

4.2. Using the standard of an accepted formula (1)

Basic 'cost of service' regulatory formula for annual electricity revenue:

$$AR = PE + O\&M + \text{Depreciation} + \text{Return on Capital (i.e. \%RoA} \times \text{RAB)}$$

and, $AR/\text{sales volume} = \text{ave. price}$

Same as
 $\%WACC \times$
total capital

Note: the actual annual capital expenditure (cash capex) is not directly recovered in the revenue of that year

AR = Allowed Revenue

PE = Primary Energy

O&M = Operations and Maintenance

ROA = Return on Assets

RAB = Regulatory Asset Base

WACC = Weighted Average Cost of Capital

With these four elements the revenue formula recovers (1) the entire annual operational costs, as well as (2) the costs of capital investments (over the operational life of the assets). In essence the formula is an application of normal corporate finance principles.