

Case Study
ABC Electric Company

Darryl Tietjen

Public Utility Commission of Texas

Briefing for the NARUC/INE Partnership

ABC ELECTRIC COMPANYBALANCE SHEETS - DECEMBER 31, 2007 and 2006

Line No.	ASSETS	2007	2006	CAPITALIZATION AND LIABILITIES	2007	2006
1	Utility Plant in Service, at original cost	\$ 57,148,000	\$ 55,169,000	CAPITALIZATION		
2	Less- Accumulated depreciation	<u>(19,799,000)</u>	<u>(19,560,000)</u>	Common Stock	\$ 12,400,000	\$ 12,400,000
4		37,349,000	35,609,000	Retained Earnings	<u>4,253,150</u>	<u>4,938,000</u>
5	Construction work in Progress	1,200,000	1,050,000	Total Stockholder's investment	16,653,150	17,338,000
6	Plant Held for Future Use	<u>500,000</u>				
7		39,049,000	36,659,000	Long-term Debt	20,353,850	18,178,000
	CURRENT ASSETS					
8	Cash	1,225,000	1,107,000	Total Capitalization	<u>37,007,000</u>	<u>35,516,000</u>
9	Accounts Receivable	2,644,000	2,706,000			
10	Inventories and fuel			CURRENT LIABILITIES		
11	Electric production fuel	180,000	120,000	Accounts payable	1,459,000	1,236,000
12	Materials and supplies	340,000	328,000	Accrued property taxes	107,000	97,000
13	Other	<u>40,000</u>	<u>32,000</u>	Accrued interest	621,000	300,000
14		4,429,000	4,293,000	Other accruals	<u>1,181,000</u>	<u>1,625,000</u>
					3,368,000	3,258,000
15	DEFERRED CHARGES			DEFERRED CREDITS		
16	Unrecovered cost of assets retired early	400,000	450,000	Accumulated deferred income taxes	3,967,000	\$ 3,003,000
17	Regulatory assets--deferred expenses	800,000	800,000	Other deferred items	<u>436,000</u>	<u>495,000</u>
18	Other	<u>100,000</u>	<u>70,000</u>			
19		1,300,000	1,320,000		<u>4,403,000</u>	<u>3,498,000</u>
20	TOTAL ASSETS	<u>\$ 44,778,000</u>	<u>\$ 42,272,000</u>	TOTAL CAPITAL AND LIABILITIES	<u>\$ 44,778,000</u>	<u>\$ 42,272,000</u>

ABC ELECTRIC COMPANY

INCOME STATEMENTS

Exhibit 1-3

YEARS ENDED DECEMBER 31, 2007 AND 2006

Line No.		2007	2006
1	OPERATING REVENUES	<u>\$ 21,026,000</u>	<u>\$ 19,230,000</u>
	OPERATING EXPENSES		
2	Electricity purchased for resale	\$ 2,901,000	\$ 2,592,000
3	Fuel used in production	3,173,000	2,817,000
4	Other operation	6,325,000	4,899,500
5	Maintenance	1,132,000	1,039,000
6	Depreciation	1,430,000	1,352,000
7	Taxes other than income taxes	4,130,000	3,505,000
8	Income taxes	<u>300,200</u>	<u>730,800</u>
9	Total operating expenses	<u>\$ 19,391,200</u>	<u>\$ 16,935,300</u>
10	OPERATING INCOME	<u>\$ 1,634,800</u>	<u>\$ 2,294,700</u>
11	OTHER INCOME & DEDUCTIONS		
12	AFUDC--Equity	\$ 33,000	\$ 41,000
13	Other income - investments	398,000	377,000
14	Other deductions	(39,000)	(42,000)
15	Tax on other income/deductions	<u>(200,500)</u>	<u>(167,500)</u>
	Total other	<u>\$ 191,500</u>	<u>\$ 208,500</u>
16	Income before interest charges	<u>\$ 1,826,300</u>	<u>\$ 2,503,200</u>
17	INTEREST CHARGES		
18	Interest on long-term debt	\$ 1,037,000	\$ 1,051,000
19	Other interest	\$ 96,250	\$ 90,000
20	AFUDC--Debt	<u>(92,000)</u>	<u>(82,000)</u>
21	Net interest charges	<u>\$ 1,041,250</u>	<u>\$ 1,059,000</u>
	NET INCOME	<u>\$ 785,050</u>	<u>\$ 1,444,200</u>

ABC Electric Company
Computation of Rate Base

Exhibit 1-4

Test Year/Period

Utility Property, Plant & Equipment:

- 1
- 2
- 3

Additions to Rate Base:

- 4
- 5
- 6
- 7
- 8
- 9
- 10

Reductions to Rate Base:

- 11
- 12

13 **Total Rate Base**

ABC Electric Company
Computation of Rate Base

Exhibit 1-4

Test Year/Period

Utility Property, Plant & Equipment:

1	Plant in Service	\$ 57,148,000
2	Accumulated Depreciation	<u>(19,799,000)</u>
3	Net Plant in Service	

Additions to Rate Base:

