

UTILITY CAPITAL STRUCTURE
2013 TEST YEAR

Line No.	----- I-E2-7.3 Original Response -----				----- I-E2-7.3 Updated Response -----				Variance
	Principal Excl. CC/CIS	Component	Cost Rate	Return Component	Principal Excl. CC/CIS	Component	Cost Rate	Return Component	
	(\$Millions)	%	%	%	(\$Millions)	%	%	%	%
1. Long and Medium-Term Debt	2,312.8	56.36	5.90	3.325	2,461.9	59.99	5.80	3.479	0.154 a)
2. Short-Term Debt	213.5	5.20	3.70	0.192	64.4	1.57	3.70	0.058	(0.134) b)
3.	2,526.3	61.56		3.517	2,526.3	61.56		3.537	0.020 c)
4. Preference Shares	100.0	2.44	4.16	0.102	100.0	2.44	4.16	0.102	0.000
5. Common Equity	1,477.3	36.00	9.03	3.251	1,477.3	36.00	9.03	3.251	0.000
6.	4,103.6	100.00		6.870	4,103.6	100.00		6.890	0.020 c)
7. Rate Base	(\$Millions)			4,103.6				4,103.6	-
8. Utility Income	(\$Millions)			237.5				237.9	0.4 d)
9. Indicated Rate of Return				5.788				5.797	0.009 e)
10. Deficiency in Rate of Return				(1.082)				(1.093)	(0.011) f)
11. Net Deficiency	(\$Millions)			(44.4)				(44.9)	(0.5) g)
12. Gross Deficiency	(\$Millions)			(60.4)				(61.1)	(0.7) h)
13. Customer Care/CIS Deficiency	(\$Millions)			(11.0)				(11.0)	-
14. Total Gross Revenue Deficiency	(\$Millions)			(71.4)				(72.1)	(0.7) h)

Notes:

- a) The increase in the return component of long & medium-term debt is due to the increase in its % of the capital structure as a result of the forecast issuance of \$400M of debt at a rate of 4.10% in August 2013, with a resulting partial reduction in the overall resulting composite long and medium-term debt cost rate. The composite LT & MTD rate has declined because the forecast interest rate for the \$400M issuance is lower than the existing overall effective rate.
- b) The decrease in the return component of short-term debt is due to the decrease in the capital structure component % for short-term debt as a result of the issuance of \$400 in long-term debt, therefore reducing the short-term debt requirement.
- c) The net increase in the overall required return on capital, results from increasing the long and medium-term debt component of capital structure, while reducing the short-term debt component. The cost of long and medium-term debt is higher than short-term debt.

	Original	Updated
Taxable income (M1-1-4-p3)	269.8	269.8
Deduct: amortization of debenture issue expenses related to \$400M issue	-	(0.2)
	269.8	269.6
Income tax provision (26.5%)	71.5	71.4
Part V1.1 tax	1.7	1.7
Investment tax credit	(0.1)	(0.1)
Total taxes excluding tax shield on interest expense	73.1	73.0
Tax shield on interest expense		
Rate base	4103.6	4103.6
Return component of debt	3.517%	3.537%
Interest expense	144.3	145.1
Income tax credit (26.5%)	(38.2)	(38.5)
Total income taxes	34.9	34.5
Reduction in income taxes and resultant increase in utility income		(0.4)

- e) The increase in the indicated rate of return on rate base resulting from the increase in utility income.
- f) The increase in the deficiency in the rate of return resulting from the increase in the overall required cost of debt/capital, discussed in note c), as compared to the new indicated rate of return discussed in note e).
- g) The increase in the net deficiency as a result of applying the increase in the deficiency in the rate of return against rate base.
- h) The increase in the gross deficiency as a result of grossing up the increase in the net deficiency for income taxes.