

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

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

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

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

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.