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CALCULATION OF REVENUE DEFICIENCY

REVENUE DEFICIENCY OVERVIEW

The information in this Exhibit supports and summarizes Horizon Utilities' request in this Application for increases in its revenue requirements for each of the 2015 – 2019 Test Years based on its revenue deficiencies for 2015 – 2019, relative to that computed by applying its 2015 - 2019 load forecasts to 2014 Board approved electricity distribution rates and the proposed rates for each of the 2015 – 2018 Test Years Horizon Utilities requires these increases in order to:

- provide necessary cash flow to support its capital and operating budgets for 2015 – 2019 as described in Exhibits 2 and 4;
- continue to provide a safe, reliable supply of electricity to the customers it serves;
- allow it to earn a fair return on the cost of its financial capital in a manner consistent with the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities* issued December 11, 2009 and as provided in Exhibit 5; and
- meet its Payments in Lieu of Taxes liabilities as provided in Exhibit 4.

Horizon Utilities has provided detailed calculations supporting its 2015 - 2019 revenue deficiencies in the Board's Revenue Requirement Work Form (the "RRWF"), which accompanies this Application as Appendix 6-1 through Appendix 6-5. Table 6-1 identifies the inputs and calculations used to determine the deficiency.

Table 6-1 - Revenue Deficiency

| | | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|-----------|-------------|-------------|-------------|-------------|-------------|
| Rate Base | | 483,609,614 | 501,947,697 | 523,024,973 | 547,413,274 | 573,346,618 |
| Cost of Capital | | 5.77% | 5.77% | 5.77% | 5.86% | 5.94% |
| Return on Rate Base | A | 27,915,576 | 28,974,112 | 30,190,763 | 32,100,671 | 34,037,773 |
| Distribution Expenses | B | 62,632,679 | 64,394,131 | 66,255,827 | 67,708,658 | 69,140,489 |
| Amortization | C | 24,970,618 | 26,487,624 | 26,379,676 | 25,824,486 | 26,490,670 |
| Payment in Lieu of Taxes | D | 2,915,069 | 4,289,143 | 4,473,115 | 3,952,701 | 3,966,866 |
| Service Revenue Requirement | A+B+C+D=E | 118,433,942 | 124,145,010 | 127,299,380 | 129,586,516 | 133,635,798 |
| Less Revenue Offsets | F | 5,477,916 | 5,516,509 | 5,555,937 | 5,666,198 | 5,753,899 |
| 2015 Base Revenue Requirement | E-F=G | 112,956,026 | 118,628,501 | 121,743,444 | 123,920,317 | 127,881,899 |
| Revenue with Test Year Load at Prior Year Rates | H | 102,888,297 | 113,328,920 | 118,938,011 | 122,174,673 | 124,313,123 |
| Revenue Deficiency | G-H=I | 10,067,729 | 5,299,581 | 2,805,433 | 1,745,644 | 3,568,776 |

Page 8 of 9 of the RRWF computes a Deficiency in Rate of Return on Rate Base at current approved rates of (1.53%).

The bill impact tables that are included in the RRWF include the following assumptions:

Current Board-Approved Charges

- Approved Monthly Service Charge and Distribution Volumetric rate effective January 1, 2014
- Rate Rider for Smart Meter Incremental Revenue Requirement in effect until effective date of the next cost of service-based rate order, scheduled for January 1, 2015
- Smart Meter Entity Charge – effective May 01, 2013 until October 31, 2018
- Rate Rider for Global Adjustment Sub-Account Disposition (2013) – effective until December 31, 2014
- Rate Rider for Deferral/Variance Account Disposition (2014) – effective until December 31, 2014
- Tax Adjustment Rider – effective until December 31, 2014
- Retail Transmission Charges for Network Service Rate and Line and Transformation Connection Service Rate effective January 1, 2014
- Wholesale Market Service Rate – effective May 1, 2013
- Rural Rate Protection Charge – effective May 1, 2014
- Standard Supply Service – Administrative Charge
- Debt Retirement Charge (DRC) – the provincial rate is used for the calculation
- Energy Price (RPP) from OEB RPP Price Plan – effective May 1, 2013

Proposed Rates

- Monthly Service Charge and Distribution Volumetric rate from Rate Design Model
- Smart Meter Entity Charge – effective May 1, 2013 until October 31, 2018

- 1 • Rate Rider for Deferral/Variance Account Disposition (2013) – effective until December
- 2 31, 2015 (See Exhibit 9)
- 3 • Retail Transmission Charges for Network Service Rate and Line and Transformation
- 4 Connection Service Rate effective January 1, 2015
- 5 • Wholesale Market Service Rate – effective May 1, 2013
- 6 • Rural Rate Protection Charge – effective May 1, 2014
- 7 • Standard Supply Service – Administrative Charge
- 8 • DRC – The provincial rate is used for the calculation
- 9 • Energy Price (RPP) from OEB RPP Price Plan – effective May 1, 2013
- 10 • Smart Meter Disposition Rider - effective January 1, 2014 to December 31, 2015

REVENUE REQUIREMENT

Horizon Utilities' revenue requirement is comprised of the following components:

- Operations, Maintenance, and Administration Expenses;
- Amortization Expense;
- PILs; and
- Return on Rate Base (Debt Interest Expense + Return on Equity).

Horizon Utilities derives its service revenue requirement through: i) distribution rates charged to its customers; and ii) other revenues. Other revenues comprise: Board-approved specific service charges; rent from electric property; late payment charges; and other miscellaneous sources. These other revenues, described in detail in Exhibit 3, Tab 3, Schedules 1-3, are treated as offsets against Horizon Utilities' service revenue requirement, the net amount of which represents the base revenue requirement upon which class-specific distribution rates are calculated.

Horizon Utilities' revenue deficiency is comprised of those items listed in Table 6-2 through Table 6-6.

1 Table 6-2 - Revenue Deficiency Mapping 2015

| Description | 2015 Test Existing Rates | 2015 Test - Required Revenue | Exhibit | Tab | Schedule |
|--|-----------------------------|------------------------------------|---------|-----|----------|
| Revenue | | | | | |
| Revenue Deficiency | | 10,067,729 | | | |
| Distribution Revenue | 102,888,297 | 102,888,297 | 3 | 2 | 2 |
| Other Operating Revenue (Net) | 5,477,916 | 5,477,916 | 3 | 3 | 1 |
| Total Revenue | 108,366,213 | 118,433,942 | 3 | 1 | 1 |
| Costs and Expenses | | | | | |
| Administrative & General, Billing & Collecting | 27,761,504 | 27,761,504 | 4 | 1 | 1 |
| Operation & Maintenance | 34,570,984 | 34,570,984 | 4 | 1 | 1 |
| Depreciation & Amortization | 24,970,618 | 24,970,618 | 4 | 5 | 1 |
| Property Taxes | 300,190 | 300,190 | 4 | 6 | 1 |
| Deemed Interest | 9,809,232 | 9,809,232 | 5 | 1 | 2 |
| Total Costs and Expenses | 97,412,529 | 97,412,529 | | | |
| Utility Income Before Income Taxes | 10,953,684 | 21,021,413 | | | |
| Income Taxes: | | | | | |
| Corporate Income Taxes | 287,899 | 2,915,069 | 4 | 6 | 1 |
| Total Income Taxes | 287,899 | 2,915,069 | | | |
| Utility Net Income | 10,665,785 | 18,106,344 | | | |
| Income Tax Expense Calculation: | | | | | |
| Accounting Income | 10,953,684 | 21,021,413 | | | |
| Tax Adjustments to Accounting Income | (9,465,237) | (9,465,237) | | | |
| Taxable Income | 1,488,447 | 11,556,176 | | | |
| Tax Rate after SMTC | 26.09% | 26.09% | | | |
| Income Tax After SMTC | 388,410 | 3,015,579 | | | |
| Apprentice Tax Credit | (100,511) | (100,511) | | | |
| Income Tax Expense | 287,899 | 2,915,069 | | | |
| Actual Return on Rate Base: | | | | | |
| Rate Base | 483,609,614 | 483,609,614 | 2 | 1 | 1 |
| Interest Expense | 9,809,232 | 9,809,232 | 5 | 1 | 5 |
| Net Income | 10,665,785 | 18,106,344 | | | |
| Total Actual Return on Rate Base | 20,475,017 | 27,915,576 | | | |
| Actual Return on Rate Base | 4.23% | 5.77% | | | |
| Required Return on Rate Base: | | | | | |
| Rate Base | 483,609,614 | 483,609,614 | 2 | 1 | 1 |
| Return Rates: | | | | | |
| Return on Debt (Weighted) | 3.38% | 3.38% | 5 | 1 | 5 |
| Return on Equity | 9.36% | 9.36% | 5 | 1 | 5 |
| Deemed Interest Expense | 9,809,232 | 9,809,232 | 5 | 1 | 5 |
| Return On Equity | 18,106,344 | 18,106,344 | 5 | 1 | 5 |
| Total Return | 27,915,576 | 27,915,576 | | | |
| Expected Return on Rate Base | 5.77% | 5.77% | 5 | 1 | 5 |
| Revenue Deficiency After Tax | 7,440,559 | 0.00 | | | |
| Revenue Deficiency Before Tax | 10,067,729 | 0.00 | | | |

1 Table 6-3 - Revenue Deficiency Mapping 2016

| Description | 2016 Test Existing Rates | 2016 Test - Required Revenue | Exhibit | Tab | Schedule |
|--|-----------------------------|------------------------------------|---------|-----|----------|
| Revenue | | | | | |
| Revenue Deficiency | | 5,299,581 | | | |
| Distribution Revenue | 113,328,920 | 113,328,920 | 3 | 2 | 2 |
| Other Operating Revenue (Net) | 5,516,509 | 5,516,509 | 3 | 3 | 1 |
| Total Revenue | 118,845,429 | 124,145,010 | 3 | 1 | 1 |
| Costs and Expenses | | | | | |
| Administrative & General, Billing & Collecting | 28,585,132 | 28,585,132 | 4 | 1 | 1 |
| Operation & Maintenance | 35,504,306 | 35,504,306 | 4 | 1 | 1 |
| Depreciation & Amortization | 26,487,624 | 26,487,624 | 4 | 5 | 1 |
| Property Taxes | 304,693 | 304,693 | 4 | 6 | 1 |
| Deemed Interest | 10,181,190 | 10,181,190 | 5 | 1 | 2 |
| Total Costs and Expenses | 101,062,945 | 101,062,945 | | | |
| Utility Income Before Income Taxes | 17,782,484 | 23,082,065 | | | |
| Income Taxes: | | | | | |
| Corporate Income Taxes | 2,899,637 | 4,289,143 | 4 | 6 | 1 |
| Total Income Taxes | 2,899,637 | 4,289,143 | | | |
| Utility Net Income | 14,882,848 | 18,792,922 | | | |
| Income Tax Expense Calculation: | | | | | |
| Accounting Income | 17,782,484 | 23,082,065 | | | |
| Tax Adjustments to Accounting Income | (6,329,306) | (6,329,306) | | | |
| Taxable Income | 11,453,178 | 16,752,759 | | | |
| Tax Rate after SMTC | 26.22% | 26.22% | | | |
| Income Tax After SMTC | 3,002,930 | 4,392,436 | | | |
| Apprentice Tax Credit | (103,293) | (103,293) | | | |
| Income Tax Expense | 2,899,637 | 4,289,143 | | | |
| Actual Return on Rate Base: | | | | | |
| Rate Base | 501,947,697 | 501,947,697 | 2 | 1 | 1 |
| Interest Expense | 10,181,190 | 10,181,190 | 5 | 1 | 5 |
| Net Income | 14,882,848 | 18,792,922 | | | |
| Total Actual Return on Rate Base | 25,064,038 | 28,974,112 | | | |
| Actual Return on Rate Base | 4.99% | 5.77% | | | |
| Required Return on Rate Base: | | | | | |
| Rate Base | 501,947,697 | 501,947,697 | 2 | 1 | 1 |
| Return Rates: | | | | | |
| Return on Debt (Weighted) | 3.38% | 3.38% | 5 | 1 | 5 |
| Return on Equity | 9.36% | 9.36% | 5 | 1 | 5 |
| Deemed Interest Expense | 10,181,190 | 10,181,190 | 5 | 1 | 5 |
| Return On Equity | 18,792,922 | 18,792,922 | 5 | 1 | 5 |
| Total Return | 28,974,112 | 28,974,112 | | | |
| Expected Return on Rate Base | 5.77% | 5.77% | 5 | 1 | 5 |
| Revenue Deficiency After Tax | 3,910,074 | (0.00) | | | |
| Revenue Deficiency Before Tax | 5,299,581 | (0.00) | | | |