- 4
- 5
- 6
- 7
- 8
- 9
- 10

Reductions to Rate Base:

- 11
- 12
- 13

Total Rate Base

=====

ABC Electric Company
Computation of Rate Base

Exhibit 1-4

Test Year/Period

Utility Property, Plant & Equipment:

1	Plant in Service	\$ 57,148,000
2	Accumulated Depreciation	<u>(19,799,000)</u>
3	Net Plant in Service	37,349,000

Additions to Rate Base:

- 4
- 5
- 6
- 7
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Reductions to Rate Base:

- 11
- 12
- 13

Total Rate Base

=====

ABC Electric Company
Computation of Rate Base

Exhibit 1-4

	<u>Test Year/Period</u>
<u>Utility Property, Plant & Equipment:</u>	
1 Plant in Service	\$ 57,148,000
2 Accumulated Depreciation	<u>(19,799,000)</u>
3 Net Plant in Service	37,349,000
 <u>Additions to Rate Base:</u>	
4 Average materials and supplies and fuel inventories	484,000
5 Regulatory assets - deferred expenses	800,000
6	
7	
8	
9	
10	
 <u>Reductions to Rate Base:</u>	
11	
12	
13 Total Rate Base	<hr/> <hr/>

ABC Electric Company
Computation of Rate Base

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<u>Utility Property, Plant & Equipment:</u>	
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3 Net Plant in Service	37,349,000
 <u>Additions to Rate Base:</u>	
4 Average materials and supplies and fuel inventories	484,000
5 Regulatory assets - deferred expenses	800,000
6 Cash working capital	932,125
7 Additional request related to cash-working capital	515,875
8 Unrecovered cost of extraordinary retirement	400,000
9	
10	
 <u>Reductions to Rate Base:</u>	
11	
12	
13 Total Rate Base	<hr/> <hr/>

ABC Electric Company
Computation of Rate Base

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<u>Utility Property, Plant & Equipment:</u>	
1 Plant in Service	\$ 57,148,000
2 Accumulated Depreciation	<u>(19,799,000)</u>
3 Net Plant in Service	37,349,000
<u>Additions to Rate Base:</u>	
4 Average materials and supplies and fuel inventories	484,000
5 Regulatory assets - deferred expenses	800,000
6 Cash working capital	932,125
7 Additional request related to cash-working capital	515,875
8 Unrecovered cost of extraordinary retirement	400,000
9 New Service Center	400,000
10 Pollution Control Equipment	200,000
<u>Reductions to Rate Base:</u>	
11 Accumulated deferred income taxes	(3,967,000)
12 Customer Deposits	<u>(107,000)</u>
13 Total Rate Base	<u><u>\$ 37,007,000</u></u>

ABC ELECTRIC COMPANY
COMPUTATION OF RATE OF RETURN

	Balance at End of Test Year	New Financings	Adjusted Test Period	Capitalization Ratio	Cost of Capital	Adjusted Weighted Average Cost of Capital
1	Stockholders' equity (stock)					
2	Long-term Debt					
3	Total Capitalization					
<u>RETURN REQUIRED ON RATE</u>						
4	<u>BASE</u>					
5	Rate Base					
6	Total Dollars in Revenue Requirement for Rate of Return					
<hr/>						
7	Return to stockholders					
8	Return to debt holders					
	\$					

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COMPUTATION OF RATE OF RETURN

	Balance at End of Test Year	New Financings	Adjusted Test Period	Capitalization Ratio	Cost of Capital	Adjusted Weighted Average Cost of Capital
1 Stockholders' equity (stock)	\$ 16,653,150					
2 Long-term Debt	_____					
3 Total Capitalization	=====					
<u>RETURN REQUIRED ON RATE</u>						
4 <u>BASE</u>						
5 Rate Base						_____
6 Total Dollars in Revenue Requirement for Rate of Return						=====
<hr/>						
7 Return to stockholders						
8 Return to debt holders	_____			_____		

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1	Stockholders' equity (stock)	\$ 16,653,150				
2	Long-term Debt	<u>20,353,850</u>				
3	Total Capitalization	<u>\$ 37,007,000</u>				
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2 Long-term Debt	<u>20,353,850</u>	\$ 1,375,000	<u>\$ 21,728,850</u>	55.00%		
3 Total Capitalization	<u>\$ 37,007,000</u>					
<u>RETURN REQUIRED ON RATE</u>						
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3 Total Capitalization	<u>\$ 37,007,000</u>		<u>\$ 39,507,000</u>	100.00%		
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1 Stockholders' equity (stock)	\$ 16,653,150	\$ 1,125,000	\$ 17,778,150	45.00%	10.00%	4.50%
2 Long-term Debt	<u>20,353,850</u>	\$ 1,375,000	<u>\$ 21,728,850</u>	55.00%		
3 Total Capitalization	<u>\$ 37,007,000</u>		<u>\$ 39,507,000</u>	100.00%		
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3 Total Capitalization	<u>\$ 37,007,000</u>		<u>\$ 39,507,000</u>	100.00%		
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<u>RETURN REQUIRED ON RATE</u>						
4 <u>BASE</u>						
5 Rate Base						<u> </u>
6 Total Dollars in Revenue Requirement for Rate of Return						<u><u> </u></u>
<hr/>						
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3 Total Capitalization	<u>\$ 37,007,000</u>		<u>\$ 39,507,000</u>	100.00%		<u>8.00%</u>

