

EXHIBIT 6 - CALCULATION OF REVENUE DEFICIENCY OR SURPLUS

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REVENUE DEFICIENCY - OVERVIEW:

Under Canadian GAAP, with MIFRS like changes made to depreciation and capitalization policies, PDI's net revenue deficiency is \$468,419 and when grossed up for PILs PDI's revenue deficiency is \$604,748. This deficiency is calculated as the difference between the 2013 Test Year Revenue Requirement of \$16,291,837 and the Forecast 2013 Test Year Revenue, based on the 2012 approved rates, at \$15,687,089. Table 6-1 on the following page provides the revenue deficiency calculations.

Revenue Requirement:

PDI's Revenue Requirement consists of the following:

- Administrative & General, Billing & Collecting Expense
- Operation & Maintenance Expense
- Depreciation Expense
- Property Taxes
- PILS'
- Deemed Interest & Return on Equity

PDI's revenue requirement is primarily received through electricity distribution rates and offset by revenue from OEB-approved specific service charges, late payment charges, interest, and other operating income.

Table 6-1 Revenue Deficiency

Description	2012 Bridge Actual	2013 Test Existing Rates	2013 Test - Required Revenue
Revenue			
Revenue Deficiency			604,748
Distribution Revenue	13,882,200	14,424,089	14,424,089
Other Operating Revenue (Net)	1,054,000	1,263,000	1,263,000
Total Revenue	14,936,200	15,687,089	16,291,837
Costs and Expenses			
Administrative & General, Billing & Collecting	4,460,697	5,858,459	5,858,459
Operation & Maintenance	2,894,971	3,380,332	3,380,332
Depreciation & Amortization	4,168,702	2,673,856	2,673,856
Property Taxes	126,150	105,000	105,000
Deemed Interest	1,643,062	1,648,154	1,648,154
Deferred PP&E Adjustment - Depreciation		0	0
Deferred PP&E Adjustment to Return on Rate Base			0
Total Costs and Expenses	13,293,582	13,665,801	13,665,801
Utility Income Before Income Taxes	1,642,618	2,021,288	2,626,036
Income Taxes:			
Corporate Income Taxes	407,400	121,106	257,435
Total Income Taxes	407,400	121,106	257,435
Utility Net Income	1,235,218	1,900,183	2,368,601
Income Tax Expense Calculation:			
Accounting Income	1,642,618	2,021,288	2,626,036
Tax Adjustments to Accounting Income	26,816	(1,484,070)	(1,484,070)
Taxable Income	1,669,435	537,218	1,141,966
Income Tax Expense	407,400	121,106	257,435
Tax Rate Reflecting Tax Credits	24.40%	22.54%	22.54%
Actual Return on Rate Base:			
Rate Base	63,267,769	66,310,232	66,310,232
Interest Expense	1,643,062	1,648,154	1,648,154
Net Income	1,235,218	1,900,183	2,368,601
Total Actual Return on Rate Base	2,878,280	3,548,336	4,016,755
Actual Return on Rate Base	4.55%	5.35%	6.06%
Required Return on Rate Base:			
Rate Base	63,267,769	66,310,232	66,310,232
Return Rates:			
Return on Debt (Weighted)	4.33%	4.14%	4.14%
Return on Equity	8.01%	8.93%	8.93%
Deemed Interest Expense	1,643,062	1,648,154	1,648,154
Return On Equity	2,027,099	2,368,601	2,368,601
Total Return	3,670,161	4,016,755	4,016,755
Expected Return on Rate Base	5.80%	6.06%	6.06%
Revenue Deficiency After Tax	791,881	468,419	0
Revenue Deficiency Before Tax	1,047,510	604,748	0

COST DRIVERS FOR REVENUE DEFICIENCY

The Applicant notes there are several factors that contribute to the gross revenue deficiency of \$604,748 for the 2013 Test Year.

Table 6-2 Summary of Revenue Deficiency Drivers

Revenue Deficiency Driver	Impact	Reference
Increases in OM&A:		
Wage/Benefit Inflation	1,430,000	Exhibit 4
Capitalized Administration	950,000	Exhibit 4
Other OM&A Increases	184,685	Exhibit 4
Increase in Return on Rate Base	457,697	Exhibit 6
Decrease in Amortization	(866,000)	Exhibit 4
Decrease in PILS	(1,134,024)	Exhibit 4
Decrease in Capital Taxes	(113,781)	Exhibit 4
Decrease in Deemed Interest	(293,508)	Exhibit 5
Other	(10,321)	
Total Deficiency	604,748	

The following discussion highlights some significant items that contribute to this deficiency.