1 Table 6-4 - Revenue Deficiency Mapping 2017

| Description | 2017 Test Existing Rates | 2017 Test - Required Revenue | Exhibit | Tab | Schedule |
|--|-----------------------------|------------------------------------|---------|-----|----------|
| Revenue | | | | | |
| Revenue Deficiency | | 2,805,433 | | | |
| Distribution Revenue | 118,938,011 | 118,938,011 | 3 | 2 | 2 |
| Other Operating Revenue (Net) | 5,555,937 | 5,555,937 | 3 | 3 | 1 |
| Total Revenue | 124,493,948 | 127,299,380 | 3 | 1 | 1 |
| Costs and Expenses | | | | | |
| Administrative & General, Billing & Collecting | 29,591,760 | 29,591,760 | 4 | 1 | 1 |
| Operation & Maintenance | 36,354,803 | 36,354,803 | 4 | 1 | 1 |
| Depreciation & Amortization | 26,379,676 | 26,379,676 | 4 | 5 | 1 |
| Property Taxes | 309,263 | 309,263 | 4 | 6 | 1 |
| Deemed Interest | 10,608,708 | 10,608,708 | 5 | 1 | 2 |
| Total Costs and Expenses | 103,244,211 | 103,244,211 | | | |
| Utility Income Before Income Taxes | 21,249,737 | 24,055,170 | | | |
| Income Taxes: | | | | | |
| Corporate Income Taxes | 3,737,217 | 4,473,115 | 4 | 6 | 1 |
| Total Income Taxes | 3,737,217 | 4,473,115 | | | |
| Utility Net Income | 17,512,519 | 19,582,055 | | | |
| Income Tax Expense Calculation: | | | | | |
| Accounting Income | 21,249,737 | 24,055,170 | | | |
| Tax Adjustments to Accounting Income | (6,563,773) | (6,563,773) | | | |
| Taxable Income | 14,685,964 | 17,491,396 | | | |
| Tax Rate after SMTC | 26.23% | 26.23% | | | |
| Income Tax After SMTC | 3,852,297 | 4,588,194 | | | |
| Apprentice Tax Credit | (115,079) | (115,079) | | | |
| Income Tax Expense | 3,737,217 | 4,473,115 | | | |
| Actual Return on Rate Base: | | | | | |
| Rate Base | 523,024,973 | 523,024,973 | 2 | 1 | 1 |
| Interest Expense | 10,608,708 | 10,608,708 | 5 | 1 | 5 |
| Net Income | 17,512,519 | 19,582,055 | | | |
| Total Actual Return on Rate Base | 28,121,228 | 30,190,763 | | | |
| Actual Return on Rate Base | 5.38% | 5.77% | | | |
| Required Return on Rate Base: | | | | | |
| Rate Base | 523,024,973 | 523,024,973 | 2 | 1 | 1 |
| Return Rates: | | | | | |
| Return on Debt (Weighted) | 3.38% | 3.38% | 5 | 1 | 5 |
| Return on Equity | 9.36% | 9.36% | 5 | 1 | 5 |
| Deemed Interest Expense | 10,608,708 | 10,608,708 | 5 | 1 | 5 |
| Return On Equity | 19,582,055 | 19,582,055 | 5 | 1 | 5 |
| Total Return | 30,190,763 | 30,190,763 | | | |
| Expected Return on Rate Base | 5.77% | 5.77% | 5 | 1 | 5 |
| Revenue Deficiency After Tax | 2,069,535 | (0.00) | | | |
| Revenue Deficiency Before Tax | 2,805,433 | (0.00) | | | |

1 Table 6-5 - Revenue Deficiency Mapping 2018

| Description | 2018 Test Existing Rates | 2018 Test - Required Revenue | Exhibit | Tab | Schedule |
|--|-----------------------------|------------------------------------|---------|-----|----------|
| Revenue | | | | | |
| Revenue Deficiency | | 1,745,644 | | | |
| Distribution Revenue | 122,174,673 | 122,174,673 | 3 | 2 | 2 |
| Other Operating Revenue (Net) | 5,666,198 | 5,666,198 | 3 | 3 | 1 |
| Total Revenue | 127,840,872 | 129,586,516 | 3 | 1 | 1 |
| Costs and Expenses | | | | | |
| Administrative & General, Billing & Collecting | 30,057,612 | 30,057,612 | 4 | 1 | 1 |
| Operation & Maintenance | 37,337,143 | 37,337,143 | 4 | 1 | 1 |
| Depreciation & Amortization | 25,824,486 | 25,824,486 | 4 | 5 | 1 |
| Property Taxes | 313,902 | 313,902 | 4 | 6 | 1 |
| Deemed Interest | 11,605,518 | 11,605,518 | 5 | 1 | 2 |
| Total Costs and Expenses | 105,138,661 | 105,138,661 | | | |
| Utility Income Before Income Taxes | 22,702,210 | 24,447,854 | | | |
| Income Taxes: | | | | | |
| Corporate Income Taxes | 3,495,342 | 3,952,701 | 4 | 6 | 1 |
| Total Income Taxes | 3,495,342 | 3,952,701 | | | |
| Utility Net Income | 19,206,869 | 20,495,153 | | | |
| Income Tax Expense Calculation: | | | | | |
| Accounting Income | 22,702,210 | 24,447,854 | | | |
| Tax Adjustments to Accounting Income | (8,826,055) | (8,826,055) | | | |
| Taxable Income | 13,876,155 | 15,621,799 | | | |
| Tax Rate after SMTC | 26.20% | 26.20% | | | |
| Income Tax After SMTC | 3,635,561 | 4,092,921 | | | |
| Apprentice Tax Credit | (140,220) | (140,220) | | | |
| Income Tax Expense | 3,495,342 | 3,952,701 | | | |
| Actual Return on Rate Base: | | | | | |
| Rate Base | 547,413,274 | 547,413,274 | 2 | 1 | 1 |
| Interest Expense | 11,605,518 | 11,605,518 | 5 | 1 | 5 |
| Net Income | 19,206,869 | 20,495,153 | | | |
| Total Actual Return on Rate Base | 30,812,387 | 32,100,671 | | | |
| Actual Return on Rate Base | 5.63% | 5.86% | | | |
| Required Return on Rate Base: | | | | | |
| Rate Base | 547,413,274 | 547,413,274 | 2 | 1 | 1 |
| Return Rates: | | | | | |
| Return on Debt (Weighted) | 3.53% | 3.53% | 5 | 1 | 5 |
| Return on Equity | 9.36% | 9.36% | 5 | 1 | 5 |
| Deemed Interest Expense | 11,605,518 | 11,605,518 | 5 | 1 | 5 |
| Return On Equity | 20,495,153 | 20,495,153 | 5 | 1 | 5 |
| Total Return | 32,100,671 | 32,100,671 | | | |
| Expected Return on Rate Base | 5.86% | 5.86% | 5 | 1 | 5 |
| Revenue Deficiency After Tax | 1,288,284 | 0.00 | | | |
| Revenue Deficiency Before Tax | 1,745,644 | 0.00 | | | |

1 Table 6-6 - Revenue Deficiency Mapping 2019

| Description | 2019 Test Existing Rates | 2019 Test - Required Revenue | Exhibit | Tab | Schedule |
|--|-----------------------------|------------------------------------|---------|-----|----------|
| Revenue | | | | | |
| Revenue Deficiency | | 3,568,776 | | | |
| Distribution Revenue | 124,313,123 | 124,313,123 | 3 | 2 | 2 |
| Other Operating Revenue (Net) | 5,753,899 | 5,753,899 | 3 | 3 | 1 |
| Total Revenue | 130,067,021 | 133,635,798 | 3 | 1 | 1 |
| Costs and Expenses | | | | | |
| Administrative & General, Billing & Collecting | 30,737,413 | 30,737,413 | 4 | 1 | 1 |
| Operation & Maintenance | 38,084,465 | 38,084,465 | 4 | 1 | 1 |
| Depreciation & Amortization | 26,490,670 | 26,490,670 | 4 | 5 | 1 |
| Property Taxes | 318,611 | 318,611 | 4 | 6 | 1 |
| Deemed Interest | 12,571,676 | 12,571,676 | 5 | 1 | 2 |
| Total Costs and Expenses | 108,202,835 | 108,202,835 | | | |
| Utility Income Before Income Taxes | 21,864,187 | 25,432,963 | | | |
| Income Taxes: | | | | | |
| Corporate Income Taxes | 3,031,703 | 3,966,866 | 4 | 6 | 1 |
| Total Income Taxes | 3,031,703 | 3,966,866 | | | |
| Utility Net Income | 18,832,484 | 21,466,097 | | | |
| Income Tax Expense Calculation: | | | | | |
| Accounting Income | 21,864,187 | 25,432,963 | | | |
| Tax Adjustments to Accounting Income | (9,641,214) | (9,641,214) | | | |
| Taxable Income | 12,222,973 | 15,791,749 | | | |
| Tax Rate after SMTC | 26.20% | 26.20% | | | |
| Income Tax After SMTC | 3,202,910 | 4,138,072 | | | |
| Apprentice Tax Credit | (171,207) | (171,207) | | | |
| Income Tax Expense | 3,031,703 | 3,966,866 | | | |
| Actual Return on Rate Base: | | | | | |
| Rate Base | 573,346,618 | 573,346,618 | 2 | 1 | 1 |
| Interest Expense | 12,571,676 | 12,571,676 | 5 | 1 | 5 |
| Net Income | 18,832,484 | 21,466,097 | | | |
| Total Actual Return on Rate Base | 31,404,159 | 34,037,773 | | | |
| Actual Return on Rate Base | 5.48% | 5.94% | | | |
| Required Return on Rate Base: | | | | | |
| Rate Base | 573,346,618 | 573,346,618 | 2 | 1 | 1 |
| Return Rates: | | | | | |
| Return on Debt (Weighted) | 3.65% | 3.65% | 5 | 1 | 5 |
| Return on Equity | 9.36% | 9.36% | 5 | 1 | 5 |
| Deemed Interest Expense | 12,571,676 | 12,571,676 | 5 | 1 | 5 |
| Return On Equity | 21,466,097 | 21,466,097 | 5 | 1 | 5 |
| Total Return | 34,037,773 | 34,037,773 | | | |
| Expected Return on Rate Base | 5.94% | 5.94% | 5 | 1 | 5 |
| Revenue Deficiency After Tax | 2,633,614 | 0.00 | | | |
| Revenue Deficiency Before Tax | 3,568,776 | 0.00 | | | |

APPENDIX 6-1: BOARD REVENUE REQUIREMENT MODEL 2015



Revenue Requirement Workform



Version 4.00

| | |
|--------------------|---|
| Utility Name | Horizon Utilities Corporation |
| Service Territory | Hamilton and St.Catharines |
| Assigned EB Number | EB-2014-0002 |
| Name and Title | Indy J. Butany-DeSouza, VP Regulatory Affairs |
| Phone Number | 905-317-4765 |
| Email Address | Indy.Butany@Horizonutilities.com |

This Workbook Model is protected by copyright and is being made available to you solely for the purpose of filing your application. You may use and copy this model for that purpose, and provide a copy of this model to any person that is advising or assisting you in that regard. Except as indicated above, any copying, reproduction, publication, sale, adaptation, translation, modification, reverse engineering or other use or dissemination of this model without the express written consent of the Ontario Energy Board is prohibited. If you provide a copy of this model to a person that is advising or assisting you in preparing the application or reviewing your draft rate order, you must ensure that the person understands and agrees to the restrictions noted above.

While this model has been provided in Excel format and is required to be filed with the applications, the onus remains on the applicant to ensure the accuracy of the data and



Revenue Requirement Workform

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[4. Rate Base](#)

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[6. Taxes PILs](#)

[7. Cost of Capital](#)

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[9. Rev Req](#)

Notes:

- (1) Pale green cells represent inputs
- (2) Pale green boxes at the bottom of each page are for additional notes
- (3) Pale yellow cells represent drop-down lists
- (4) ***Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.***
- (5) ***Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel***



Revenue Requirement Workform

Data Input ⁽¹⁾

| | Initial Application | (2) | (6) | Per Board Decision |
|--|---------------------|-----|----------------|--------------------|
| 1 Rate Base | | | | |
| Gross Fixed Assets (average) | \$497,423,660 | | \$ 497,423,660 | \$497,423,660 |
| Accumulated Depreciation (average) | (\$87,829,090) | (5) | (\$87,829,090) | (\$87,829,090) |
| Allowance for Working Capital: | | | | |
| Controllable Expenses | \$62,632,679 | | \$ 62,632,679 | \$62,632,679 |
| Cost of Power | \$520,162,944 | | \$ 520,162,944 | \$520,162,944 |
| Working Capital Rate (%) | 12.70% | (9) | 12.70% | 12.70% (9) |
| 2 Utility Income | | | | |
| Operating Revenues: | | | | |
| Distribution Revenue at Current Rates | \$102,888,297 | | | |
| Distribution Revenue at Proposed Rates | \$112,956,026 | | | |
| Other Revenue: | | | | |
| Specific Service Charges | \$729,918 | | | |
| Late Payment Charges | \$825,000 | | | |
| Other Distribution Revenue | | | | |
| Other Income and Deductions | \$3,922,997 | | | |
| Total Revenue Offsets | \$5,477,916 | (7) | | |
| Operating Expenses: | | | | |
| OM+A Expenses | \$62,332,489 | | \$ 62,332,489 | \$62,332,489 |
| Depreciation/Amortization | \$24,970,618 | | \$ 24,970,618 | \$24,970,618 |
| Property taxes | \$300,190 | | \$ 300,190 | \$300,190 |
| Other expenses | | | | |
| 3 Taxes/PILs | | | | |
| Taxable Income: | | | | |
| Adjustments required to arrive at taxable income | (\$9,465,237) | (3) | | |
| Utility Income Taxes and Rates: | | | | |
| Income taxes (not grossed up) | \$2,154,383 | | | |
| Income taxes (grossed up) | \$2,915,069 | | | |
| Federal tax (%) | 15.00% | | | |
| Provincial tax (%) | 11.09% | | | |
| Income Tax Credits | (\$100,511) | | | |
| 4 Capitalization/Cost of Capital | | | | |
| Capital Structure: | | | | |
| Long-term debt Capitalization Ratio (%) | 56.0% | | | |
| Short-term debt Capitalization Ratio (%) | 4.0% | (8) | (8) | (8) |
| Common Equity Capitalization Ratio (%) | 40.0% | | | |
| Preferred Shares Capitalization Ratio (%) | 0.0% | | | |
| | 100.0% | | | |
| Cost of Capital | | | | |
| Long-term debt Cost Rate (%) | 3.47% | | | |
| Short-term debt Cost Rate (%) | 2.11% | | | |
| Common Equity Cost Rate (%) | 9.36% | | | |
| Preferred Shares Cost Rate (%) | 0.00% | | | |