RETURN REQUIRED ON RATE

4 <u>BASE</u>						
5 Rate Base						_____
6 Total Dollars in Revenue Requirement for Rate of Return						=====

7 Return to stockholders

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4 <u>BASE</u>						
5 Rate Base						<u>\$37,007,000</u>
Total Dollars in Revenue Requirement for Rate of						
6 Return						<u>\$ 2,959,820</u>
<hr/>						
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3 Total Capitalization	\$ 37,007,000		\$ 39,507,000	100.00%		8.00%
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Total Dollars in Revenue Requirement for Rate of						
6 Return						\$ 2,959,820
<hr/>						
7 Return to stockholders	\$ 16,653,150	x	10.00%	\$ 1,665,315		
8 Return to debt holders	\$ 20,353,850	x	6.36%	\$ 1,294,505		
	\$ 37,007,000			\$ 2,959,820		

ABC ELECTRIC COMPANY

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

Pro Forma Adjustments

	TEST YEAR ACTUAL	Adjustments	TEST PERIOD PRO FORMA
1	OPERATING REVENUES	\$ 21,026,000	21,026,000
	OPERATING EXPENSES		
2	Electricity purchased for resale	2,901,000	2,901,000
3	Fuel used in production	3,173,000	3,173,000
4	Other operation	6,325,000	6,325,000
5	Maintenance	1,132,000	1,132,000
6	Depreciation	1,430,000	1,430,000
7			
8			
9			
10			
11			
12	Taxes other than income taxes	4,130,000	4,130,000
13	Income taxes	300,200	*computed later
14	Total operating expenses	<u>19,391,200</u>	
15	Operating income	<u>\$ 1,634,800</u>	

* Income taxes will be adjusted later.

ABC ELECTRIC COMPANY

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

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6	Depreciation	1,430,000	1,430,000
7	Rate Case Expense		150,000 (1)
8			
9			
10			
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6	Depreciation	1,430,000	300,000 (2)	1,730,000
7	Rate Case Expense		150,000 (1)	
8				
9				
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6	Depreciation	1,430,000	1,730,000
7	Rate Case Expense		(1)
8	Depreciation on Service Center		(3)
9			
10			
11			
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6	Depreciation	1,430,000	1,730,000
7	Rate Case Expense		300,000 (2)
8	Depreciation on Service Center		150,000 (1)
9	Depreciation on Pollution Ctrl Equipment		14,000 (3)
10			7,000 (4)
11			
12	Taxes other than income taxes	4,130,000	4,130,000
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10			
11			
12	Taxes other than income taxes	4,130,000	4,130,000
13	Income taxes	300,200	*computed later
14	Total operating expenses	<u>19,391,200</u>	
15	Operating income	<u>\$ 1,634,800</u>	

* Income taxes will be adjusted later.

ABC ELECTRIC COMPANY

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

Pro Forma Adjustments

	TEST YEAR ACTUAL	Adjustments	TEST PERIOD PRO FORMA
1	OPERATING REVENUES	\$ 21,026,000	\$ (14,800) (6) 21,011,200
	OPERATING EXPENSES		
2	Electricity purchased for resale	2,901,000	2,901,000
3	Fuel used in production	3,173,000	3,173,000
4	Other operation	6,325,000	800,000 (5) 7,125,000
5	Maintenance	1,132,000	1,132,000
6	Depreciation	1,430,000	300,000 (2) 1,730,000
7	Rate Case Expense		150,000 (1)
8	Depreciation on Service Center		14,000 (3) 14,000
9	Depreciation on Pollution Ctrl Equipment		7,000 (4) 7,000
10	Pension Expense		50,000 (7) 50,000
11			
12	Taxes other than income taxes	4,130,000	4,130,000
13	Income taxes	300,200	*computed later
14	Total operating expenses	<u>19,391,200</u>	
15	Operating income	<u>\$ 1,634,800</u>	

* Income taxes will be adjusted later.

ABC ELECTRIC COMPANY

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

Pro Forma Adjustments

	TEST YEAR ACTUAL	Adjustments	TEST PERIOD PRO FORMA
1	OPERATING REVENUES	\$ 21,026,000	\$ (14,800) (6) 21,011,200
	OPERATING EXPENSES		
2	Electricity purchased for resale	2,901,000	2,901,000
3	Fuel used in production	3,173,000	3,173,000
4	Other operation	6,325,000	800,000 (5) 7,125,000
5	Maintenance	1,132,000	1,132,000
6	Depreciation	1,430,000	300,000 (2) 1,730,000
7	Rate Case Expense		150,000 (1)
8	Depreciation on Service Center		14,000 (3) 14,000
9	Depreciation on Pollution Ctrl Equipment		7,000 (4) 7,000
10	Pension Expense		50,000 (7) 50,000
11	Computer Programming Expense		\$ (5,300) (8) (5,300)
12	Taxes other than income taxes	4,130,000	4,130,000
13	Income taxes	300,200	*computed later
14	Total operating expenses	<u>19,391,200</u>	
15	Operating income	<u>\$ 1,634,800</u>	

* Income taxes will be adjusted later.