Operating Expenses

PDI's OM&A expenses have increased from the 2009 approved amount of \$6,674,106 to \$9,238,791 in the 2013 Test Year. The increased costs are mainly due to the following factors:

- Inflationary wage and benefit increases
- Changes to capitalization policies related to capitalization of administrative costs which increased OM&A approximately \$950,000
- The hiring of additional staff necessary to continue reliable service and compliance with OEB reporting

- Increased operations and maintenance efforts directed at minimizing service outages during storms and service break downs.

Full detail of OM&A cost drivers and variances are outlined in Exhibit 4.

Rate Base

In this application PDI is applying for a rate base of \$66,310,232 compared to a rate base of \$55,095,816 which was approved during PDI's 2009 cost of service application. This increase has not been affected by the transition from CGAAP to MIFRS as PDI has elected to remain on CGAAP and adjust its depreciation and capitalization policies to be comparable to MIFRS effective January 1, 2013. The working capital allowance has increased by approximately \$2.6 million from the 2009 Board Approved amount due to increases in the cost of power and increases in the applicant's operating expenses. The most significant increase however is the increase in the net book value of fixed assets which has risen by \$9.55 million since the 2009 Board Approved amount. This increase has been primarily driven by the installation of smart meters, capital improvements required to accommodate new service demand, and replacement of aging infrastructure.

Details of the changes to working capital and capital spending are outlined in Exhibit 2 of this application.

Depreciation Expense

Depreciation expense has decreased approximately \$866 thousand from the 2009 approved amount of \$3,540,000 to \$2,673,856 as a result changes to the useful life of PDI's distribution assets for purposes of amortizing capital assets. Effective January 1, 2013 PDI is amortizing its assets in accordance with Board initiated Kinetrics report. The impact of adoption of these new useful lives is greater than the reduction since 2009 of \$866 thousand due to that fact that PDI now has a higher asset base for depreciation in 2013. Depreciation in 2012 utilizing previous useful lives was \$1,494,846 higher than in 2013 or \$4,168,702 for the year.

1 **PIL's Allowance**

2 The PIL's allowance has decreased from \$1,391,458 in 2009 to \$257,435 primarily as a result of
3 the longer amortization period of PDI's assets utilizing Kinetrics recommended amortization
4 periods in conjunction with the OEB prescribed method of determining the PIL's allowance
5 based in current PIL's payable assuming maximum CCA claimed. This policy inevitably results
6 in a lower revenue requirement and rates in current rate applications as the tax shield is utilized
7 at an accelerated pace relative to the life of the assets.

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1 **Deemed Interest and Return on Equity**

2 The deemed interest and deemed return on equity combined, or regulated rate of return has
3 increased from \$3,822,650 in 2009 to \$4,016,755 primarily as a resulted of the increased rate
4 base as described above and in Exhibit 2. The \$12.18 million increase in rate based has been
5 offset by a reduction of the overall regulated rate of return from 7.06% in 2009 to 6.06% in 2013.
6 Details of these rates are provided in Exhibit 5.

IMPACT OF CHANGE IN METHODOLOGIES ON REVENUE REQUIREMENT

As explained in Exhibit 1, Tab 2, Sch 2, PDI has elected to defer transition to IFRS until 2014 based on the recent announcement from the Accounting Standards Board. However, the changes made by PDI to prospectively adopt MIFRS like policies, for depreciation and capitalization have impacted the Revenue Requirement. A complete explanation of the impact of these changes is provided in Exhibit 4, Tab4, Schedule 1. From that section, the impact of adopting MIFRS polices under CGAAP in 2013 on the revenue requirement is a \$1.35 million reduction as follows:

Table 6-3 Impact of MIFRS Policies under CGAAP on Revenue Requirement

Impact of MIFRS Policies under CGAAP on Revenue Requirement			
Revenue Requirement	CGAAP	MIFRS Policies Under CGAAP	Difference
OM&A	8,288,428	9,238,791	950,363
Depreciation	4,409,406	2,673,856	(1,735,550)
PILs	883,178	257,435	(625,743)
Total Impact on Revenue requirement, excluding the regulated return on capital			(1,410,930)
MIFRS impact on Regulated Return on Capital			60,074
Impact on Revenue Requirement			(1,350,856)