. The effect of a phase-in plan is that the income statement will be affected negatively by he difference between allowable costs and GAAP basis accounting for en ities in general.

(l) WACC - Weighted Average Cost of Capital 7.61% (Page 2-263 of Volume 2 of the 2011 ERP)