ABC ELECTRIC COMPANY

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

Pro Forma Adjustments

	TEST YEAR ACTUAL	Adjustments	TEST PERIOD PRO FORMA
1	OPERATING REVENUES	\$ 21,026,000	\$ (14,800) (6) 21,011,200
	OPERATING EXPENSES		
2	Electricity purchased for resale	2,901,000	2,901,000
3	Fuel used in production	3,173,000	3,173,000
4	Other operation	6,325,000	800,000 (5) 7,125,000
5	Maintenance	1,132,000	1,132,000
6	Depreciation	1,430,000	300,000 (2) 1,730,000
7	Rate Case Expense		150,000 (1)
8	Depreciation on Service Center		14,000 (3) 14,000
9	Depreciation on Pollution Ctrl Equipment		7,000 (4) 7,000
10	Pension Expense		50,000 (7) 50,000
11	Computer Programming Expense		\$ (5,300) (8) (5,300)
12	Taxes other than income taxes	4,130,000	4,130,000
13	Income taxes	300,200	*computed later
14	Total operating expenses	<u>19,391,200</u>	<u>20,256,700</u>
15	Operating income	<u>\$ 1,634,800</u>	

* Income taxes will be adjusted later.

ABC ELECTRIC COMPANY

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

Pro Forma Adjustments

	TEST YEAR ACTUAL	Adjustments	TEST PERIOD PRO FORMA
1	OPERATING REVENUES	\$ 21,026,000	\$ (14,800) (6) 21,011,200
	OPERATING EXPENSES		
2	Electricity purchased for resale	2,901,000	2,901,000
3	Fuel used in production	3,173,000	3,173,000
4	Other operation	6,325,000	800,000 (5) 7,125,000
5	Maintenance	1,132,000	1,132,000
6	Depreciation	1,430,000	300,000 (2) 1,730,000
7	Rate Case Expense		150,000 (1)
8	Depreciation on Service Center		14,000 (3) 14,000
9	Depreciation on Pollution Ctrl Equipment		7,000 (4) 7,000
10	Pension Expense		50,000 (7) 50,000
11	Computer Programming Expense		\$ (5,300) (8) (5,300)
12	Taxes other than income taxes	4,130,000	4,130,000
13	Income taxes	300,200	*computed later
14	Total operating expenses	<u>19,391,200</u>	<u>20,256,700</u>
15	Operating income	<u>\$ 1,634,800</u>	<u>\$ 754,500</u>

* Income taxes will be adjusted later.

PRO FORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES

(1)

(2)

(3)

(4)

(5)

(6)

(7)

(8)

PRO FORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES

(1)	To reflect the amortization, over a two-year period, of the costs of preparing and presenting the company rate case -	
	Estimated expenses	\$ 300,000
	Amortization period - two years	0.50
	2008 test period amortization	<u>\$ 150,000</u>

(2)

(3)

(4)

(5)

(6)

(7)

(8)

PRO FORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES

- | | | |
|-----|--|-------------------|
| (1) | To reflect the amortization, over a two-year period, of the costs of preparing and presenting the company rate case - | |
| | Estimated expenses | \$ 300,000 |
| | Amortization period - two years | 0.50 |
| | 2008 test period amortization | <u>\$ 150,000</u> |
| (2) | To reflect increased depreciation expense resulting from a change in the composite depreciation rate from 3.4 percent to 3.5 percent beginning in 2008; effect is additional depreciation expense of | \$ 300,000 |
| (3) | | |
| (4) | | |
| (5) | | |
| (6) | | |
| (7) | | |
| (8) | | |

PRO FORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES

(1)	To reflect the amortization, over a two-year period, of the costs of preparing and presenting the company rate case -	
	Estimated expenses	\$ 300,000
	Amortization period - two years	0.50
	2008 test period amortization	<u>\$ 150,000</u>
(2)	To reflect increased depreciation expense resulting from a change in the composite depreciation rate from 3.4 percent to 3.5 percent beginning in 2008; effect is additional depreciation expense of	\$ 300,000
(3)	To reflect depreciation on new Service Center equipment (400,000 * .035)	\$ 14,000
(4)		
(5)		
(6)		
(7)		
(8)		

PRO FORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES

(1)	To reflect the amortization, over a two-year period, of the costs of preparing and presenting the company rate case -	
	Estimated expenses	\$ 300,000
	Amortization period - two years	0.50
	2008 test period amortization	<u>\$ 150,000</u>
(2)	To reflect increased depreciation expense resulting from a change in the composite depreciation rate from 3.4 percent to 3.5 percent beginning in 2008; effect is additional depreciation expense of	\$ 300,000
(3)	To reflect depreciation on new Service Center equipment (400,000 * .035)	\$ 14,000
(4)	To reflect depreciation on new Pollution Control equipment (200,000 * .035)	\$ 7,000
(5)		
(6)		
(7)		
(8)		

