

B-1 shall present a summary of test year original cost rate base elements.

A Rate Base/Rate of Return approach was not adopted for development of Revenue Requirements. However, we provide in testimony a calculation of what revenue requirement would be under a rate base approach, assuming a 12% Rate of Return. We compared this to the Modified Cash Needs approach adopted.

	<u>FY 2014</u>
Gross Fixed Assets - Opening	\$12,911,603,187
Additions	270,228,429
Gross Fixed Assets - Closing	<u>13,181,831,616</u>
Depreciation	339,493,217
<i>% of GFA</i>	<u>2.6%</u>
Retirements / Demolitions	
Accumulated Depreciation	<u>6,422,226,000</u>
Utility plant, net	6,759,605,616
Fuel Oil Inventory	194,072,598
Materials and Supplies Inventory	196,886,813
Non-Fuel Working Capital	114,124,790
Rate Base	\$7,264,689,818

B-2 shall present each pro forma adjustment to rate base [one column for each adjustment]. PREPA shall discuss and explain each adjustment in profiled direct testimony and shall provide supporting workpapers showing the derivation of each adjustment.

A Rate Base/Rate of Return approach was not adopted for development of Revenue Requirements. However, we provide in testimony a calculation of what revenue requirement would be under a rate base approach, assuming a 12% Rate of Return. We compared this to the Modified Cash Needs approach adopted.

	FY 2014	Increase in capex per CIP	Changes in Fixed Assets over Time	Reductions in Inventory to Reflect Best Estimates for Rate Effective Year	FY 2017
Gross Fixed Assets - Opening	\$ 12,911,603,187				\$ 13,523,337,902
Additions	270,228,429	66,329,379			336,557,808
Gross Fixed Assets - Closing	13,181,831,616		678,064,094		13,859,895,710
Depreciation	339,493,217		16,781,154		356,274,371
<i>% of GFA</i>	<i>2.6%</i>				<i>2.6%</i>
Accumulated Depreciation	6,422,226,000		1,014,737,554		7,436,963,554
Utility plant, net	6,759,605,616		(336,673,460)		6,422,932,156
Fuel Oil Inventory	194,072,598			(73,758,851)	120,313,747
Materials and Supplies Inventory	196,886,813			(13,077,357)	183,809,456
Non-Fuel Working Capital	114,124,790			(33,874,506)	80,250,284
Rate Base	7,264,689,818			(457,384,175)	6,807,305,643

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY COMMISSION**

IN RE: THE PUERTO RICO ELECTRIC : NO.: CEPR-AP-2015-0001
POWER AUTHORITY :
INITIAL RATE REVIEW :

REGULATION 8720, SECTION 2.04 (B) - SCHEDULE B-2

“Schedule B-2 shall present each pro forma adjustment to rate base (one column for each adjustment.) PREPA shall discuss and explain each adjustment in prefiled direct testimony and shall provide supporting workpapers showing the derivation of each adjustment.”

No work papers were created during the preparation of this schedule.

B-3 shall present a computation of Working Capital.

A Rate Base approach was not adopted for Revenue Requirements. However, a working capital requirement of 45 days of non-fuel/purchased power operations and maintenance expense was used for demonstration purposes.

That calculation is demonstrated below

	2014	2015	2016	2017	2018	2019	2020
Non-fuel O&M Expense							
Salaries	\$ 335,242,719	\$ 284,691,984	\$ 283,608,142	\$ 280,360,861	\$ 274,073,600	\$ 270,831,929	\$ 270,661,637
Pension & Benefits	\$ 195,554,701	\$ 153,258,802	\$ 147,257,865	\$ 154,576,960	\$ 152,628,588	\$ 152,559,821	\$ 152,180,066
Total Labor Expense	\$ 530,797,419	\$ 437,950,786	\$ 430,866,008	\$ 434,937,821	\$ 426,702,188	\$ 423,391,750	\$ 422,841,703
Pension Underfunding	\$ -	\$ -	\$ -	\$ -	\$ 61,320,418	\$ 61,601,671	\$ 63,453,614
Additional Safety Upgrades	\$ -	\$ -	\$ -	\$ 4,432,500	\$ 350,000	\$ 350,000	\$ 350,000
Other Expenses, O&M	\$ 203,348,077	\$ 226,967,115	\$ 218,001,738	\$ 223,131,756	\$ 196,881,073	\$ 198,849,884	\$ 200,838,383
Total Other Operating Expenses	\$ 203,348,077	\$ 226,967,115	\$ 218,001,738	\$ 227,564,256	\$ 258,551,491	\$ 260,801,555	\$ 264,641,997
Customer Service	\$ -	\$ -	\$ (13,083,333)	\$ (23,750,000)	\$ (30,500,000)	\$ (31,005,000)	\$ (31,515,050)
Procurement	\$ -	\$ -	\$ (37,500,000)	\$ (55,000,000)	\$ (55,550,000)	\$ (56,105,500)	\$ (56,666,555)
Other, Net	\$ -	\$ -	\$ (20,833,333)	\$ (24,000,000)	\$ (101,000,000)	\$ (102,010,000)	\$ (103,030,100)
Total Non-Fuel Performance Improvement	\$ -	\$ -	\$ (71,416,667)	\$ (102,750,000)	\$ (187,050,000)	\$ (189,120,500)	\$ (191,211,705)
Bad Debt Expense	\$ 191,533,358	\$ 58,540,416	\$ 55,739,896	\$ 85,383,767	\$ 93,100,006	\$ 98,505,209	\$ 104,582,253
Energy Administration Assessment	\$ -	\$ -	\$ 5,800,000	\$ 5,800,000	\$ 5,800,000	\$ 5,800,000	\$ 5,800,000
Less Other Income	\$ (18,010,147)	\$ (31,478,719)	\$ (38,924,845)	\$ (38,924,845)	\$ (38,924,845)	\$ (38,924,845)	\$ (38,924,845)
Total Other Expenses	\$ 173,523,211	\$ 27,061,697	\$ 22,615,051	\$ 52,258,922	\$ 59,975,161	\$ 65,380,364	\$ 71,457,408
Total Non-fuel O&M Expense	\$ 907,668,708	\$ 691,979,598	\$ 600,066,130	\$ 612,010,998	\$ 558,178,839	\$ 560,453,168	\$ 567,729,403
Days in the Year	365	365	365	365	365	365	365
Working Capital Per Day	\$ 2,486,764	\$ 1,895,835	\$ 1,644,017	\$ 1,676,742	\$ 1,529,257	\$ 1,535,488	\$ 1,555,423
Days Working Capital	45	45	45	45	45	45	45
Working Capital Allowance	\$ 111,904,361	\$ 85,312,553	\$ 73,980,756	\$ 75,453,411	\$ 68,816,569	\$ 69,096,966	\$ 69,994,036