## Net Operating Income

| | | |
|---|---:|---:|
| Revenues | | $660 |
| Less: Operating Expenses | $460 | |
| Depreciation | 50 | |
| Taxes | 90 | 600 |
| Net Operating Income | | **$ 60** |

## Rate Base

| | |
|---|---:|
| Plant in Service | $1,200 |
| Reserve for Depreciation | 300 |
| Net Plant | 900 |
| | |
| Fuel Inventories | 90 |
| Materials and Supplies | 30 |
| Cash Working Capital | 10 |
| Deferred Income Taxes | (30) |
| Total | **$1,000** |

## Cost of Capital

| | Ratio | Cost | Weighted Cost |
|---|---|---|---|
| Debt | 50% | 10% | 5% |
| Equity | 50% | 14% | 7% |
| | 100% | | **12%** |

## Test Period Results

| | |
|---|---:|
| Required return ($1,000 x 12%) | $120 |
| Realized Return | 60 |
| Return Deficiency | 60 |
| Tax conversion factor (1 minus 40% tax rate) | ÷.60 |
| Gross revenue increase required | **$100** |