**Section 285.4040 Schedule D-4: Embedded Cost of Preferred Stock**

a) Provide the embedded cost of any preferred stock on Schedule D-4. The embedded cost of preferred stock shall be provided for each year from and including the last completed calendar or fiscal year through the capital structure measurement period. The utility may choose either the net proceeds or internal rate of return method to calculate the embedded cost of preferred stock.

b) Utilities selecting the net proceeds method shall include the following data per issue. Items may not be combined with one another:

1) Dividend rate, type, par value;

2) Date issued;

3) Mandatory redemption date, if applicable;

4) Number of shares outstanding;

5) Par or stated value outstanding;

6) Premium or discount;

7) Issue expense (including gains and losses on stock redemptions, if applicable);

8) Net proceeds (subsection (b)(5) plus subsection (b)(6) minus subsection (b)(7));

9) Annualized amortization of discount or premium, if applicable;

10) Annualized amortization of issue expense (including gains and losses on stock redemptions, if applicable), if applicable;

11) Annualized dividends;

12) Annualized preferred stock expense (subsection (b)(9) plus subsection (b)(10) plus subsection (b)(11)); and

13) Embedded cost of preferred stock (subsection (b)(12) divided by subsection (b)(8)).

c) Utilities selecting the internal rate of return method shall include the following data separately (i.e., items may not be combined with one another):

1) Dividend rate, type, par value;

2) Date issued;

3) Number of shares outstanding;

4) Par or stated value outstanding;

5) Current proceeds (including gains and losses on stock redemptions, if applicable);

6) Discount rate (i.e., internal rate of return);

7) Annual cost (subsection (c)(5) multiplied by subsection (c)(6)); and

8) Embedded cost of preferred stock (subsection (c)(7) divided by subsection (c)(5)).

d) Additional instructions:

1) Provide totals wherever applicable. Provide the embedded cost of preferred stock (subsections (b)(13) and (c)(8)) for totals only.

2) Include preferred stock sinking fund and other principal payments due within one year.

3) Any gains and losses included in Schedule D-4 shall be listed separately, by issue.

e) Provide the following work papers or documents supporting Schedule D-4:

1) For each variable and adjustable rate preferred stock issue, provide the following:

A) The formulas used to set the dividend rate;

B) The portions of documents describing the manner by which the dividend rate is set (e.g., prospectus);

C) The documents supporting the dividend rate forecast; and

D) The dates of dividend rate adjustment.

2) Sinking fund schedule for each issue having such a requirement. This schedule shall include the following data:

A) Preferred stock issue;

B) Payment date;

C) Sinking fund requirement; and

D) Optional sinking fund amount (if applicable).

3) For gains and losses included in Schedule D-4, provide the following by stock issue:

A) Stock issue;

B) Number of shares reacquired;

C) Par or stated value reacquired;

D) Call premium;

E) Call price;

F) Discount or premium;

G) Issue expense (excluding the call premium); and

H) Refunding issue (if applicable).

4) Demonstrate that the losses included in Schedule D-4 were incurred as a direct result of transactions that reduced the utility’s overall cost of capital.

5) The calculation of the discount rate for each issue (internal rate of return methodology only, including gains and losses on reacquired preferred stock).