

**REVENUE REQUIREMENT CALCULATION - OPERATING RATIO METHOD**

(Method commonly used by investor owned utilities and/or non-profit entities that do not have long-term debt outstanding.)

Pro forma Operating Expenses Before Income Taxes	
Operating Ratio	
Sub-Total	
Less: Pro forma Operating Expenses Before Income Taxes	
Net Income Allowable	
Add: Provision for State and Federal Income Taxes, if Applicable (see footnote)	
Interest Expense	
Pro forma Operating Expenses Before Taxes	
Cost of Natural Gas (water utilities should leave this blank)	
Total Revenue Requirement	
Less: Other Operating Revenue	
Non-operating Revenue	
Interest Income	
Total Revenue Required from Rates for Service	
Less: Revenue from Sales at Present Rates	
Required Revenue Increase	

Required Revenue Increase stated as a Percentage of Revenue at Present Rates

**Provision for Income Taxes - Calculation of Tax Gross-Up Factor**

Revenue	
Less: State Tax	
Sub-Total	
Less: Federal Tax, of Sub-Total	
Percent Change in NOI	
Factor (Revenue of 1 divided by change in NOI)	
Times: Allowable Net Income	
Net Income Before Taxes	
Difference Equals Provision for State and Federal Income Taxes	

Notes: (1) Natural gas utilities should deduct their cost of natural gas from pro forma operating expenses before performing the operating ratio calculation. The cost of natural gas should be added back and included in pro forma operating expenses when determining the total revenue requirement. (2) A provision for state and federal income taxes should only be included in the calculation of revenue requirements for utilities that file income tax returns and are liable for the payment of state and federal income taxes. Utilities whose income flows through to its owner's income tax returns for tax purposes should not include a provision for income taxes. (3) The conversion factor above is calculated using the minimum federal tax rate. Adjustment may be warranted where the actual federal tax rate exceeds the minimum federal tax rate.