PRO FORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES

(1)	To reflect the amortization, over a two-year period, of the costs of preparing and presenting the company rate case -	
	Estimated expenses	\$ 300,000
	Amortization period - two years	0.50
	2008 test period amortization	<u>\$ 150,000</u>
(2)	To reflect increased depreciation expense resulting from a change in the composite depreciation rate from 3.4 percent to 3.5 percent beginning in 2008; effect is additional depreciation expense of	\$ 300,000
(3)	To reflect depreciation on new Service Center equipment (400,000 * .035)	\$ 14,000
(4)	To reflect depreciation on new Pollution Control equipment (200,000 * .035)	\$ 7,000
(5)	To reflect increased payroll costs resulting from a new labor contract effective on January 1, 2008	\$ 800,000
(6)		
(7)		
(8)		

PRO FORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES

(1)	To reflect the amortization, over a two-year period, of the costs of preparing and presenting the company rate case -	
	Estimated expenses	\$ 300,000
	Amortization period - two years	0.50
	2008 test period amortization	<u>\$ 150,000</u>
(2)	To reflect increased depreciation expense resulting from a change in the composite depreciation rate from 3.4 percent to 3.5 percent beginning in 2008; effect is additional depreciation expense of	\$ 300,000
(3)	To reflect depreciation on new Service Center equipment (400,000 * .035)	\$ 14,000
(4)	To reflect depreciation on new Pollution Control equipment (200,000 * .035)	\$ 7,000
(5)	To reflect increased payroll costs resulting from a new labor contract effective on January 1, 2008	\$ 800,000
(6)	Adjustment for weather that was warmer than normal	\$ (14,800)
(7)		
(8)		

PRO FORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES

(1)	To reflect the amortization, over a two-year period, of the costs of preparing and presenting the company rate case -	
	Estimated expenses	\$ 300,000
	Amortization period - two years	0.50
	2008 test period amortization	<u>\$ 150,000</u>
(2)	To reflect increased depreciation expense resulting from a change in the composite depreciation rate from 3.4 percent to 3.5 percent beginning in 2008; effect is additional depreciation expense of	\$ 300,000
(3)	To reflect depreciation on new Service Center equipment (400,000 * .035)	\$ 14,000
(4)	To reflect depreciation on new Pollution Control equipment (200,000 * .035)	\$ 7,000
(5)	To reflect increased payroll costs resulting from a new labor contract effective on January 1, 2008	\$ 800,000
(6)	Adjustment for weather that was warmer than normal	\$ (14,800)
(7)	To reflect increase in pension expense	\$ 50,000
(8)		

PRO FORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES

(1)	To reflect the amortization, over a two-year period, of the costs of preparing and presenting the company rate case -	
	Estimated expenses	\$ 300,000
	Amortization period - two years	0.50
	2008 test period amortization	<u>\$ 150,000</u>
(2)	To reflect increased depreciation expense resulting from a change in the composite depreciation rate from 3.4 percent to 3.5 percent beginning in 2008; effect is additional depreciation expense of	\$ 300,000
(3)	To reflect depreciation on new Service Center equipment (400,000 * .035)	\$ 14,000
(4)	To reflect depreciation on new Pollution Control equipment (200,000 * .035)	\$ 7,000
(5)	To reflect increased payroll costs resulting from a new labor contract effective on January 1, 2008	\$ 800,000
(6)	Adjustment for weather that was warmer than normal	\$ (14,800)
(7)	To reflect increase in pension expense	\$ 50,000
(8)	Adjustment to reflect nonrecurring expenses related to software costs	\$ (5,300)

COMPUTATION OF REVENUE REQUIREMENT

Calculation of Pro Forma Income Taxes

1	Return to common-equity shareholders	
2	Divide by (1 - 40% tax rate)	60%
3	Pre-tax return to shareholders	
4	Multiplied by income tax rate	40%
5	Income taxes included in revenue requirement	
6	Return to common shareholders	

Calculation of Adjusted Pro Forma Operating Expenses

7	Pro forma operating expenses (excluding income taxes)	
9	Add pro forma income taxes	
10	Adjusted pro forma operating expenses (excluding rate-of-return dollars)	

Calculation of Revenue Requirement Deficiency

11	Dollars from rate base multiplied by Rate of Return
12	Adjusted pro forma operating expenses
13	Total Revenue Requirement
14	Test period pro forma operating revenues
15	Revenue requirement deficiency

ABC ELECTRIC COMPANY

Exhibit 1-7

COMPUTATION OF REVENUE REQUIREMENT

Calculation of Pro Forma Income Taxes

1	Return to common-equity shareholders	\$ 1,665,315	(Exhibit 1-5 Solution)
2	Divide by (1 - 40% tax rate)	<u>60%</u>	
3	Pre-tax return to shareholders	2,775,525	
4	Multiplied by income tax rate	40%	
5	Income taxes included in revenue requirement	1,110,210	
6	Return to common shareholders	<u>1,665,315</u>	(Same as line 1 above)