Notes

- General** Data inputs are required on Sheets 3. Data from Sheet 3 will automatically complete calculations on sheets 4 through 9 (Rate Base through Revenue Requirement). Sheets 4 through 9 do not require any inputs except for notes that the Applicant may wish to enter to support the results. Pale green cells are available on sheets 4 through 9 to enter both footnotes beside key cells and the related text for the notes at the bottom of each sheet.
- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%)
- Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I
- (2) Net of addbacks and deductions to arrive at taxable income.
- (3) Average of Gross Fixed Assets at beginning and end of the Test Year
- (4) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
- (5) Select option from drop-down list by clicking on cell M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.
- (6) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement
- (7) 4.0% unless an Applicant has proposed or been approved for another amount.
- (8) Starting with 2013, default Working Capital Allowance factor is 13% (of Cost of Power plus controllable expenses). Alternatively, WCA factor based on lead-lag study or approved WCA factor for another distributor, with supporting rationale.
- (9)



Revenue Requirement Workform

Rate Base and Working Capital

| Line No. | Particulars | | Initial Application | | | | Per Board Decision |
|----------|--|--|----------------------|-------------|----------------------|-------------|----------------------|
| 1 | Gross Fixed Assets (average) (3) | | \$497,423,660 | \$ - | \$497,423,660 | \$ - | \$497,423,660 |
| 2 | Accumulated Depreciation (average) (3) | | (\$87,829,090) | \$ - | (\$87,829,090) | \$ - | (\$87,829,090) |
| 3 | Net Fixed Assets (average) (3) | | \$409,594,570 | \$ - | \$409,594,570 | \$ - | \$409,594,570 |
| 4 | Allowance for Working Capital (1) | | \$74,015,044 | \$ - | \$74,015,044 | \$ - | \$74,015,044 |
| 5 | Total Rate Base | | \$483,609,614 | \$ - | \$483,609,614 | \$ - | \$483,609,614 |

(1) Allowance for Working Capital - Derivation

| | | | | | | | | |
|----|---------------------------|----------------------|--|-------------|----------------------|--|-------------|----------------------|
| 6 | Controllable Expenses | \$62,632,679 | | \$ - | \$62,632,679 | | \$ - | \$62,632,679 |
| 7 | Cost of Power | <u>\$520,162,944</u> | | <u>\$ -</u> | <u>\$520,162,944</u> | | <u>\$ -</u> | <u>\$520,162,944</u> |
| 8 | Working Capital Base | \$582,795,623 | | \$ - | \$582,795,623 | | \$ - | \$582,795,623 |
| 9 | Working Capital Rate % | (2) 12.70% | | 0.00% | 12.70% | | 0.00% | 12.70% |
| 10 | Working Capital Allowance | <u>\$74,015,044</u> | | <u>\$ -</u> | <u>\$74,015,044</u> | | <u>\$ -</u> | <u>\$74,015,044</u> |

Notes

- (2) Some Applicants may have a unique rate as a result of a lead-lag study. The default rate for 2014 cost of service applications is 13%.
- (3) Average of opening and closing balances for the year.



Revenue Requirement Workform

Utility Income

| Line No. | Particulars | Initial Application | | | | | Per Board Decision |
|----------|--|---------------------|-----------------|----------------|------|----------------|--------------------|
| | <u>Operating Revenues</u> | | | | | | |
| 1 | Distribution Revenue (at Proposed Rates) | \$112,956,026 | (\$112,956,026) | \$ - | \$ - | \$ - | |
| 2 | Other Revenue (1) | \$5,477,916 | (\$5,477,916) | \$ - | \$ - | \$ - | |
| 3 | Total Operating Revenues | \$118,433,942 | (\$118,433,942) | \$ - | \$ - | \$ - | |
| | <u>Operating Expenses</u> | | | | | | |
| 4 | OM+A Expenses | \$62,332,489 | \$ - | \$62,332,489 | \$ - | \$62,332,489 | |
| 5 | Depreciation/Amortization | \$24,970,618 | \$ - | \$24,970,618 | \$ - | \$24,970,618 | |
| 6 | Property taxes | \$300,190 | \$ - | \$300,190 | \$ - | \$300,190 | |
| 7 | Capital taxes | \$ - | \$ - | \$ - | \$ - | \$ - | |
| 8 | Other expense | \$ - | \$ - | \$ - | \$ - | \$ - | |
| 9 | Subtotal (lines 4 to 8) | \$87,603,297 | \$ - | \$87,603,297 | \$ - | \$87,603,297 | |
| 10 | Deemed Interest Expense | \$9,809,232 | (\$9,809,232) | \$ - | \$ - | \$ - | |
| 11 | Total Expenses (lines 9 to 10) | \$97,412,529 | (\$9,809,232) | \$87,603,297 | \$ - | \$87,603,297 | |
| 12 | Utility income before income taxes | \$21,021,413 | (\$108,624,710) | (\$87,603,297) | \$ - | (\$87,603,297) | |
| 13 | Income taxes (grossed-up) | \$2,915,069 | \$ - | \$2,915,069 | \$ - | \$2,915,069 | |
| 14 | Utility net income | \$18,106,344 | (\$108,624,710) | (\$90,518,366) | \$ - | (\$90,518,366) | |

Notes

Other Revenues / Revenue Offsets

| | | | | | | |
|-----|-----------------------------|-------------|------|------|------|------|
| (1) | Specific Service Charges | \$729,918 | | \$ - | | \$ - |
| | Late Payment Charges | \$825,000 | | \$ - | | \$ - |
| | Other Distribution Revenue | \$ - | | \$ - | | \$ - |
| | Other Income and Deductions | \$3,922,997 | | \$ - | | \$ - |
| | Total Revenue Offsets | \$5,477,916 | \$ - | \$ - | \$ - | \$ - |



Revenue Requirement Workform

Taxes/PILs

| Line No. | Particulars | Application | | Per Board Decision | |
|--|--|---------------|--|--------------------|---------------|
| <u>Determination of Taxable Income</u> | | | | | |
| 1 | Utility net income before taxes | \$18,106,344 | | \$ - | \$ - |
| 2 | Adjustments required to arrive at taxable utility income | (\$9,465,237) | | \$ - | (\$9,465,237) |
| 3 | Taxable income | \$8,641,107 | | \$ - | (\$9,465,237) |
| <u>Calculation of Utility income Taxes</u> | | | | | |
| 4 | Income taxes | \$2,154,383 | | \$2,154,383 | \$2,154,383 |
| 6 | Total taxes | \$2,154,383 | | \$2,154,383 | \$2,154,383 |
| 7 | Gross-up of Income Taxes | \$760,686 | | \$760,686 | \$760,686 |
| 8 | Grossed-up Income Taxes | \$2,915,069 | | \$2,915,069 | \$2,915,069 |
| 9 | PILs / tax Allowance (Grossed-up Income taxes + Capital taxes) | \$2,915,069 | | \$2,915,069 | \$2,915,069 |
| 10 | Other tax Credits | (\$100,511) | | (\$100,511) | (\$100,511) |
| <u>Tax Rates</u> | | | | | |
| 11 | Federal tax (%) | 15.00% | | 15.00% | 15.00% |
| 12 | Provincial tax (%) | 11.09% | | 11.09% | 11.09% |
| 13 | Total tax rate (%) | 26.09% | | 26.09% | 26.09% |

Notes



Revenue Requirement Workform

Capitalization/Cost of Capital

| Line No. | Particulars | Capitalization Ratio | | Cost Rate | Return |
|---------------------|------------------|----------------------|---------------|-----------|--------------|
| Initial Application | | | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 1 | Long-term Debt | 56.00% | \$270,821,384 | 3.47% | \$9,401,065 |
| 2 | Short-term Debt | 4.00% | \$19,344,385 | 2.11% | \$408,167 |
| 3 | Total Debt | 60.00% | \$290,165,769 | 3.38% | \$9,809,232 |
| | Equity | | | | |
| 4 | Common Equity | 40.00% | \$193,443,846 | 9.36% | \$18,106,344 |
| 5 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 6 | Total Equity | 40.00% | \$193,443,846 | 9.36% | \$18,106,344 |
| 7 | Total | 100.00% | \$483,609,614 | 5.77% | \$27,915,576 |
| | | | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 1 | Long-term Debt | 0.00% | \$ - | 0.00% | \$ - |
| 2 | Short-term Debt | 0.00% | \$ - | 0.00% | \$ - |
| 3 | Total Debt | 0.00% | \$ - | 0.00% | \$ - |
| | Equity | | | | |
| 4 | Common Equity | 0.00% | \$ - | 0.00% | \$ - |
| 5 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 6 | Total Equity | 0.00% | \$ - | 0.00% | \$ - |
| 7 | Total | 0.00% | \$483,609,614 | 0.00% | \$ - |
| | | | | | |
| Per Board Decision | | | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 8 | Long-term Debt | 0.00% | \$ - | 3.47% | \$ - |
| 9 | Short-term Debt | 0.00% | \$ - | 2.11% | \$ - |
| 10 | Total Debt | 0.00% | \$ - | 0.00% | \$ - |
| | Equity | | | | |
| 11 | Common Equity | 0.00% | \$ - | 9.36% | \$ - |
| 12 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 13 | Total Equity | 0.00% | \$ - | 0.00% | \$ - |
| 14 | Total | 0.00% | \$483,609,614 | 0.00% | \$ - |

Notes

(1)

Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I



Revenue Requirement Workform

Revenue Deficiency/Sufficiency

| Line No. | Particulars | Initial Application | | Per Board Decision | |
|----------|--|---------------------------|----------------------|---------------------------|----------------------|
| | | At Current Approved Rates | At Proposed Rates | At Current Approved Rates | At Proposed Rates |
| 1 | Revenue Deficiency from Below | | \$10,067,729 | | (\$18,763,058) |
| 2 | Distribution Revenue | \$102,888,297 | \$102,888,297 | \$102,888,297 | \$131,719,084 |
| 3 | Other Operating Revenue | \$5,477,916 | \$5,477,916 | \$ - | \$ - |
| | Offsets - net | | | | |
| 4 | Total Revenue | \$108,366,213 | \$118,433,942 | \$102,888,297 | \$112,956,026 |
| 5 | Operating Expenses | \$87,603,297 | \$87,603,297 | \$87,603,297 | \$87,603,297 |
| 6 | Deemed Interest Expense | \$9,809,232 | \$9,809,232 | \$ - | \$ - |
| 8 | Total Cost and Expenses | \$97,412,529 | \$97,412,529 | \$87,603,297 | \$87,603,297 |
| 9 | Utility Income Before Income Taxes | \$10,953,684 | \$21,021,413 | \$15,285,000 | \$25,352,729 |
| 10 | Tax Adjustments to Accounting Income per 2013 PILs model | (\$9,465,237) | (\$9,465,237) | (\$9,465,237) | (\$9,465,237) |
| 11 | Taxable Income | \$1,488,447 | \$11,556,176 | \$5,819,763 | \$15,887,492 |
| 12 | Income Tax Rate | 26.09% | 26.09% | 26.09% | 26.09% |
| 13 | Income Tax on Taxable Income | \$388,410 | \$3,015,579 | \$1,518,665 | \$4,145,835 |
| 14 | Income Tax Credits | (\$100,511) | (\$100,511) | (\$100,511) | (\$100,511) |
| 15 | Utility Net Income | \$10,665,785 | \$18,106,344 | \$13,866,846 | \$21,681,756 |
| 16 | Utility Rate Base | \$483,609,614 | \$483,609,614 | \$483,609,614 | \$483,609,614 |
| 17 | Deemed Equity Portion of Rate Base | \$193,443,846 | \$193,443,846 | \$ - | \$ - |
| 18 | Income/(Equity Portion of Rate Base) | 5.51% | 9.36% | 0.00% | 0.00% |
| 19 | Target Return - Equity on Rate Base | 9.36% | 9.36% | 0.00% | 0.00% |
| 20 | Deficiency/Sufficiency in Return on Equity | -3.85% | 0.00% | 0.00% | 0.00% |
| 21 | Indicated Rate of Return | 4.23% | 5.77% | 2.87% | 0.00% |
| 22 | Requested Rate of Return on Rate Base | 5.77% | 5.77% | 0.00% | 0.00% |
| 23 | Deficiency/Sufficiency in Rate of Return | -1.54% | 0.00% | 2.87% | 0.00% |
| 24 | Target Return on Equity | \$18,106,344 | \$18,106,344 | \$ - | \$ - |
| 25 | Revenue Deficiency/(Sufficiency) | \$7,440,559 | \$ - | (\$13,866,846) | \$ - |
| 26 | Gross Revenue Deficiency/(Sufficiency) | \$10,067,729 (1) | \$ - | (\$18,763,058) (1) | \$ - |

Notes

(1) Revenue Deficiency/Sufficiency divided by (1 - Tax Rate)



