

REVENUE DEFICIENCY

6-Staff-43

Ref: Exh 6 pages 4 and 9

In the determination of net income for 2016, an OM&A expense of \$6,757,846 is used, while on page 9 of Exhibit 6 and elsewhere in the application OM&A expenses are listed as \$6,754,806. Please reconcile.

Response:

The OM&A for 2016 is \$6,754,806 as presented in Exhibit 6, page 9 and the Revenue Requirement Work Form.

6-Energy Probe-39

Ref: Exhibit 6, Tab 1

Based on any corrections, changes or updates (such as the cost of power and the cost of capital parameter updates issued by the Board on October 15, 2015), please:

- a) Provide updated Tables 6-1 through 6-5.
- b) Provide an updated RRWF that includes the appropriate and necessary entries in the Tracking Form indicating the interrogatory response which is the basis for the change made. Please also provide the RRWF in electronic form.

Response:

Please refer to 1-Staff -1.

6-SEC-38

Ref: [6/1/4, p. 8]

Please recalculate Table 6-4, including the indicated deficiency for the Test Year, using a working capital rate of 15% rather than 7.5%.

Response:

The revenue deficiency calculation using 15% rather than 7.5% is presented below in Table IRR - 72.

Table IRR - 72 : Revised Revenue Deficiency

| Description | 2015 Bridge Actual | 2016 Test Existing Rates | 2016 Test - Required Revenue |
|--|--------------------|--------------------------|------------------------------|
| Revenue | | | |
| Revenue Deficiency | | | 2,461,289 |
| Distribution Revenue | 9,847,171 | 9,052,472 | 9,052,472 |
| Other Operating Revenue (Net) | 1,210,681 | 1,210,681 | 1,210,681 |
| Total Revenue | 11,057,851 | 10,263,153 | 12,724,442 |
| Costs and Expenses | | | |
| Administrative & General, Billing & Collecting | 4,501,910 | 5,013,007 | 5,013,007 |
| Operation & Maintenance | 1,606,363 | 1,729,772 | 1,729,772 |
| Donations - LEAP | 12,000 | 12,027 | 12,027 |
| Depreciation & Amortization | 2,119,419 | 2,356,442 | 2,356,442 |
| Property Taxes | 101,896 | 104,440 | 104,440 |
| Deemed Interest | 1,125,041 | 1,213,679 | 1,213,679 |
| Total Costs and Expenses | 9,466,630 | 10,429,367 | 10,429,367 |
| Utility Income Before Income Taxes | 1,591,221 | (166,214) | 2,295,074 |
| Income Taxes | | | |
| Corporate Income Taxes | (256,455) | (559,285) | (190,091) |
| Total Income Taxes | (256,455) | (559,285) | (190,091) |
| Utility Net Income | 1,847,676 | 393,070 | 2,485,166 |
| Income Tax Expense Calculation: | | | |
| Accounting Income | 1,591,221 | (166,214) | 2,295,074 |
| Tax Adjustments to Accounting Income | (3,245,770) | (3,562,349) | (3,562,349) |
| Taxable Income | (1,654,549) | (3,728,564) | (1,267,275) |
| Income tax expense before credits | (256,455) | (559,285) | (190,091) |
| Credits | 0 | 0 | 0 |
| Income Tax Expense | (256,455) | (559,285) | (190,091) |
| Tax Rate Reflecting Tax Credits | 15.50% | 15.00% | 15.00% |
| Actual Return on Rate Base: | | | |
| Rate Base | 62,201,443 | 67,605,159 | 67,605,159 |
| Interest Expense | 1,125,041 | 1,213,679 | 1,213,679 |
| Net Income | 1,847,676 | 393,070 | 2,485,166 |
| Total Actual Return on Rate Base | 2,972,718 | 1,606,750 | 3,698,845 |
| Actual Return on Rate Base | 4.78% | 2.38% | 5.47% |
| Required Return on Rate Base: | | | |
| Rate Base | 62,201,443 | 67,605,159 | 67,605,159 |
| Return Rates: | | | |
| Return on Debt (Weighted) | 3.01% | 2.99% | 2.99% |
| Return on Equity | 8.82% | 9.19% | 9.19% |
| Deemed Interest Expense | 1,125,041 | 1,213,679 | 1,213,679 |
| Return On Equity | 2,194,467 | 2,485,166 | 2,485,166 |
| Total Return | 3,319,508 | 3,698,845 | 3,698,845 |
| Expected Return on Rate Base | 5.34% | 5.47% | 5.47% |
| Revenue Deficiency After Tax | 346,790 | 2,092,095 | -0 |
| Revenue Deficiency Before Tax | 410,403 | 2461288.682 | -0 |
| Tax Exhibit | | | 2016 |
| Deemed Utility Income | | | 2,485,166 |
| Tax Adjustments to Accounting Income | | | (3,562,349) |
| Taxable Income prior to adjusting revenue to PILs | | | -1,077,184 |
| Tax Rate | | | 15.00% |
| Total PILs before gross up before tax credits | | | -161,578 |
| Tax Credits | | | 0 |
| Total PILs before gross up after tax credits | | | (161,578) |
| Grossed up PILs | | | (190,091) |