Calculation of Adjusted Pro Forma Operating Expenses

7	Pro forma operating expenses (excluding income taxes)		
9	Add pro forma income taxes	<u></u>	
10	Adjusted pro forma operating expenses (excluding rate-of-return dollars)		

Calculation of Revenue Requirement Deficiency

11	Dollars from rate base multiplied by Rate of Return		
12	Adjusted pro forma operating expenses		
13	Total Revenue Requirement		
14	Test period pro forma operating revenues		
15	Revenue requirement deficiency		

ABC ELECTRIC COMPANY

Exhibit 1-7

COMPUTATION OF REVENUE REQUIREMENT

Calculation of Pro Forma Income Taxes

1	Return to common-equity shareholders	\$ 1,665,315	(Exhibit 1-5 Solution)
2	Divide by (1 - 40% tax rate)	<u>60%</u>	
3	Pre-tax return to shareholders	2,775,525	
4	Multiplied by income tax rate	40%	
5	Income taxes included in revenue requirement	1,110,210	
6	Return to common shareholders	<u>1,665,315</u>	(Same as line 1 above)

Calculation of Adjusted Pro Forma Operating Expenses

7	Pro forma operating expenses (excluding income taxes)	20,256,700	(Exhibit 1-6 Solution-A, line 14)
9	Add pro forma income taxes	<u>1,110,210</u>	(from line 5 above)
10	Adjusted pro forma operating expenses (excluding rate-of-return dollars)	<u>21,366,910</u>	

Calculation of Revenue Requirement Deficiency

11	Dollars from rate base multiplied by Rate of Return		
12	Adjusted pro forma operating expenses		
13	Total Revenue Requirement		
14	Test period pro forma operating revenues		
15	Revenue requirement deficiency		

ABC ELECTRIC COMPANY

Exhibit 1-7

COMPUTATION OF REVENUE REQUIREMENT

Calculation of Pro Forma Income Taxes

1	Return to common-equity shareholders	\$ 1,665,315	(Exhibit 1-5 Solution)
2	Divide by (1 - 40% tax rate)	<u>60%</u>	
3	Pre-tax return to shareholders	2,775,525	
4	Multiplied by income tax rate	40%	
5	Income taxes included in revenue requirement	1,110,210	
6	Return to common shareholders	<u>1,665,315</u>	(Same as line 1 above)

Calculation of Adjusted Pro Forma Operating Expenses

7	Pro forma operating expenses (excluding income taxes)	20,256,700	(Exhibit 1-6 Solution-A, line 14)
9	Add pro forma income taxes	<u>1,110,210</u>	(from line 5 above)
10	Adjusted pro forma operating expenses (excluding rate-of-return dollars)	<u>21,366,910</u>	

Calculation of Revenue Requirement Deficiency

11	Dollars from rate base multiplied by Rate of Return	2,959,820	(Exhibit 1-5 Solution)
12	Adjusted pro forma operating expenses		
13	Total Revenue Requirement		
14	Test period pro forma operating revenues		
15	Revenue requirement deficiency		

ABC ELECTRIC COMPANY

Exhibit 1-7

COMPUTATION OF REVENUE REQUIREMENT

Calculation of Pro Forma Income Taxes

1	Return to common-equity shareholders	\$ 1,665,315	(Exhibit 1-5 Solution)
2	Divide by (1 - 40% tax rate)	<u>60%</u>	
3	Pre-tax return to shareholders	2,775,525	
4	Multiplied by income tax rate	40%	
5	Income taxes included in revenue requirement	1,110,210	
6	Return to common shareholders	<u>1,665,315</u>	(Same as line 1 above)

Calculation of Adjusted Pro Forma Operating Expenses

7	Pro forma operating expenses (excluding income taxes)	20,256,700	(Exhibit 1-6 Solution-A, line 14)
9	Add pro forma income taxes	<u>1,110,210</u>	(from line 5 above)
10	Adjusted pro forma operating expenses (excluding rate-of-return dollars)	<u>21,366,910</u>	

Calculation of Revenue Requirement Deficiency

11	Dollars from rate base multiplied by Rate of Return	2,959,820	(Exhibit 1-5 Solution)
12	Adjusted pro forma operating expenses	<u>21,366,910</u>	(from line 10 above)
13	Total Revenue Requirement	24,326,730	
14	Test period pro forma operating revenues		
15	Revenue requirement deficiency		

ABC ELECTRIC COMPANY

Exhibit 1-7

COMPUTATION OF REVENUE REQUIREMENT**Calculation of Pro Forma Income Taxes**

1	Return to common-equity shareholders	\$ 1,665,315	(Exhibit 1-5 Solution)
2	Divide by (1 - 40% tax rate)	<u>60%</u>	
3	Pre-tax return to shareholders	2,775,525	
4	Multiplied by income tax rate	40%	
5	Income taxes included in revenue requirement	1,110,210	
6	Return to common shareholders	<u>1,665,315</u>	(Same as line 1 above)