Revenue Requirement Workform

Revenue Requirement

| Line No. | Particulars | Application | | Per Board Decision | |
|----------|---|----------------------|---------------------------|---------------------------|------------|
| 1 | OM&A Expenses | \$62,332,489 | \$62,332,489 | \$62,332,489 | |
| 2 | Amortization/Depreciation | \$24,970,618 | \$24,970,618 | \$24,970,618 | |
| 3 | Property Taxes | \$300,190 | \$300,190 | \$300,190 | |
| 5 | Income Taxes (Grossed up) | \$2,915,069 | \$2,915,069 | \$2,915,069 | |
| 6 | Other Expenses | \$ - | | | |
| 7 | Return | | | | |
| | Deemed Interest Expense | \$9,809,232 | \$ - | \$ - | |
| | Return on Deemed Equity | \$18,106,344 | \$ - | \$ - | |
| 8 | Service Revenue Requirement (before Revenues) | <u>\$118,433,942</u> | <u>\$90,518,366</u> | <u>\$90,518,366</u> | |
| 9 | Revenue Offsets | \$5,477,916 | \$ - | \$ - | |
| 10 | Base Revenue Requirement (excluding Tranformer Owership Allowance credit adjustment) | <u>\$112,956,026</u> | <u>\$90,518,366</u> | <u>\$90,518,366</u> | |
| 11 | Distribution revenue | \$112,956,026 | \$ - | \$ - | |
| 12 | Other revenue | \$5,477,916 | \$ - | \$ - | |
| 13 | Total revenue | <u>\$118,433,942</u> | <u>\$ -</u> | <u>\$ -</u> | |
| 14 | Difference (Total Revenue Less Distribution Revenue Requirement before Revenues) | <u>\$ -</u> | <u>(1) (\$90,518,366)</u> | <u>(1) (\$90,518,366)</u> | <u>(1)</u> |

Notes

(1) Line 11 - Line 8

APPENDIX 6-2: BOARD REVENUE REQUIREMENT MODEL 2016



Revenue Requirement Workform



Version 4.00

| | |
|--------------------|--|
| Utility Name | Horizon Utilities Corporation |
| Service Territory | Hamilton & St Catharines |
| Assigned EB Number | EB-2014-0002 |
| Name and Title | Indy Butany-DeSouza, VP Regulatory Affairs |
| Phone Number | 905-317-4765 |
| Email Address | indy.butany@horizonutilities.com |

This Workbook Model is protected by copyright and is being made available to you solely for the purpose of filing your application. You may use and copy this model for that purpose, and provide a copy of this model to any person that is advising or assisting you in that regard. Except as indicated above, any copying, reproduction, publication, sale, adaptation, translation, modification, reverse engineering or other use or dissemination of this model without the express written consent of the Ontario Energy Board is prohibited. If you provide a copy of this model to a person that is advising or assisting you in preparing the application or reviewing your draft rate order, you must ensure that the person understands and agrees to the restrictions noted above.

While this model has been provided in Excel format and is required to be filed with the applications, the onus remains on the applicant to ensure the accuracy of the data and



Revenue Requirement Workform

[1. Info](#)

[2. Table of Contents](#)

[3. Data Input Sheet](#)

[4. Rate Base](#)

[5. Utility Income](#)

[6. Taxes PILs](#)

[7. Cost of Capital](#)

[8. Rev Def Suff](#)

[9. Rev Req](#)

Notes:

- (1) Pale green cells represent inputs
- (2) Pale green boxes at the bottom of each page are for additional notes
- (3) Pale yellow cells represent drop-down lists
- (4) ***Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.***
- (5) ***Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel***



Revenue Requirement Workform

Data Input ⁽¹⁾

| | Initial Application | (2) | (6) | Per Board Decision |
|--|---------------------|-----|-----------------|--------------------|
| 1 Rate Base | | | | |
| Gross Fixed Assets (average) | \$535,997,407 | | \$ 535,997,407 | \$535,997,407 |
| Accumulated Depreciation (average) | (\$110,984,932) | (5) | (\$110,984,932) | (\$110,984,932) |
| Allowance for Working Capital: | | | | |
| Controllable Expenses | \$64,394,131 | | \$ 64,394,131 | \$64,394,131 |
| Cost of Power | \$541,395,015 | | \$ 541,395,015 | \$541,395,015 |
| Working Capital Rate (%) | 12.70% | (9) | 12.70% | 12.70% (9) |
| 2 Utility Income | | | | |
| Operating Revenues: | | | | |
| Distribution Revenue at Current Rates | \$113,328,920 | | | |
| Distribution Revenue at Proposed Rates | \$118,628,501 | | | |
| Other Revenue: | | | | |
| Specific Service Charges | \$735,335 | | | |
| Late Payment Charges | \$825,000 | | | |
| Other Distribution Revenue | | | | |
| Other Income and Deductions | \$3,956,175 | | | |
| Total Revenue Offsets | \$5,516,509 | (7) | | |
| Operating Expenses: | | | | |
| OM+A Expenses | \$64,089,437 | | \$ 64,089,437 | \$64,089,437 |
| Depreciation/Amortization | \$26,487,624 | | \$ 26,487,624 | \$26,487,624 |
| Property taxes | \$304,693 | | \$ 304,693 | \$304,693 |
| Other expenses | | | | |
| 3 Taxes/PILs | | | | |
| Taxable Income: | | | | |
| Adjustments required to arrive at taxable income | (\$6,329,306) | (3) | | |
| Utility Income Taxes and Rates: | | | | |
| Income taxes (not grossed up) | \$3,164,565 | | | |
| Income taxes (grossed up) | \$4,289,143 | | | |
| Federal tax (%) | 15.00% | | | |
| Provincial tax (%) | 11.22% | | | |
| Income Tax Credits | (\$103,293) | | | |
| 4 Capitalization/Cost of Capital | | | | |
| Capital Structure: | | | | |
| Long-term debt Capitalization Ratio (%) | 56.0% | | | |
| Short-term debt Capitalization Ratio (%) | 4.0% | (8) | (8) | (8) |
| Common Equity Capitalization Ratio (%) | 40.0% | | | |
| Preferred Shares Capitalization Ratio (%) | 0.0% | | | |
| | 100.0% | | | |
| Cost of Capital | | | | |
| Long-term debt Cost Rate (%) | 3.47% | | | |
| Short-term debt Cost Rate (%) | 2.11% | | | |
| Common Equity Cost Rate (%) | 9.36% | | | |
| Preferred Shares Cost Rate (%) | 0.00% | | | |

Notes

- General** Data inputs are required on Sheets 3. Data from Sheet 3 will automatically complete calculations on sheets 4 through 9 (Rate Base through Revenue Requirement). Sheets 4 through 9 do not require any inputs except for notes that the Applicant may wish to enter to support the results. Pale green cells are available on sheets 4 through 9 to enter both footnotes beside key cells and the related text for the notes at the bottom of each sheet.
- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%)
- Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I
- (2) Net of addbacks and deductions to arrive at taxable income.
- (3) Average of Gross Fixed Assets at beginning and end of the Test Year
- (4) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
- (5) Select option from drop-down list by clicking on cell M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.
- (6) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement
- (7) 4.0% unless an Applicant has proposed or been approved for another amount.
- (8) Starting with 2013, default Working Capital Allowance factor is 13% (of Cost of Power plus controllable expenses). Alternatively, WCA factor based on lead-lag study or approved WCA factor for another distributor, with supporting rationale.
- (9)



Revenue Requirement Workform

Rate Base and Working Capital

| Line No. | Rate Base | | Initial Application | | | | Per Board Decision |
|----------|------------------------------------|-----|----------------------|-------------|----------------------|-------------|----------------------|
| 1 | Gross Fixed Assets (average) | (3) | \$535,997,407 | \$ - | \$535,997,407 | \$ - | \$535,997,407 |
| 2 | Accumulated Depreciation (average) | (3) | (\$110,984,932) | \$ - | (\$110,984,932) | \$ - | (\$110,984,932) |
| 3 | Net Fixed Assets (average) | (3) | \$425,012,475 | \$ - | \$425,012,475 | \$ - | \$425,012,475 |
| 4 | Allowance for Working Capital | (1) | \$76,935,221 | \$ - | \$76,935,221 | \$ - | \$76,935,221 |
| 5 | Total Rate Base | | \$501,947,697 | \$ - | \$501,947,697 | \$ - | \$501,947,697 |

(1) Allowance for Working Capital - Derivation

| | | | | | | | |
|----|---------------------------|-----|---------------|-------|---------------|-------|---------------|
| 6 | Controllable Expenses | | \$64,394,131 | \$ - | \$64,394,131 | \$ - | \$64,394,131 |
| 7 | Cost of Power | | \$541,395,015 | \$ - | \$541,395,015 | \$ - | \$541,395,015 |
| 8 | Working Capital Base | | \$605,789,145 | \$ - | \$605,789,145 | \$ - | \$605,789,145 |
| 9 | Working Capital Rate % | (2) | 12.70% | 0.00% | 12.70% | 0.00% | 12.70% |
| 10 | Working Capital Allowance | | \$76,935,221 | \$ - | \$76,935,221 | \$ - | \$76,935,221 |

Notes

- (2) Some Applicants may have a unique rate as a result of a lead-lag study. The default rate for 2014 cost of service applications is 13%.
- (3) Average of opening and closing balances for the year.



Revenue Requirement Workform

Utility Income

| Line No. | Particulars | Initial Application | | | | | Per Board Decision |
|----------|--|---------------------|-----------------|----------------|------|----------------|--------------------|
| | <u>Operating Revenues</u> | | | | | | |
| 1 | Distribution Revenue (at Proposed Rates) | \$118,628,501 | (\$118,628,501) | \$ - | \$ - | \$ - | |
| 2 | Other Revenue (1) | \$5,516,509 | (\$5,516,509) | \$ - | \$ - | \$ - | |
| 3 | Total Operating Revenues | \$124,145,010 | (\$124,145,010) | \$ - | \$ - | \$ - | |
| | <u>Operating Expenses</u> | | | | | | |
| 4 | OM+A Expenses | \$64,089,437 | \$ - | \$64,089,437 | \$ - | \$64,089,437 | |
| 5 | Depreciation/Amortization | \$26,487,624 | \$ - | \$26,487,624 | \$ - | \$26,487,624 | |
| 6 | Property taxes | \$304,693 | \$ - | \$304,693 | \$ - | \$304,693 | |
| 7 | Capital taxes | \$ - | \$ - | \$ - | \$ - | \$ - | |
| 8 | Other expense | \$ - | \$ - | \$ - | \$ - | \$ - | |
| 9 | Subtotal (lines 4 to 8) | \$90,881,755 | \$ - | \$90,881,755 | \$ - | \$90,881,755 | |
| 10 | Deemed Interest Expense | \$10,181,190 | (\$10,181,190) | \$ - | \$ - | \$ - | |
| 11 | Total Expenses (lines 9 to 10) | \$101,062,945 | (\$10,181,190) | \$90,881,755 | \$ - | \$90,881,755 | |
| 12 | Utility income before income taxes | \$23,082,065 | (\$113,963,820) | (\$90,881,755) | \$ - | (\$90,881,755) | |
| 13 | Income taxes (grossed-up) | \$4,289,143 | \$ - | \$4,289,143 | \$ - | \$4,289,143 | |
| 14 | Utility net income | \$18,792,922 | (\$113,963,820) | (\$95,170,898) | \$ - | (\$95,170,898) | |

Notes

Other Revenues / Revenue Offsets

| | | | | | | |
|-----|-----------------------------|-------------|------|------|------|------|
| (1) | Specific Service Charges | \$735,335 | | \$ - | | \$ - |
| | Late Payment Charges | \$825,000 | | \$ - | | \$ - |
| | Other Distribution Revenue | \$ - | | \$ - | | \$ - |
| | Other Income and Deductions | \$3,956,175 | | \$ - | | \$ - |
| | Total Revenue Offsets | \$5,516,509 | \$ - | \$ - | \$ - | \$ - |



Revenue Requirement Workform

Taxes/PILs

| Line No. | Particulars | Application | | Per Board Decision | |
|--|--|---------------|--|--------------------|---------------|
| <u>Determination of Taxable Income</u> | | | | | |
| 1 | Utility net income before taxes | \$18,792,922 | | \$ - | \$ - |
| 2 | Adjustments required to arrive at taxable utility income | (\$6,329,306) | | \$ - | (\$6,329,306) |
| 3 | Taxable income | \$12,463,615 | | \$ - | (\$6,329,306) |
| <u>Calculation of Utility income Taxes</u> | | | | | |
| 4 | Income taxes | \$3,164,565 | | \$3,164,565 | \$3,164,565 |
| 6 | Total taxes | \$3,164,565 | | \$3,164,565 | \$3,164,565 |
| 7 | Gross-up of Income Taxes | \$1,124,578 | | \$1,124,578 | \$1,124,578 |
| 8 | Grossed-up Income Taxes | \$4,289,143 | | \$4,289,143 | \$4,289,143 |
| 9 | PILs / tax Allowance (Grossed-up Income taxes + Capital taxes) | \$4,289,143 | | \$4,289,143 | \$4,289,143 |
| 10 | Other tax Credits | (\$103,293) | | (\$103,293) | (\$103,293) |
| <u>Tax Rates</u> | | | | | |
| 11 | Federal tax (%) | 15.00% | | 15.00% | 15.00% |
| 12 | Provincial tax (%) | 11.22% | | 11.22% | 11.22% |
| 13 | Total tax rate (%) | 26.22% | | 26.22% | 26.22% |

