

EXHIBIT 6 - REVENUE DEFICIENCY/SUFFICIENCY

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Revenue Deficiency/Sufficiency

CPUC's revenue deficiency is calculated at \$68,864 and a total 2016 Test Year Total Revenue Requirement of \$891,122. Revenue Requirement at current rates is calculated at \$822,258.

Revenue Requirement

Revenue Requirement for CPUC consists of the following:

- Operation, Maintenance and Administration Expense (OM&A).
- Depreciation Expense
- Property Taxes
- PILs
- Deemed Interest & Return on Equity

Chapleau PUC's revenue requirement is primarily received through electricity distribution rates with Other Revenue from OEB approved specific service charges such as Late Payment Charges and Other Miscellaneous Charges. Other Revenues are treated as revenue offsets against CPUC's Service Revenue Requirement to calculate Base Revenue Requirement upon which class specific distribution rates are calculated.

The following is a detailed Revenue Deficiency calculation from sheet 8 from the "Revenue Requirement Work Form" included as Attachment A.

Revenue Deficiency/Sufficiency

		Initial Application	
Line No.	Particulars	At Current Approved Rates	At Proposed Rates
1	Revenue Deficiency from Below		\$68,864
2	Distribution Revenue	\$778,753	\$778,753
3	Other Operating Revenue Offsets - net	\$43,505	\$43,505
4	Total Revenue	\$822,258	\$891,122
5	Operating Expenses	\$802,999	\$802,999
6	Deemed Interest Expense	\$36,298	\$36,298
8	Total Cost and Expenses	\$839,297	\$839,297

9	Utility Income Before Income Taxes	(\$17,039)	\$51,825
10	Tax Adjustments to Accounting Income per 2013 PILs model	(\$47,350)	(\$47,350)
11	Taxable Income	(\$64,389)	\$4,475
12	Income Tax Rate	15.00%	15.00%
13	Income Tax on Taxable Income	(\$9,658)	\$671
14	Income Tax Credits	\$ -	\$ -
15	Utility Net Income	(\$7,380)	\$51,155
16	Utility Rate Base	\$1,391,572	\$1,391,572
17	Deemed Equity Portion of Rate Base	\$556,629	\$556,629
18	Income/(Equity Portion of Rate Base)	-1.33%	9.19%
19	Target Return - Equity on Rate Base	9.19%	9.19%
20	Deficiency/Sufficiency in Return on Equity	-10.52%	0.00%
21	Indicated Rate of Return	2.08%	6.28%
22	Requested Rate of Return on Rate Base	6.28%	6.28%
23	Deficiency/Sufficiency in Rate of Return	-4.21%	0.00%
24	Target Return on Equity	\$51,154	\$51,154
25	Revenue Deficiency/(Sufficiency)	\$58,535	\$0
26	Gross Revenue Deficiency/(Sufficiency)	\$68,864 (1)	

CPUC's deficiency is net of other costs such as low voltage, RSVAs, smart meters and other DVA balances.

Determination of Net Income

CPUC has determined its allowable 2016 Test Year Net Income to be \$51,155. The following table from sheet 5 of the "2016 Revenue Requirement Work Form" provided as Attachment A in this Application provides the detailed Net Income calculations.

Utility Income

Line No.	Particulars	Initial Application
	<u>Operating Revenues:</u>	
1	Distribution Revenue (at Proposed Rates)	\$847,617
2	Other Revenue (1)	<u>\$43,505</u>
3	Total Operating Revenues	<u>\$891,122</u>
	<u>Operating Expenses:</u>	
4	OM+A Expenses	\$720,300
5	Depreciation/Amortization	\$74,699
6	Property taxes	\$8,000
7	Capital taxes	\$ -
8	Other expense	<u>\$ -</u>
9	Subtotal (lines 4 to 8)	\$802,999
10	Deemed Interest Expense	<u>\$36,298</u>
11	Total Expenses (lines 9 to 10)	<u>\$839,297</u>
12	Utility income before income taxes	<u><u>\$51,825</u></u>
13	Income taxes (grossed-up)	<u>\$671</u>
14	Utility net income	<u><u>\$51,155</u></u>

Rate Base

CPUC's Rate Base is calculated to be \$1,391,572 that is used to determine actual and regulated return for the Company.

Detailed calculation to determine rate base is as follows:

Particulars	2016 COS Application	
	Allow Work Cap	Application
Gross Fixed Assets (Average)		\$2,754,517
Accumulated Depreciation (Average)		(1,662,622)
Net Fixed Assets		\$1,091,895
Controllable Expenses	\$728,300	
Cost of Power	3,267,388	
Working Capital Base	\$3,995,688	
Working Capital Rate	@ 7.5%	
Allowance for Working Capital	\$299,677	\$299,677
Total Rate Base		\$1,391,572

Cost Drivers on Revenue Deficiency

The table below outlines the contributors to the Revenue Deficiency by Revenue Requirement component. Column A lists the 2012 Board Approved amounts. Column B lists the 2016 revenue at existing rates shown in the revenue Deficiency/Sufficiency Table above, allocated to each Revenue Requirement component based on the proportions the 2016 Proposed Revenue. It is CPUC's view that Column B estimates the Revenue Requirement components based on the components assumed in proposed rates. Column C lists the 2016 Test Year proposed components. Finally, Column D represents the difference between Column C and Column B which provides an estimate of the Revenue Requirement components for the Revenue Deficiency of \$68,864.

Service Revenue requirement Detail	2012 Board Approved (A)	2016 Proportional Base Revenue at Existing Rates (B)	Proportional Components Percentage of Proposed Revenue Requirement	2016 Proposed Revenue Requirement (C)	Revenue Deficiency (C) - (B)	Revenue Variance from 2012 Board Approved (C) - (A)
OM&A Expenses	657,490	672,031	81.73%	728,300	56,269	70,810
Depreciation	75,576	68,905	8.38%	74,699	5,794	(877)
Return on Rate Base - Deemed Interest	38,606	33,466	4.07%	36,298	2,832	(2,308)
Return on Rate Base - Deemed Interest	55,168	47,198	5.74%	51,154	3,956	(4,014)
PILs	13,814	658	0.08%	671	13	(13,143)
Total	840,654	822,258	100.0%	891,122	68,864	50,468
Rate Base	1,512,283	1,391,572	-	1,391,572	-	(120,711)

Revenue Deficiency (C) - (B)

There are 2 major contributors to CPUC's proposed Revenue Requirement Deficiency of \$68,864 in 2016 Test Year

- The major contributor to CPUC's revenue deficiency is increases in OM&A as detailed in "Exhibit 4 - Operating Expenses" . OM&A variance from 2012 Board Approved of \$70,810 column (C) - (A).
- Reduced Rate Base of \$120,711 in 2016 Test Year from 2012 Board Approved reduced CPUC's return on rate base by \$6,324. This was caused by the change in the Working Capital Rate from 15.0% to 7.5% thereby reducing the Allowance for Working Capital by \$175,924.

Changes in Methodologies

CPUC has not changed methodologies to Deficiency/Sufficiency.