Calculation of Adjusted Pro Forma Operating Expenses

7	Pro forma operating expenses (excluding income taxes)	20,256,700	(Exhibit 1-6 Solution-A, line 14)
9	Add pro forma income taxes	<u>1,110,210</u>	(from line 5 above)
10	Adjusted pro forma operating expenses (excluding rate-of-return dollars)	<u>21,366,910</u>	

Calculation of Revenue Requirement Deficiency

11	Dollars from rate base multiplied by Rate of Return	2,959,820	(Exhibit 1-5 Solution)
12	Adjusted pro forma operating expenses	<u>21,366,910</u>	(from line 10 above)
13	Total Revenue Requirement	24,326,730	
14	Test period pro forma operating revenues	<u>21,011,200</u>	(Exhibit 1-6 Solution-A, line 1)
15	Revenue requirement deficiency	<u>\$ 3,315,530</u>	

ABC ELECTRIC COMPANY

Exhibit 1-6 Complete

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

		<u>Pro Forma Adjustments</u>			Additional	Test Period
		Test Year	Adjustments	Test Period	Revenue	with Rate
		Actual		Pro Forma	Requirement	Increase
1	OPERATING REVENUES	\$ 21,026,000	\$ (14,800) (6)	\$ 21,011,200		
OPERATING EXPENSES						
2	Electricity purchased for resale	2,901,000		2,901,000		
3	Fuel used in production	3,173,000		3,173,000		
4	Other operation	6,325,000	800,000 (5)	7,125,000		
5	Maintenance	1,132,000		1,132,000		
6	Depreciation	1,430,000	300,000 (2)	1,730,000		
7	Rate Case Expense		150,000 (1)			
8	Depreciation on Service Center		14,000 (3)	14,000		
9	Depreciation on Pollution Ctrl Equipment		7,000 (4)	7,000		
10	Pension Expense		50,000 (7)	50,000		
11	Computer Programming Expense		\$ (5,300) (8)	(5,300)		
12	Taxes other than income taxes	4,130,000		4,130,000		
13	Income taxes	300,200				
14	Total operating expense	19,391,200	1,250,000	20,256,700		
15	Operating income (Return)	\$ 1,634,800				

ABC ELECTRIC COMPANY

Exhibit 1-6 Complete

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

		<u>Pro Forma Adjustments</u>			Additional	Test Period
		Test Year	Adjustments	Test Period	Revenue	with Rate
		Actual		Pro Forma	Requirement	Increase
1	OPERATING REVENUES	\$ 21,026,000	\$ (14,800) (6)	\$ 21,011,200	\$ 3,315,530	\$ 24,326,730
OPERATING EXPENSES						
2	Electricity purchased for resale	2,901,000		2,901,000		
3	Fuel used in production	3,173,000		3,173,000		
4	Other operation	6,325,000	800,000 (5)	7,125,000		
5	Maintenance	1,132,000		1,132,000		
6	Depreciation	1,430,000	300,000 (2)	1,730,000		
7	Rate Case Expense		150,000 (1)			
8	Depreciation on Service Center		14,000 (3)	14,000		
9	Depreciation on Pollution Ctrl Equipment		7,000 (4)	7,000		
10	Pension Expense		50,000 (7)	50,000		
11	Computer Programming Expense		\$ (5,300) (8)	(5,300)		
12	Taxes other than income taxes	4,130,000		4,130,000		
13	Income taxes	300,200				
14	Total operating expense	19,391,200	1,250,000	20,256,700		
15	Operating income (Return)	\$ 1,634,800				

ABC ELECTRIC COMPANY

Exhibit 1-6 Complete

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

		<u>Pro Forma Adjustments</u>			Additional	Test Period
		Test Year	Adjustments	Test Period	Revenue	with Rate
		Actual		Pro Forma	Requirement	Increase
1	OPERATING REVENUES	\$ 21,026,000	\$ (14,800) (6)	\$ 21,011,200	\$ 3,315,530	\$ 24,326,730
OPERATING EXPENSES						
2	Electricity purchased for resale	2,901,000		2,901,000		2,901,000
3	Fuel used in production	3,173,000		3,173,000		3,173,000
4	Other operation	6,325,000	800,000 (5)	7,125,000		7,125,000
5	Maintenance	1,132,000		1,132,000		1,132,000
6	Depreciation	1,430,000	300,000 (2)	1,730,000		1,730,000
7	Rate Case Expense		150,000 (1)			-
8	Depreciation on Service Center		14,000 (3)	14,000		14,000
9	Depreciation on Pollution Ctrl Equipment		7,000 (4)	7,000		7,000
10	Pension Expense		50,000 (7)	50,000		50,000
11	Computer Programming Expense		\$ (5,300) (8)	(5,300)		(5,300)
12	Taxes other than income taxes	4,130,000		4,130,000		4,130,000
13	Income taxes	300,200			1,110,210	1,110,210
14	Total operating expense	19,391,200	1,250,000	20,256,700	1,110,210	21,366,910
15	Operating income (Return)	\$ 1,634,800				

