

COSTING METHODOLOGIES

- Embedded Cost
- Marginal Cost
- Fair Value
- Replacement Value

COSTING EQUATION

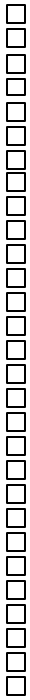
- Revenue Requirement =
 - Operating Expenses + Return on Investment
- Operating Expenses are:
 - ◆ Operating & Maintenance Expenses
 - ◆ Depreciation
 - ◆ Taxes (property, sales, income)

COSTING EQUATION

- Revenue Requirement =
Operating Expenses + Return on Investment
- Return on Investment:
 - ◆ Investment multiplied by
 - ◆ Weighted Average Cost of Capital

Weighted Average Cost of Capital

<u>Type of Capital</u>	<u>Amount</u>	<u>Cost</u>	<u>Weighted Cost of Capital</u>
Debt	\$400,000,000	6.0%	2.4%
Preferred Stock	\$100,000,000	9.0%	0.9%
Common Stock	\$500,000,000	12.0%	6.0%
Total	\$1,000,000,000		9.3%



Regulatory Lag

- The amount of time, if any, between the time a regulated entity starts experiencing costs and the time it is able to reflect those costs in its pricing structure