Notes



Revenue Requirement Workform

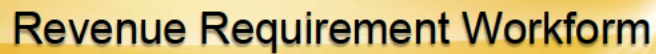
Capitalization/Cost of Capital

| Line No. | Particulars | Capitalization Ratio | | Cost Rate | Return |
|----------|---------------------|----------------------|---------------|-----------|--------------|
| | | Initial Application | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 1 | Long-term Debt | 56.00% | \$281,090,710 | 3.47% | \$9,757,546 |
| 2 | Short-term Debt | 4.00% | \$20,077,908 | 2.11% | \$423,644 |
| 3 | Total Debt | 60.00% | \$301,168,618 | 3.38% | \$10,181,190 |
| | Equity | | | | |
| 4 | Common Equity | 40.00% | \$200,779,079 | 9.36% | \$18,792,922 |
| 5 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 6 | Total Equity | 40.00% | \$200,779,079 | 9.36% | \$18,792,922 |
| 7 | Total | 100.00% | \$501,947,697 | 5.77% | \$28,974,112 |
| | | Per Board Decision | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 1 | Long-term Debt | 0.00% | \$ - | 0.00% | \$ - |
| 2 | Short-term Debt | 0.00% | \$ - | 0.00% | \$ - |
| 3 | Total Debt | 0.00% | \$ - | 0.00% | \$ - |
| | Equity | | | | |
| 4 | Common Equity | 0.00% | \$ - | 0.00% | \$ - |
| 5 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 6 | Total Equity | 0.00% | \$ - | 0.00% | \$ - |
| 7 | Total | 0.00% | \$501,947,697 | 0.00% | \$ - |
| | | Per Board Decision | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 8 | Long-term Debt | 0.00% | \$ - | 3.47% | \$ - |
| 9 | Short-term Debt | 0.00% | \$ - | 2.11% | \$ - |
| 10 | Total Debt | 0.00% | \$ - | 0.00% | \$ - |
| | Equity | | | | |
| 11 | Common Equity | 0.00% | \$ - | 9.36% | \$ - |
| 12 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 13 | Total Equity | 0.00% | \$ - | 0.00% | \$ - |
| 14 | Total | 0.00% | \$501,947,697 | 0.00% | \$ - |

Notes

(1)

Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I



| Line No. | Particulars | Initial Application | | Per Board Decision | |
|----------|--|---------------------------|----------------------|---------------------------|-----------------------|
| | | At Current Approved Rates | At Proposed Rates | At Current Approved Rates | At Proposed Rates |
| 1 | Revenue Deficiency from Below | | \$5,299,581 | | |
| 2 | Distribution Revenue | \$113,328,920 | \$113,328,920 | \$113,328,920 | \$143,464,885 |
| 3 | Other Operating Revenue | \$5,516,509 | \$5,516,509 | \$ - | \$ - |
| 4 | Offsets - net | | | | |
| 4 | Total Revenue | \$118,845,429 | \$124,145,010 | \$113,328,920 | \$118,628,501 |
| 5 | Operating Expenses | \$90,881,755 | \$90,881,755 | \$90,881,755 | \$90,881,755 |
| 6 | Deemed Interest Expense | \$10,181,190 | \$10,181,190 | \$ - | \$ - |
| 8 | Total Cost and Expenses | \$101,062,945 | \$101,062,945 | \$90,881,755 | \$90,881,755 |
| 9 | Utility Income Before Income Taxes | \$17,782,484 | \$23,082,065 | \$22,447,165 | \$27,746,746 |
| 10 | Tax Adjustments to Accounting Income per 2013 PILs model | (\$6,329,306) | (\$6,329,306) | (\$6,329,306) | (\$6,329,306) |
| 11 | Taxable Income | \$11,453,178 | \$16,752,759 | \$16,117,859 | \$21,417,439 |
| 12 | Income Tax Rate | 26.22% | 26.22% | 26.22% | 26.22% |
| 13 | Income Tax on Taxable Income | \$3,002,930 | \$4,392,436 | \$4,225,971 | \$5,615,478 |
| 14 | Income Tax Credits | (\$103,293) | (\$103,293) | (\$103,293) | (\$103,293) |
| 15 | Utility Net Income | \$14,882,848 | \$18,792,922 | \$18,324,488 | (\$95,170,898) |
| 16 | Utility Rate Base | \$501,947,697 | \$501,947,697 | \$501,947,697 | \$501,947,697 |
| 17 | Deemed Equity Portion of Rate Base | \$200,779,079 | \$200,779,079 | \$ - | \$ - |
| 18 | Income/(Equity Portion of Rate Base) | 7.41% | 9.36% | 0.00% | 0.00% |
| 19 | Target Return - Equity on Rate Base | 9.36% | 9.36% | 0.00% | 0.00% |
| 20 | Deficiency/Sufficiency in Return on Equity | -1.95% | 0.00% | 0.00% | 0.00% |
| 21 | Indicated Rate of Return | 4.99% | 5.77% | 3.65% | 0.00% |
| 22 | Requested Rate of Return on Rate Base | 5.77% | 5.77% | 0.00% | 0.00% |
| 23 | Deficiency/Sufficiency in Rate of Return | -0.78% | 0.00% | 3.65% | 0.00% |
| 24 | Target Return on Equity | \$18,792,922 | \$18,792,922 | \$ - | \$ - |
| 25 | Revenue Deficiency/(Sufficiency) | \$3,910,074 | \$ - | (\$18,324,488) | \$ - |
| 26 | Gross Revenue Deficiency/(Sufficiency) | \$5,299,581 (1) | | (\$24,836,385) (1) | |

(1) Revenue Deficiency/Sufficiency divided by (1 - Tax Rate)



Revenue Requirement Workform

Revenue Requirement

| Line No. | Particulars | Application | | Per Board Decision | |
|----------|---|----------------------|-----|-----------------------|-----|
| 1 | OM&A Expenses | \$64,089,437 | | \$64,089,437 | |
| 2 | Amortization/Depreciation | \$26,487,624 | | \$26,487,624 | |
| 3 | Property Taxes | \$304,693 | | \$304,693 | |
| 5 | Income Taxes (Grossed up) | \$4,289,143 | | \$4,289,143 | |
| 6 | Other Expenses | \$ - | | | |
| 7 | Return | | | | |
| | Deemed Interest Expense | \$10,181,190 | | \$ - | |
| | Return on Deemed Equity | \$18,792,922 | | \$ - | |
| 8 | Service Revenue Requirement (before Revenues) | <u>\$124,145,010</u> | | <u>\$95,170,898</u> | |
| 9 | Revenue Offsets | \$5,516,509 | | \$ - | |
| 10 | Base Revenue Requirement (excluding Tranformer Owership Allowance credit adjustment) | <u>\$118,628,501</u> | | <u>\$95,170,898</u> | |
| 11 | Distribution revenue | \$118,628,501 | | \$ - | |
| 12 | Other revenue | \$5,516,509 | | \$ - | |
| 13 | Total revenue | <u>\$124,145,010</u> | | <u>\$ -</u> | |
| 14 | Difference (Total Revenue Less Distribution Revenue Requirement before Revenues) | <u>\$ -</u> | (1) | <u>(\$95,170,898)</u> | (1) |

Notes

(1) Line 11 - Line 8

APPENDIX 6-3: BOARD REVENUE REQUIREMENT MODEL 2017



Revenue Requirement Workform



Version 4.00

| | |
|--------------------|---|
| Utility Name | Horizon Utilities Corporation |
| Service Territory | Hamilton and St. Catharines |
| Assigned EB Number | EB-2014-0002 |
| Name and Title | Indy J. Butany-DeSouza, VP Regulatory Affairs |
| Phone Number | 905-317-4765 |
| Email Address | indy.butany@horizonutilities.com |

This Workbook Model is protected by copyright and is being made available to you solely for the purpose of filing your application. You may use and copy this model for that purpose, and provide a copy of this model to any person that is advising or assisting you in that regard. Except as indicated above, any copying, reproduction, publication, sale, adaptation, translation, modification, reverse engineering or other use or dissemination of this model without the express written consent of the Ontario Energy Board is prohibited. If you provide a copy of this model to a person that is advising or assisting you in preparing the application or reviewing your draft rate order, you must ensure that the person understands and agrees to the restrictions noted above.

While this model has been provided in Excel format and is required to be filed with the applications, the onus remains on the applicant to ensure the accuracy of the data and



Revenue Requirement Workform

[1. Info](#)

[2. Table of Contents](#)

[3. Data Input Sheet](#)

[4. Rate Base](#)

[5. Utility Income](#)

[6. Taxes PILs](#)

[7. Cost of Capital](#)

[8. Rev Def Suff](#)

[9. Rev Req](#)

Notes:

- (1) Pale green cells represent inputs
- (2) Pale green boxes at the bottom of each page are for additional notes
- (3) Pale yellow cells represent drop-down lists
- (4) ***Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.***
- (5) ***Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel***



Revenue Requirement Workform

Data Input ⁽¹⁾

| | Initial Application | (2) | | (6) | Per Board Decision |
|--|---------------------------------------|-----|-----------------|-----|--------------------|
| 1 | Rate Base | | | | |
| Gross Fixed Assets (average) | \$577,762,960 | | \$ 577,762,960 | | \$577,762,960 |
| Accumulated Depreciation (average) | (\$134,451,262) | (5) | (\$134,451,262) | | (\$134,451,262) |
| Allowance for Working Capital: | | | | | |
| Controllable Expenses | \$66,255,827 | | \$ 66,255,827 | | \$66,255,827 |
| Cost of Power | \$561,407,753 | | \$ 561,407,753 | | \$561,407,753 |
| Working Capital Rate (%) | 12.70% | (9) | 12.70% | (9) | 12.70% (9) |
| 2 | Utility Income | | | | |
| Operating Revenues: | | | | | |
| Distribution Revenue at Current Rates | \$118,938,011 | | | | |
| Distribution Revenue at Proposed Rates | \$121,743,444 | | | | |
| Other Revenue: | | | | | |
| Specific Service Charges | \$741,093 | | | | |
| Late Payment Charges | \$825,000 | | | | |
| Other Distribution Revenue | | | | | |
| Other Income and Deductions | \$3,989,844 | | | | |
| Total Revenue Offsets | \$5,555,937 | (7) | | | |
| Operating Expenses: | | | | | |
| OM+A Expenses | \$65,946,564 | | \$ 65,946,564 | | \$65,946,564 |
| Depreciation/Amortization | \$26,379,676 | | \$ 26,379,676 | | \$26,379,676 |
| Property taxes | \$309,263 | | \$ 309,263 | | \$309,263 |
| Other expenses | | | | | |
| 3 | Taxes/PILs | | | | |
| Taxable Income: | | | | | |
| Adjustments required to arrive at taxable income | (\$6,563,773) | (3) | | | |
| Utility Income Taxes and Rates: | | | | | |
| Income taxes (not grossed up) | \$3,299,765 | | | | |
| Income taxes (grossed up) | \$4,473,115 | | | | |
| Federal tax (%) | 15.00% | | | | |
| Provincial tax (%) | 11.23% | | | | |
| Income Tax Credits | (\$115,079) | | | | |
| 4 | Capitalization/Cost of Capital | | | | |
| Capital Structure: | | | | | |
| Long-term debt Capitalization Ratio (%) | 56.0% | | | | |
| Short-term debt Capitalization Ratio (%) | 4.0% | (8) | | (8) | (8) |
| Common Equity Capitalization Ratio (%) | 40.0% | | | | |
| Preferred Shares Capitalization Ratio (%) | 0.0% | | | | |
| | 100.0% | | | | |
| Cost of Capital | | | | | |
| Long-term debt Cost Rate (%) | 3.47% | | | | |
| Short-term debt Cost Rate (%) | 2.11% | | | | |
| Common Equity Cost Rate (%) | 9.36% | | | | |
| Preferred Shares Cost Rate (%) | 0.00% | | | | |

Notes

- General** Data inputs are required on Sheets 3. Data from Sheet 3 will automatically complete calculations on sheets 4 through 9 (Rate Base through Revenue Requirement). Sheets 4 through 9 do not require any inputs except for notes that the Applicant may wish to enter to support the results. Pale green cells are available on sheets 4 through 9 to enter both footnotes beside key cells and the related text for the notes at the bottom of each sheet.
- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%)
- Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I
- (2) Net of addbacks and deductions to arrive at taxable income.
- (3) Average of Gross Fixed Assets at beginning and end of the Test Year
- (4) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
- (5) Select option from drop-down list by clicking on cell M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.
- (6) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement
- (7) 4.0% unless an Applicant has proposed or been approved for another amount.
- (8) Starting with 2013, default Working Capital Allowance factor is 13% (of Cost of Power plus controllable expenses). Alternatively, WCA factor based on lead-lag study or approved WCA factor for another distributor, with supporting rationale.
- (9)



Revenue Requirement Workform

Rate Base and Working Capital

| Rate Base | | | | | | | | | | |
|-----------|------------------------------------|-----|---------------------|--|------|--|-----------------|--|--------------------|-----------------|
| Line No. | Particulars | | Initial Application | | | | | | Per Board Decision | |
| 1 | Gross Fixed Assets (average) | (3) | \$577,762,960 | | \$ - | | \$577,762,960 | | \$ - | \$577,762,960 |
| 2 | Accumulated Depreciation (average) | (3) | (\$134,451,262) | | \$ - | | (\$134,451,262) | | \$ - | (\$134,451,262) |
| 3 | Net Fixed Assets (average) | (3) | \$443,311,698 | | \$ - | | \$443,311,698 | | \$ - | \$443,311,698 |
| 4 | Allowance for Working Capital | (1) | \$79,713,275 | | \$ - | | \$79,713,275 | | \$ - | \$79,713,275 |
| 5 | Total Rate Base | | \$523,024,973 | | \$ - | | \$523,024,973 | | \$ - | \$523,024,973 |

(1) Allowance for Working Capital - Derivation

| | | | | | | |
|----|----------------------------|---------------|-------|---------------|-------|---------------|
| 6 | Controllable Expenses | \$66,255,827 | \$ - | \$66,255,827 | \$ - | \$66,255,827 |
| 7 | Cost of Power | \$561,407,753 | \$ - | \$561,407,753 | \$ - | \$561,407,753 |
| 8 | Working Capital Base | \$627,663,580 | \$ - | \$627,663,580 | \$ - | \$627,663,580 |
| 9 | Working Capital Rate % (2) | 12.70% | 0.00% | 12.70% | 0.00% | 12.70% |
| 10 | Working Capital Allowance | \$79,713,275 | \$ - | \$79,713,275 | \$ - | \$79,713,275 |

Notes

- (2) Some Applicants may have a unique rate as a result of a lead-lag study. The default rate for 2014 cost of service applications is 13%.
- (3) Average of opening and closing balances for the year.



