



National Association of Regulatory Utility Commissioners

Revenue Requirements Illustration

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Formula

Revenue Requirements = Variable Costs (expenses)
 + Fixed Costs (Rate of Return x Rate Base)







Weighted Cost of Capital (Rate of Return)

Source	Percentage	Cost	Weighted Cost
Debt	55%	6%	3.30%
Preffered Stock	5%	7%	.35%
Common Equity	40%	10%	4.00%
	100%		7.65%







Rate Base

•	Plant in service	\$2,300,000
•	Materials/supplies	70,000
•	Fuel Stock	6,500
•	Cash working Capital	80,000
	 Total 	\$2,456,500
	 Less Accum. Depreciation 	600,000
•	Net Rate Base	\$1,856,500







Fixed costs = Rate of Return x Rate Base

- Weighted Cost 7.65%
- Multiplied by net rate base: \$1,856,500
- Equals: \$142,022.25 Fixed Costs







Expenses (Variable Costs)

•	Purchased power	\$170,000
•	Operation/Maintenance	100,000
•	Customer expense	
	 Meter reading 	9,000
	 Records/collections 	25,000
•	Administrative Expense	70,000
•	Depreciation expense	40,000
•	Property taxes	12,000
•	Total Expenses	\$426,000







Annual Revenue Requirement

- Expenses: \$426,000
 - Plus
- Fixed Costs: \$142,022.25
 - Equals
- Revenue Requirement \$568,022.25