

Regulatory Asset Treatment

Assumptions:

- 1 Company Life is 10 yrs
- 2 Plant depreciated over 10 yrs
- 3 No Book/Tax Timing Difference
- 4 Company Raised Debt of \$10.0 Million, Netted \$9.0 after paying debt acquisition cost of \$1.0 million
- 5 Company used proceeds of loan and \$10.0 of equity to purchase plant
- 6 Composition Federal and State Rate is 40%

Example One (Include Loss on Required Debt in Rate Base)

Capitalization		Ratio	Cost	Weighted Cost
Debt	\$ 10,000,000	37.01%	5.96%	2.21%
Equity	<u>\$ 17,019,724</u>	62.99%	14.50%	<u>9.13%</u>
Total	\$ 27,019,724			<u>11.34%</u>

Rate Base

Plant	26,019,724	
Debt Acquisition Cost	<u>1,000,000</u>	
Rate Base	27,019,724	
Rate of Return	<u>11.34%</u>	
Total Return		3,064,037

Tax Computation

Interest Cost	<u>596,000</u>
Taxable	2,468,037
Tax Allowance	<u>1,645,358</u>

Cost of Service

Return	3,064,037
Depreciation (19,000,000 * 10%)	1,900,000
Tax Allowance	<u>1,645,358</u>
Total COS	<u>6,609,395</u>

Tax Return

Gross Receipts	<u>6,609,395</u>
Expenses:	
Interest Cost	496,000
Depreciation Expense	1,900,000
Amortization of Debt Acquisition Cost	<u>100,000</u>
Total Expense	<u>2,496,000</u>
Taxable Income	4,113,395
Tax Expense	<u>1,645,358</u>

Financial Statement

Gross Receipts		<u>6,609,395</u>
Expenses:		
Interest Cost	496,000	
Depreciation Expense	1,900,000	
Amortization of Debt Acquisition Cost	<u>100,000</u>	
Income Tax Expense	<u>1,645,358</u>	
Total Expenses		<u>4,141,358</u>
Net Income		<u>2,468,037</u>

Check

Return	<u>2,468,037</u>
Equity	17,019,724
Return on Equity Investment	<u>14.50%</u>

Debt	\$ 10,000,000
Interest @ 4.96%	\$ 496,000
Amort. Of \$1,000,000	
Debt Acquisition Cost	<u>\$ 100,000</u>
Total Cost of Debt	\$ 596,000
Effective Cost of Debt	5.96%

Yield to Maturity Computation

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Example Two. (Debt Cost for Reacquired Debt Computed Based on Yield to Maturity)

Capitalization		Ratio	Cost	Weighted Cost
Debt	\$ 10,000,000	37.01%	5.96%	2.21%
Equity	\$ 17,019,724	62.99%	14.50%	<u>9.13%</u>
Total	\$ 27,019,724			11.34%

Rate Base

Plant	26,019,724
Debt Acquisition Cost	-
Rate Base	<u>26,019,724</u>
Rate of Return	<u>11.34%</u>
Total Return	2,950,637

Tax Computation

Interest Cost	<u>575,036</u>
Taxable	2,375,601
Tax Allowance	1,583,734

Cost of Service

Return	2,950,637
Depreciation (19,000,000 * 10%)	1,900,000
Tax Allowance	<u>1,583,734</u>
Total COS	6,434,371

Tax Return

Gross Receipts	6,434,371
Expenses:	
Interest Cost	496,000
Depreciation Expense	1,900,000
Amortization of Debt Acquisition Cost	<u>100,000</u>
Total Expense	<u>2,496,000</u>
Taxable Income	3,938,371
Tax Expense	<u>1,575,348</u>

Financial Statement

Gross Receipts		6,434,371
Expenses:		
Interest Cost	496,000	
Depreciation Expense	1,900,000	
Amortization of Debt Acquisition Cost	100,000	
Income Tax Expense	<u>1,575,348</u>	
Total Expenses		<u>4,071,348</u>
Net Income		<u>2,363,022</u>

Check

Return	<u>2,363,022</u>
Equity	17,019,724
Return on Equity Investment	<u>13.88%</u>