Revenue Requirement Workform

Utility Income

| Line No. | Particulars | Initial Application | | | | | Per Board Decision |
|----------|--|---------------------|-----------------|----------------|------|----------------|--------------------|
| | <u>Operating Revenues</u> | | | | | | |
| 1 | Distribution Revenue (at Proposed Rates) | \$121,743,444 | (\$121,743,444) | \$ - | \$ - | \$ - | \$ - |
| 2 | Other Revenue (1) | \$5,555,937 | (\$5,555,937) | \$ - | \$ - | \$ - | \$ - |
| 3 | Total Operating Revenues | \$127,299,380 | (\$127,299,380) | \$ - | \$ - | \$ - | \$ - |
| | <u>Operating Expenses</u> | | | | | | |
| 4 | OM+A Expenses | \$65,946,564 | \$ - | \$65,946,564 | \$ - | \$65,946,564 | \$65,946,564 |
| 5 | Depreciation/Amortization | \$26,379,676 | \$ - | \$26,379,676 | \$ - | \$26,379,676 | \$26,379,676 |
| 6 | Property taxes | \$309,263 | \$ - | \$309,263 | \$ - | \$309,263 | \$309,263 |
| 7 | Capital taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 8 | Other expense | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 9 | Subtotal (lines 4 to 8) | \$92,635,503 | \$ - | \$92,635,503 | \$ - | \$92,635,503 | \$92,635,503 |
| 10 | Deemed Interest Expense | \$10,608,708 | (\$10,608,708) | \$ - | \$ - | \$ - | \$ - |
| 11 | Total Expenses (lines 9 to 10) | \$103,244,211 | (\$10,608,708) | \$92,635,503 | \$ - | \$92,635,503 | \$92,635,503 |
| 12 | Utility income before income taxes | \$24,055,170 | (\$116,690,672) | (\$92,635,503) | \$ - | (\$92,635,503) | (\$92,635,503) |
| 13 | Income taxes (grossed-up) | \$4,473,115 | \$ - | \$4,473,115 | \$ - | \$4,473,115 | \$4,473,115 |
| 14 | Utility net income | \$19,582,055 | (\$116,690,672) | (\$97,108,617) | \$ - | (\$97,108,617) | (\$97,108,617) |

Notes

Other Revenues / Revenue Offsets

| | | | | | | |
|-----|-----------------------------|-------------|------|------|------|------|
| (1) | Specific Service Charges | \$741,093 | \$ - | \$ - | \$ - | \$ - |
| | Late Payment Charges | \$825,000 | \$ - | \$ - | \$ - | \$ - |
| | Other Distribution Revenue | \$ - | \$ - | \$ - | \$ - | \$ - |
| | Other Income and Deductions | \$3,989,844 | \$ - | \$ - | \$ - | \$ - |
| | Total Revenue Offsets | \$5,555,937 | \$ - | \$ - | \$ - | \$ - |



Revenue Requirement Workform

Taxes/PILs

| Line No. | Particulars | Application | | Per Board Decision | |
|--|--|---------------|--|--------------------|---------------|
| <u>Determination of Taxable Income</u> | | | | | |
| 1 | Utility net income before taxes | \$19,582,055 | | \$ - | \$ - |
| 2 | Adjustments required to arrive at taxable utility income | (\$6,563,773) | | \$ - | (\$6,563,773) |
| 3 | Taxable income | \$13,018,282 | | \$ - | (\$6,563,773) |
| <u>Calculation of Utility income Taxes</u> | | | | | |
| 4 | Income taxes | \$3,299,765 | | \$3,299,765 | \$3,299,765 |
| 6 | Total taxes | \$3,299,765 | | \$3,299,765 | \$3,299,765 |
| 7 | Gross-up of Income Taxes | \$1,173,349 | | \$1,173,349 | \$1,173,349 |
| 8 | Grossed-up Income Taxes | \$4,473,115 | | \$4,473,115 | \$4,473,115 |
| 9 | PILs / tax Allowance (Grossed-up Income taxes + Capital taxes) | \$4,473,115 | | \$4,473,115 | \$4,473,115 |
| 10 | Other tax Credits | (\$115,079) | | (\$115,079) | (\$115,079) |
| <u>Tax Rates</u> | | | | | |
| 11 | Federal tax (%) | 15.00% | | 15.00% | 15.00% |
| 12 | Provincial tax (%) | 11.23% | | 11.23% | 11.23% |
| 13 | Total tax rate (%) | 26.23% | | 26.23% | 26.23% |

Notes



Revenue Requirement Workform

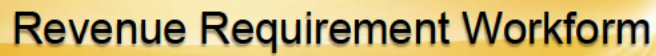
Capitalization/Cost of Capital

| Line No. | Particulars | Capitalization Ratio | | Cost Rate | Return |
|---------------------|---------------------|----------------------|----------------------|--------------|---------------------|
| Initial Application | | | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 1 | Long-term Debt | 56.00% | \$292,893,985 | 3.47% | \$10,167,275 |
| 2 | Short-term Debt | 4.00% | \$20,920,999 | 2.11% | \$441,433 |
| 3 | Total Debt | 60.00% | \$313,814,984 | 3.38% | \$10,608,708 |
| | Equity | | | | |
| 4 | Common Equity | 40.00% | \$209,209,989 | 9.36% | \$19,582,055 |
| 5 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 6 | Total Equity | 40.00% | \$209,209,989 | 9.36% | \$19,582,055 |
| 7 | Total | 100.00% | \$523,024,973 | 5.77% | \$30,190,763 |
| | | | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 1 | Long-term Debt | 0.00% | \$ - | 0.00% | \$ - |
| 2 | Short-term Debt | 0.00% | \$ - | 0.00% | \$ - |
| 3 | Total Debt | 0.00% | \$ - | 0.00% | \$ - |
| | Equity | | | | |
| 4 | Common Equity | 0.00% | \$ - | 0.00% | \$ - |
| 5 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 6 | Total Equity | 0.00% | \$ - | 0.00% | \$ - |
| 7 | Total | 0.00% | \$523,024,973 | 0.00% | \$ - |
| Per Board Decision | | | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 8 | Long-term Debt | 0.00% | \$ - | 3.47% | \$ - |
| 9 | Short-term Debt | 0.00% | \$ - | 2.11% | \$ - |
| 10 | Total Debt | 0.00% | \$ - | 0.00% | \$ - |
| | Equity | | | | |
| 11 | Common Equity | 0.00% | \$ - | 9.36% | \$ - |
| 12 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 13 | Total Equity | 0.00% | \$ - | 0.00% | \$ - |
| 14 | Total | 0.00% | \$523,024,973 | 0.00% | \$ - |

Notes

(1)

Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I



| Line No. | Particulars | Initial Application | | Per Board Decision | |
|----------|--|---------------------------|----------------------|---------------------------|-----------------------|
| | | At Current Approved Rates | At Proposed Rates | At Current Approved Rates | At Proposed Rates |
| 1 | Revenue Deficiency from Below | | \$2,805,433 | | |
| 2 | Distribution Revenue | \$118,938,011 | \$118,938,011 | \$118,938,011 | \$150,535,935 |
| 3 | Other Operating Revenue | \$5,555,937 | \$5,555,937 | \$ - | \$ - |
| 4 | Offsets - net | | | | |
| 4 | Total Revenue | \$124,493,948 | \$127,299,380 | \$118,938,011 | \$121,743,444 |
| 5 | Operating Expenses | \$92,635,503 | \$92,635,503 | \$92,635,503 | \$92,635,503 |
| 6 | Deemed Interest Expense | \$10,608,708 | \$10,608,708 | \$ - | \$ - |
| 8 | Total Cost and Expenses | \$103,244,211 | \$103,244,211 | \$92,635,503 | \$92,635,503 |
| 9 | Utility Income Before Income Taxes | \$21,249,737 | \$24,055,170 | \$26,302,508 | \$29,107,941 |
| 10 | Tax Adjustments to Accounting Income per 2013 PILs model | (\$6,563,773) | (\$6,563,773) | (\$6,563,773) | (\$6,563,773) |
| 11 | Taxable Income | \$14,685,964 | \$17,491,396 | \$19,738,735 | \$22,544,168 |
| 12 | Income Tax Rate | 26.23% | 26.23% | 26.23% | 26.23% |
| 13 | Income Tax on Taxable Income | \$3,852,297 | \$4,588,194 | \$5,177,697 | \$5,913,594 |
| 14 | Income Tax Credits | (\$115,079) | (\$115,079) | (\$115,079) | (\$115,079) |
| 15 | Utility Net Income | \$17,512,519 | \$19,582,055 | \$21,239,891 | (\$97,108,617) |
| 16 | Utility Rate Base | \$523,024,973 | \$523,024,973 | \$523,024,973 | \$523,024,973 |
| 17 | Deemed Equity Portion of Rate Base | \$209,209,989 | \$209,209,989 | \$ - | \$ - |
| 18 | Income/(Equity Portion of Rate Base) | 8.37% | 9.36% | 0.00% | 0.00% |
| 19 | Target Return - Equity on Rate Base | 9.36% | 9.36% | 0.00% | 0.00% |
| 20 | Deficiency/Sufficiency in Return on Equity | -0.99% | 0.00% | 0.00% | 0.00% |
| 21 | Indicated Rate of Return | 5.38% | 5.77% | 4.06% | 0.00% |
| 22 | Requested Rate of Return on Rate Base | 5.77% | 5.77% | 0.00% | 0.00% |
| 23 | Deficiency/Sufficiency in Rate of Return | -0.40% | 0.00% | 4.06% | 0.00% |
| 24 | Target Return on Equity | \$19,582,055 | \$19,582,055 | \$ - | \$ - |
| 25 | Revenue Deficiency/(Sufficiency) | \$2,069,535 | \$ - | (\$21,239,891) | \$ - |
| 26 | Gross Revenue Deficiency/(Sufficiency) | \$2,805,433 (1) | | (\$28,792,492) (1) | |

(1) Revenue Deficiency/Sufficiency divided by (1 - Tax Rate)



Revenue Requirement Workform

Revenue Requirement

| Line No. | Particulars | Application | | Per Board Decision | |
|----------|---|----------------------|-----|-----------------------|-----|
| 1 | OM&A Expenses | \$65,946,564 | | \$65,946,564 | |
| 2 | Amortization/Depreciation | \$26,379,676 | | \$26,379,676 | |
| 3 | Property Taxes | \$309,263 | | \$309,263 | |
| 5 | Income Taxes (Grossed up) | \$4,473,115 | | \$4,473,115 | |
| 6 | Other Expenses | \$ - | | \$ - | |
| 7 | Return | | | | |
| | Deemed Interest Expense | \$10,608,708 | | \$ - | |
| | Return on Deemed Equity | \$19,582,055 | | \$ - | |
| 8 | Service Revenue Requirement (before Revenues) | <u>\$127,299,380</u> | | <u>\$97,108,617</u> | |
| 9 | Revenue Offsets | \$5,555,937 | | \$ - | |
| 10 | Base Revenue Requirement (excluding Tranformer Owership Allowance credit adjustment) | <u>\$121,743,444</u> | | <u>\$97,108,617</u> | |
| 11 | Distribution revenue | \$121,743,444 | | \$ - | |
| 12 | Other revenue | \$5,555,937 | | \$ - | |
| 13 | Total revenue | <u>\$127,299,380</u> | | <u>\$ -</u> | |
| 14 | Difference (Total Revenue Less Distribution Revenue Requirement before Revenues) | <u>\$ -</u> | (1) | <u>(\$97,108,617)</u> | (1) |

Notes

(1) Line 11 - Line 8

APPENDIX 6-4: BOARD REVENUE REQUIREMENT MODEL 2018



Revenue Requirement Workform



Version 4.00

| | |
|--------------------|---|
| Utility Name | Horizon Utilities Corporation |
| Service Territory | Hamilton and St. Catharines |
| Assigned EB Number | EB-2014-0002 |
| Name and Title | Indy J. Butany-DeSouza, VP Regulatory Affairs |
| Phone Number | 905-317-4765 |
| Email Address | indy.butany@horizonutilities.com |

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While this model has been provided in Excel format and is required to be filed with the applications, the onus remains on the applicant to ensure the accuracy of the data and



Revenue Requirement Workform

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[4. Rate Base](#)

[5. Utility Income](#)

[6. Taxes PILs](#)

[7. Cost of Capital](#)

[8. Rev Def Suff](#)

[9. Rev Req](#)

Notes:

- (1) Pale green cells represent inputs
- (2) Pale green boxes at the bottom of each page are for additional notes
- (3) Pale yellow cells represent drop-down lists
- (4) ***Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.***
- (5) ***Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel***