ABC ELECTRIC COMPANY

Exhibit 1-6 Complete

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

		<u>Pro Forma Adjustments</u>			Additional	Test Period
		Test Year	Adjustments	Test Period	Revenue	with Rate
		Actual		Pro Forma	Requirement	Increase
1	OPERATING REVENUES	\$ 21,026,000	\$ (14,800) (6)	\$ 21,011,200	\$ 3,315,530	\$ 24,326,730
OPERATING EXPENSES						
2	Electricity purchased for resale	2,901,000		2,901,000		2,901,000
3	Fuel used in production	3,173,000		3,173,000		3,173,000
4	Other operation	6,325,000	800,000 (5)	7,125,000		7,125,000
5	Maintenance	1,132,000		1,132,000		1,132,000
6	Depreciation	1,430,000	300,000 (2)	1,730,000		1,730,000
7	Rate Case Expense		150,000 (1)			-
8	Depreciation on Service Center		14,000 (3)	14,000		14,000
9	Depreciation on Pollution Ctrl Equipment		7,000 (4)	7,000		7,000
10	Pension Expense		50,000 (7)	50,000		50,000
11	Computer Programming Expense		\$ (5,300) (8)	(5,300)		(5,300)
12	Taxes other than income taxes	4,130,000		4,130,000		4,130,000
13	Income taxes	300,200			1,110,210	1,110,210
14	Total operating expense	19,391,200	1,250,000	20,256,700	1,110,210	21,366,910
15	Operating income (Return)	\$ 1,634,800				\$ 2,959,820

ABC ELECTRIC COMPANY

Exhibit 1-6 Complete

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

		<u>Pro Forma Adjustments</u>			Additional	Test Period
		Test Year	Adjustments	Test Period	Revenue	with Rate
		Actual		Pro Forma	Requirement	Increase
1	OPERATING REVENUES	\$ 21,026,000	\$ (14,800) (6)	\$ 21,011,200	\$ 3,315,530	\$ 24,326,730
OPERATING EXPENSES						
2	Electricity purchased for resale	2,901,000		2,901,000		2,901,000
3	Fuel used in production	3,173,000		3,173,000		3,173,000
4	Other operation	6,325,000	800,000 (5)	7,125,000		7,125,000
5	Maintenance	1,132,000		1,132,000		1,132,000
6	Depreciation	1,430,000	300,000 (2)	1,730,000		1,730,000
7	Rate Case Expense		150,000 (1)			-
8	Depreciation on Service Center		14,000 (3)	14,000		14,000
9	Depreciation on Pollution Ctrl Equipment		7,000 (4)	7,000		7,000
10	Pension Expense		50,000 (7)	50,000		50,000
11	Computer Programming Expense		\$ (5,300) (8)	(5,300)		(5,300)
12	Taxes other than income taxes	4,130,000		4,130,000		4,130,000
13	Income taxes	300,200			1,110,210	1,110,210
14	Total operating expense	19,391,200	1,250,000	20,256,700	1,110,210	21,366,910
15	Operating income (Return)	\$ 1,634,800				\$ 2,959,820
16	Rate Base (Line 10,Exh 1-4)					\$ 37,007,000

ABC ELECTRIC COMPANY

Exhibit 1-6 Complete

PRO FORMA STATEMENT OF ELECTRIC OPERATING INCOME AND REVENUE REQUIREMENT DEFICIENCY

		<u>Pro Forma Adjustments</u>			Additional	Test Period
		Test Year	Adjustments	Test Period	Revenue	with Rate
		Actual		Pro Forma	Requirement	Increase
1	OPERATING REVENUES	\$ 21,026,000	\$ (14,800) (6)	\$ 21,011,200	\$ 3,315,530	\$ 24,326,730
OPERATING EXPENSES						
2	Electricity purchased for resale	2,901,000		2,901,000		2,901,000
3	Fuel used in production	3,173,000		3,173,000		3,173,000
4	Other operation	6,325,000	800,000 (5)	7,125,000		7,125,000
5	Maintenance	1,132,000		1,132,000		1,132,000
6	Depreciation	1,430,000	300,000 (2)	1,730,000		1,730,000
7	Rate Case Expense		150,000 (1)			-
8	Depreciation on Service Center		14,000 (3)	14,000		14,000
9	Depreciation on Pollution Ctrl Equipment		7,000 (4)	7,000		7,000
10	Pension Expense		50,000 (7)	50,000		50,000
11	Computer Programming Expense		\$ (5,300) (8)	(5,300)		(5,300)
12	Taxes other than income taxes	4,130,000		4,130,000		4,130,000
13	Income taxes	300,200			1,110,210	1,110,210
14	Total operating expense	19,391,200	1,250,000	20,256,700	1,110,210	21,366,910
15	Operating income (Return)	\$ 1,634,800				\$ 2,959,820
16	Rate Base (Line 10,Exh 1-4)					\$ 37,007,000
17	RATE OF RETURN					8.00%