Revenue Requirement Workform

Data Input ⁽¹⁾

| | Initial Application | (2) | | (6) | Per Board Decision |
|--|---------------------|-----|-----------------|-----|--------------------|
| 1 Rate Base | | | | | |
| Gross Fixed Assets (average) | \$622,779,528 | | \$ 622,779,528 | | \$622,779,528 |
| Accumulated Depreciation (average) | (\$157,863,151) | (5) | (\$157,863,151) | | (\$157,863,151) |
| Allowance for Working Capital: | | | | | |
| Controllable Expenses | \$67,708,658 | | \$ 67,708,658 | | \$67,708,658 |
| Cost of Power | \$581,873,212 | | \$ 581,873,212 | | \$581,873,212 |
| Working Capital Rate (%) | 12.70% | (9) | 12.70% | (9) | 12.70% (9) |
| 2 Utility Income | | | | | |
| Operating Revenues: | | | | | |
| Distribution Revenue at Current Rates | \$122,174,673 | | | | |
| Distribution Revenue at Proposed Rates | \$123,920,317 | | | | |
| Other Revenue: | | | | | |
| Specific Service Charges | \$747,081 | | | | |
| Late Payment Charges | \$825,000 | | | | |
| Other Distribution Revenue | | | | | |
| Other Income and Deductions | \$4,094,118 | | | | |
| Total Revenue Offsets | \$5,666,198 | (7) | | | |
| Operating Expenses: | | | | | |
| OM+A Expenses | \$67,394,756 | | \$ 67,394,756 | | \$67,394,756 |
| Depreciation/Amortization | \$25,824,486 | | \$ 25,824,486 | | \$25,824,486 |
| Property taxes | \$313,902 | | \$ 313,902 | | \$313,902 |
| Other expenses | | | | | |
| 3 Taxes/PILs | | | | | |
| Taxable Income: | | | | | |
| Adjustments required to arrive at taxable income | (\$8,826,055) | (3) | | | |
| Utility Income Taxes and Rates: | | | | | |
| Income taxes (not grossed up) | \$2,917,091 | | | | |
| Income taxes (grossed up) | \$3,952,701 | | | | |
| Federal tax (%) | 15.00% | | | | |
| Provincial tax (%) | 11.20% | | | | |
| Income Tax Credits | (\$140,220) | | | | |
| 4 Capitalization/Cost of Capital | | | | | |
| Capital Structure: | | | | | |
| Long-term debt Capitalization Ratio (%) | 56.0% | | | | |
| Short-term debt Capitalization Ratio (%) | 4.0% | (8) | | (8) | (8) |
| Common Equity Capitalization Ratio (%) | 40.0% | | | | |
| Preferred Shares Capitalization Ratio (%) | 0.0% | | | | |
| | 100.0% | | | | |
| Cost of Capital | | | | | |
| Long-term debt Cost Rate (%) | 3.64% | | | | |
| Short-term debt Cost Rate (%) | 2.11% | | | | |
| Common Equity Cost Rate (%) | 9.36% | | | | |
| Preferred Shares Cost Rate (%) | 0.00% | | | | |

Notes

- General** Data inputs are required on Sheets 3. Data from Sheet 3 will automatically complete calculations on sheets 4 through 9 (Rate Base through Revenue Requirement). Sheets 4 through 9 do not require any inputs except for notes that the Applicant may wish to enter to support the results. Pale green cells are available on sheets 4 through 9 to enter both footnotes beside key cells and the related text for the notes at the bottom of each sheet.
- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%)
- Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I
- (2) Net of addbacks and deductions to arrive at taxable income.
- (3) Average of Gross Fixed Assets at beginning and end of the Test Year
- (4) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
- (5) Select option from drop-down list by clicking on cell M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.
- (6) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement
- (7) 4.0% unless an Applicant has proposed or been approved for another amount.
- (8) Starting with 2013, default Working Capital Allowance factor is 13% (of Cost of Power plus controllable expenses). Alternatively, WCA factor based on lead-lag study or approved WCA factor for another distributor, with supporting rationale.
- (9)



Revenue Requirement Workform

Rate Base and Working Capital

| Line No. | Rate Base | | Initial Application | | | | Per Board Decision |
|----------|------------------------------------|-----|----------------------|-------------|----------------------|-------------|----------------------|
| 1 | Gross Fixed Assets (average) | (3) | \$622,779,528 | \$ - | \$622,779,528 | \$ - | \$622,779,528 |
| 2 | Accumulated Depreciation (average) | (3) | (\$157,863,151) | \$ - | (\$157,863,151) | \$ - | (\$157,863,151) |
| 3 | Net Fixed Assets (average) | (3) | \$464,916,377 | \$ - | \$464,916,377 | \$ - | \$464,916,377 |
| 4 | Allowance for Working Capital | (1) | \$82,496,897 | \$ - | \$82,496,897 | \$ - | \$82,496,897 |
| 5 | Total Rate Base | | \$547,413,274 | \$ - | \$547,413,274 | \$ - | \$547,413,274 |

(1) Allowance for Working Capital - Derivation

| | | | | | | | |
|----|---------------------------|-----|---------------|-------|---------------|-------|---------------|
| 6 | Controllable Expenses | | \$67,708,658 | \$ - | \$67,708,658 | \$ - | \$67,708,658 |
| 7 | Cost of Power | | \$581,873,212 | \$ - | \$581,873,212 | \$ - | \$581,873,212 |
| 8 | Working Capital Base | | \$649,581,870 | \$ - | \$649,581,870 | \$ - | \$649,581,870 |
| 9 | Working Capital Rate % | (2) | 12.70% | 0.00% | 12.70% | 0.00% | 12.70% |
| 10 | Working Capital Allowance | | \$82,496,897 | \$ - | \$82,496,897 | \$ - | \$82,496,897 |

Notes

- (2) Some Applicants may have a unique rate as a result of a lead-lag study. The default rate for 2014 cost of service applications is 13%.
- (3) Average of opening and closing balances for the year.



Revenue Requirement Workform

Utility Income

| Line No. | Particulars | Initial Application | | | | | Per Board Decision |
|----------|--|---------------------|-----------------|----------------|------|----------------|--------------------|
| | <u>Operating Revenues</u> | | | | | | |
| 1 | Distribution Revenue (at Proposed Rates) | \$123,920,317 | (\$123,920,317) | \$ - | \$ - | \$ - | |
| 2 | Other Revenue (1) | \$5,666,198 | (\$5,666,198) | \$ - | \$ - | \$ - | |
| 3 | Total Operating Revenues | \$129,586,516 | (\$129,586,516) | \$ - | \$ - | \$ - | |
| | <u>Operating Expenses</u> | | | | | | |
| 4 | OM+A Expenses | \$67,394,756 | \$ - | \$67,394,756 | \$ - | \$67,394,756 | |
| 5 | Depreciation/Amortization | \$25,824,486 | \$ - | \$25,824,486 | \$ - | \$25,824,486 | |
| 6 | Property taxes | \$313,902 | \$ - | \$313,902 | \$ - | \$313,902 | |
| 7 | Capital taxes | \$ - | \$ - | \$ - | \$ - | \$ - | |
| 8 | Other expense | \$ - | \$ - | \$ - | \$ - | \$ - | |
| 9 | Subtotal (lines 4 to 8) | \$93,533,143 | \$ - | \$93,533,143 | \$ - | \$93,533,143 | |
| 10 | Deemed Interest Expense | \$11,605,518 | (\$11,605,518) | \$ - | \$ - | \$ - | |
| 11 | Total Expenses (lines 9 to 10) | \$105,138,661 | (\$11,605,518) | \$93,533,143 | \$ - | \$93,533,143 | |
| 12 | Utility income before income taxes | \$24,447,854 | (\$117,980,998) | (\$93,533,143) | \$ - | (\$93,533,143) | |
| 13 | Income taxes (grossed-up) | \$3,952,701 | \$ - | \$3,952,701 | \$ - | \$3,952,701 | |
| 14 | Utility net income | \$20,495,153 | (\$117,980,998) | (\$97,485,845) | \$ - | (\$97,485,845) | |

Notes

Other Revenues / Revenue Offsets

| | | | | | | |
|-----|-----------------------------|-------------|------|------|------|------|
| (1) | Specific Service Charges | \$747,081 | | \$ - | | \$ - |
| | Late Payment Charges | \$825,000 | | \$ - | | \$ - |
| | Other Distribution Revenue | \$ - | | \$ - | | \$ - |
| | Other Income and Deductions | \$4,094,118 | | \$ - | | \$ - |
| | Total Revenue Offsets | \$5,666,198 | \$ - | \$ - | \$ - | \$ - |



Revenue Requirement Workform

Taxes/PILs

| Line No. | Particulars | Application | | Per Board Decision | |
|--|--|---------------|--|--------------------|---------------|
| <u>Determination of Taxable Income</u> | | | | | |
| 1 | Utility net income before taxes | \$20,495,153 | | \$ - | \$ - |
| 2 | Adjustments required to arrive at taxable utility income | (\$8,826,055) | | \$ - | (\$8,826,055) |
| 3 | Taxable income | \$11,669,098 | | \$ - | (\$8,826,055) |
| <u>Calculation of Utility income Taxes</u> | | | | | |
| 4 | Income taxes | \$2,917,091 | | \$2,917,091 | \$2,917,091 |
| 6 | Total taxes | \$2,917,091 | | \$2,917,091 | \$2,917,091 |
| 7 | Gross-up of Income Taxes | \$1,035,610 | | \$1,035,610 | \$1,035,610 |
| 8 | Grossed-up Income Taxes | \$3,952,701 | | \$3,952,701 | \$3,952,701 |
| 9 | PILs / tax Allowance (Grossed-up Income taxes + Capital taxes) | \$3,952,701 | | \$3,952,701 | \$3,952,701 |
| 10 | Other tax Credits | (\$140,220) | | (\$140,220) | (\$140,220) |
| <u>Tax Rates</u> | | | | | |
| 11 | Federal tax (%) | 15.00% | | 15.00% | 15.00% |
| 12 | Provincial tax (%) | 11.20% | | 11.20% | 11.20% |
| 13 | Total tax rate (%) | 26.20% | | 26.20% | 26.20% |

Notes



Revenue Requirement Workform

Capitalization/Cost of Capital

| Line No. | Particulars | Capitalization Ratio | | Cost Rate | Return |
|----------|------------------|----------------------|---------------|-----------|--------------|
| | | Initial Application | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 1 | Long-term Debt | 56.00% | \$306,551,434 | 3.64% | \$11,143,501 |
| 2 | Short-term Debt | 4.00% | \$21,896,531 | 2.11% | \$462,017 |
| 3 | Total Debt | 60.00% | \$328,447,965 | 3.53% | \$11,605,518 |
| | Equity | | | | |
| 4 | Common Equity | 40.00% | \$218,965,310 | 9.36% | \$20,495,153 |
| 5 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 6 | Total Equity | 40.00% | \$218,965,310 | 9.36% | \$20,495,153 |
| 7 | Total | 100.00% | \$547,413,274 | 5.86% | \$32,100,671 |
| | | Per Board Decision | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 1 | Long-term Debt | 0.00% | \$ - | 0.00% | \$ - |
| 2 | Short-term Debt | 0.00% | \$ - | 0.00% | \$ - |
| 3 | Total Debt | 0.00% | \$ - | 0.00% | \$ - |
| | Equity | | | | |
| 4 | Common Equity | 0.00% | \$ - | 0.00% | \$ - |
| 5 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 6 | Total Equity | 0.00% | \$ - | 0.00% | \$ - |
| 7 | Total | 0.00% | \$547,413,274 | 0.00% | \$ - |
| | | Per Board Decision | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 8 | Long-term Debt | 0.00% | \$ - | 3.64% | \$ - |
| 9 | Short-term Debt | 0.00% | \$ - | 2.11% | \$ - |
| 10 | Total Debt | 0.00% | \$ - | 0.00% | \$ - |
| | Equity | | | | |
| 11 | Common Equity | 0.00% | \$ - | 9.36% | \$ - |
| 12 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 13 | Total Equity | 0.00% | \$ - | 0.00% | \$ - |
| 14 | Total | 0.00% | \$547,413,274 | 0.00% | \$ - |

Notes

(1)

Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I



Revenue Requirement Workform

Revenue Deficiency/Sufficiency

| Line No. | Particulars | Initial Application | | Per Board Decision | |
|----------|--|---------------------------|----------------------|---------------------------|-----------------------|
| | | At Current Approved Rates | At Proposed Rates | At Current Approved Rates | At Proposed Rates |
| 1 | Revenue Deficiency from Below | | \$1,745,644 | | (\$31,964,909) |
| 2 | Distribution Revenue | \$122,174,673 | \$122,174,673 | \$122,174,673 | \$155,885,226 |
| 3 | Other Operating Revenue | \$5,666,198 | \$5,666,198 | \$ - | \$ - |
| | Offsets - net | | | | |
| 4 | Total Revenue | \$127,840,872 | \$129,586,516 | \$122,174,673 | \$123,920,317 |
| 5 | Operating Expenses | \$93,533,143 | \$93,533,143 | \$93,533,143 | \$93,533,143 |
| 6 | Deemed Interest Expense | \$11,605,518 | \$11,605,518 | \$ - | \$ - |
| 8 | Total Cost and Expenses | \$105,138,661 | \$105,138,661 | \$93,533,143 | \$93,533,143 |
| 9 | Utility Income Before Income Taxes | \$22,702,210 | \$24,447,854 | \$28,641,530 | \$30,387,174 |
| 10 | Tax Adjustments to Accounting Income per 2013 PILs model | (\$8,826,055) | (\$8,826,055) | (\$8,826,055) | (\$8,826,055) |
| 11 | Taxable Income | \$13,876,155 | \$15,621,799 | \$19,815,475 | \$21,561,119 |
| 12 | Income Tax Rate | 26.20% | 26.20% | 26.20% | 26.20% |
| 13 | Income Tax on Taxable Income | \$3,635,561 | \$4,092,921 | \$5,191,667 | \$5,649,027 |
| 14 | Income Tax Credits | (\$140,220) | (\$140,220) | (\$140,220) | (\$140,220) |
| 15 | Utility Net Income | \$19,206,869 | \$20,495,153 | \$23,590,083 | (\$97,485,845) |
| 16 | Utility Rate Base | \$547,413,274 | \$547,413,274 | \$547,413,274 | \$547,413,274 |
| 17 | Deemed Equity Portion of Rate Base | \$218,965,310 | \$218,965,310 | \$ - | \$ - |
| 18 | Income/(Equity Portion of Rate Base) | 8.77% | 9.36% | 0.00% | 0.00% |
| 19 | Target Return - Equity on Rate Base | 9.36% | 9.36% | 0.00% | 0.00% |
| 20 | Deficiency/Sufficiency in Return on Equity | -0.59% | 0.00% | 0.00% | 0.00% |
| 21 | Indicated Rate of Return | 5.63% | 5.86% | 4.31% | 0.00% |
| 22 | Requested Rate of Return on Rate Base | 5.86% | 5.86% | 0.00% | 0.00% |
| 23 | Deficiency/Sufficiency in Rate of Return | -0.24% | 0.00% | 4.31% | 0.00% |
| 24 | Target Return on Equity | \$20,495,153 | \$20,495,153 | \$ - | \$ - |
| 25 | Revenue Deficiency/(Sufficiency) | \$1,288,284 | \$ - | (\$23,590,083) | \$ - |
| 26 | Gross Revenue Deficiency/(Sufficiency) | \$1,745,644 (1) | | (\$31,964,909) (1) | |

Notes

(1) Revenue Deficiency/Sufficiency divided by (1 - Tax Rate)



Revenue Requirement Workform

Revenue Requirement

| Line No. | Particulars | Application | | Per Board Decision | |
|----------|---|----------------------|---------------------------|---------------------------|------------|
| 1 | OM&A Expenses | \$67,394,756 | \$67,394,756 | \$67,394,756 | |
| 2 | Amortization/Depreciation | \$25,824,486 | \$25,824,486 | \$25,824,486 | |
| 3 | Property Taxes | \$313,902 | \$313,902 | \$313,902 | |
| 5 | Income Taxes (Grossed up) | \$3,952,701 | \$3,952,701 | \$3,952,701 | |
| 6 | Other Expenses | \$ - | | | |
| 7 | Return | | | | |
| | Deemed Interest Expense | \$11,605,518 | \$ - | \$ - | |
| | Return on Deemed Equity | \$20,495,153 | \$ - | \$ - | |
| 8 | Service Revenue Requirement (before Revenues) | <u>\$129,586,516</u> | <u>\$97,485,845</u> | <u>\$97,485,845</u> | |
| 9 | Revenue Offsets | \$5,666,198 | \$ - | \$ - | |
| 10 | Base Revenue Requirement (excluding Tranformer Owership Allowance credit adjustment) | <u>\$123,920,317</u> | <u>\$97,485,845</u> | <u>\$97,485,845</u> | |
| 11 | Distribution revenue | \$123,920,317 | \$ - | \$ - | |
| 12 | Other revenue | \$5,666,198 | \$ - | \$ - | |
| 13 | Total revenue | <u>\$129,586,516</u> | <u>\$ -</u> | <u>\$ -</u> | |
| 14 | Difference (Total Revenue Less Distribution Revenue Requirement before Revenues) | <u>\$ -</u> | <u>(1) (\$97,485,845)</u> | <u>(1) (\$97,485,845)</u> | <u>(1)</u> |

Notes

(1) Line 11 - Line 8

APPENDIX 6-5: BOARD REVENUE REQUIREMENT MODEL 2019



Revenue Requirement Workform



Version 4.00

| | |
|--------------------|---|
| Utility Name | Horizon Utilities Corporation |
| Service Territory | Hamilton and St. Catharines |
| Assigned EB Number | EB-2014-0002 |
| Name and Title | Indy J. Butany-DeSouza, VP Regulatory Affairs |
| Phone Number | 905-317-4765 |
| Email Address | indy.butany@horizonutilities.com |

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Revenue Requirement Workform

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[9. Rev Req](#)

Notes:

- (1) Pale green cells represent inputs
- (2) Pale green boxes at the bottom of each page are for additional notes
- (3) Pale yellow cells represent drop-down lists
- (4) ***Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.***
- (5) ***Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel***



Revenue Requirement Workform

Data Input ⁽¹⁾

| | Initial Application | (2) | (6) | Per Board Decision |
|--|---------------------|-----|-----------------|--------------------|
| 1 Rate Base | | | | |
| Gross Fixed Assets (average) | \$668,929,104 | | \$ 668,929,104 | \$668,929,104 |
| Accumulated Depreciation (average) | (\$180,591,646) | (5) | (\$180,591,646) | (\$180,591,646) |
| Allowance for Working Capital: | | | | |
| Controllable Expenses | \$69,140,489 | | \$ 69,140,489 | \$69,140,489 |
| Cost of Power | \$600,222,979 | | \$ 600,222,979 | \$600,222,979 |
| Working Capital Rate (%) | 12.70% | (9) | 12.70% | 12.70% (9) |
| 2 Utility Income | | | | |
| Operating Revenues: | | | | |
| Distribution Revenue at Current Rates | \$124,313,123 | | | |
| Distribution Revenue at Proposed Rates | \$127,881,899 | | | |
| Other Revenue: | | | | |
| Specific Service Charges | \$752,724 | | | |
| Late Payment Charges | \$825,000 | | | |
| Other Distribution Revenue | | | | |
| Other Income and Deductions | \$4,176,175 | | | |
| Total Revenue Offsets | \$5,753,899 | (7) | | |
| Operating Expenses: | | | | |
| OM+A Expenses | \$68,821,878 | | \$ 68,821,878 | \$68,821,878 |
| Depreciation/Amortization | \$26,490,670 | | \$ 26,490,670 | \$26,490,670 |
| Property taxes | \$318,611 | | \$ 318,611 | \$318,611 |
| Other expenses | | | | |
| 3 Taxes/PILs | | | | |
| Taxable Income: | | | | |
| Adjustments required to arrive at taxable income | (\$9,641,214) | (3) | | |
| Utility Income Taxes and Rates: | | | | |
| Income taxes (not grossed up) | \$2,927,388 | | | |
| Income taxes (grossed up) | \$3,966,866 | | | |
| Federal tax (%) | 15.00% | | | |
| Provincial tax (%) | 11.20% | | | |
| Income Tax Credits | (\$171,207) | | | |
| 4 Capitalization/Cost of Capital | | | | |
| Capital Structure: | | | | |
| Long-term debt Capitalization Ratio (%) | 56.0% | | | |
| Short-term debt Capitalization Ratio (%) | 4.0% | (8) | (8) | (8) |
| Common Equity Capitalization Ratio (%) | 40.0% | | | |
| Preferred Shares Capitalization Ratio (%) | 0.0% | | | |
| | 100.0% | | | |
| Cost of Capital | | | | |
| Long-term debt Cost Rate (%) | 3.76% | | | |
| Short-term debt Cost Rate (%) | 2.11% | | | |
| Common Equity Cost Rate (%) | 9.36% | | | |
| Preferred Shares Cost Rate (%) | 0.00% | | | |

Notes

- General** Data inputs are required on Sheets 3. Data from Sheet 3 will automatically complete calculations on sheets 4 through 9 (Rate Base through Revenue Requirement). Sheets 4 through 9 do not require any inputs except for notes that the Applicant may wish to enter to support the results. Pale green cells are available on sheets 4 through 9 to enter both footnotes beside key cells and the related text for the notes at the bottom of each sheet.
- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%)
- Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I
- (2) Net of addbacks and deductions to arrive at taxable income.
- (3) Average of Gross Fixed Assets at beginning and end of the Test Year
- (4) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
- (5) Select option from drop-down list by clicking on cell M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.
- (6) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement
- (7) 4.0% unless an Applicant has proposed or been approved for another amount.
- (8) Starting with 2013, default Working Capital Allowance factor is 13% (of Cost of Power plus controllable expenses). Alternatively, WCA factor based on lead-lag study or approved WCA factor for another distributor, with supporting rationale.
- (9)



Revenue Requirement Workform

Rate Base and Working Capital

| Line No. | Rate Base | | Initial Application | | | | Per Board Decision |
|----------|------------------------------------|-----|----------------------|-------------|----------------------|-------------|----------------------|
| 1 | Gross Fixed Assets (average) | (3) | \$668,929,104 | \$ - | \$668,929,104 | \$ - | \$668,929,104 |
| 2 | Accumulated Depreciation (average) | (3) | (\$180,591,646) | \$ - | (\$180,591,646) | \$ - | (\$180,591,646) |
| 3 | Net Fixed Assets (average) | (3) | \$488,337,458 | \$ - | \$488,337,458 | \$ - | \$488,337,458 |
| 4 | Allowance for Working Capital | (1) | \$85,009,160 | \$ - | \$85,009,160 | \$ - | \$85,009,160 |
| 5 | Total Rate Base | | \$573,346,618 | \$ - | \$573,346,618 | \$ - | \$573,346,618 |

(1) Allowance for Working Capital - Derivation

| | | | | | | | |
|----|---------------------------|-----|---------------|-------|---------------|-------|---------------|
| 6 | Controllable Expenses | | \$69,140,489 | \$ - | \$69,140,489 | \$ - | \$69,140,489 |
| 7 | Cost of Power | | \$600,222,979 | \$ - | \$600,222,979 | \$ - | \$600,222,979 |
| 8 | Working Capital Base | | \$669,363,467 | \$ - | \$669,363,467 | \$ - | \$669,363,467 |
| 9 | Working Capital Rate % | (2) | 12.70% | 0.00% | 12.70% | 0.00% | 12.70% |
| 10 | Working Capital Allowance | | \$85,009,160 | \$ - | \$85,009,160 | \$ - | \$85,009,160 |

Notes

- (2) Some Applicants may have a unique rate as a result of a lead-lag study. The default rate for 2014 cost of service applications is 13%.
- (3) Average of opening and closing balances for the year.



Revenue Requirement Workform

Utility Income

| Line No. | Particulars | Initial Application | | | | | Per Board Decision |
|----------|--|---------------------|-----------------|----------------|------|----------------|--------------------|
| | <u>Operating Revenues</u> | | | | | | |
| 1 | Distribution Revenue (at Proposed Rates) | \$127,881,899 | (\$127,881,899) | \$ - | \$ - | \$ - | |
| 2 | Other Revenue (1) | \$5,753,899 | (\$5,753,899) | \$ - | \$ - | \$ - | |
| 3 | Total Operating Revenues | \$133,635,798 | (\$133,635,798) | \$ - | \$ - | \$ - | |
| | <u>Operating Expenses</u> | | | | | | |
| 4 | OM+A Expenses | \$68,821,878 | \$ - | \$68,821,878 | \$ - | \$68,821,878 | |
| 5 | Depreciation/Amortization | \$26,490,670 | \$ - | \$26,490,670 | \$ - | \$26,490,670 | |
| 6 | Property taxes | \$318,611 | \$ - | \$318,611 | \$ - | \$318,611 | |
| 7 | Capital taxes | \$ - | \$ - | \$ - | \$ - | \$ - | |
| 8 | Other expense | \$ - | \$ - | \$ - | \$ - | \$ - | |
| 9 | Subtotal (lines 4 to 8) | \$95,631,159 | \$ - | \$95,631,159 | \$ - | \$95,631,159 | |
| 10 | Deemed Interest Expense | \$12,571,676 | (\$12,571,676) | \$ - | \$ - | \$ - | |
| 11 | Total Expenses (lines 9 to 10) | \$108,202,835 | (\$12,571,676) | \$95,631,159 | \$ - | \$95,631,159 | |
| 12 | Utility income before income taxes | \$25,432,963 | (\$121,064,122) | (\$95,631,159) | \$ - | (\$95,631,159) | |
| 13 | Income taxes (grossed-up) | \$3,966,866 | \$ - | \$3,966,866 | \$ - | \$3,966,866 | |
| 14 | Utility net income | \$21,466,097 | (\$121,064,122) | (\$99,598,025) | \$ - | (\$99,598,025) | |

Notes

Other Revenues / Revenue Offsets

| | | | | | | |
|-----|-----------------------------|-------------|------|------|------|------|
| (1) | Specific Service Charges | \$752,724 | \$ - | \$ - | \$ - | \$ - |
| | Late Payment Charges | \$825,000 | \$ - | \$ - | \$ - | \$ - |
| | Other Distribution Revenue | \$ - | \$ - | \$ - | \$ - | \$ - |
| | Other Income and Deductions | \$4,176,175 | \$ - | \$ - | \$ - | \$ - |
| | Total Revenue Offsets | \$5,753,899 | \$ - | \$ - | \$ - | \$ - |



Revenue Requirement Workform

Taxes/PILs

| Line No. | Particulars | Application | | Per Board Decision | |
|--|--|---------------|--|--------------------|---------------|
| <u>Determination of Taxable Income</u> | | | | | |
| 1 | Utility net income before taxes | \$21,466,097 | | \$ - | \$ - |
| 2 | Adjustments required to arrive at taxable utility income | (\$9,641,214) | | \$ - | (\$9,641,214) |
| 3 | Taxable income | \$11,824,884 | | \$ - | (\$9,641,214) |
| <u>Calculation of Utility income Taxes</u> | | | | | |
| 4 | Income taxes | \$2,927,388 | | \$2,927,388 | \$2,927,388 |
| 6 | Total taxes | \$2,927,388 | | \$2,927,388 | \$2,927,388 |
| 7 | Gross-up of Income Taxes | \$1,039,478 | | \$1,039,478 | \$1,039,478 |
| 8 | Grossed-up Income Taxes | \$3,966,866 | | \$3,966,866 | \$3,966,866 |
| 9 | PILs / tax Allowance (Grossed-up Income taxes + Capital taxes) | \$3,966,866 | | \$3,966,866 | \$3,966,866 |
| 10 | Other tax Credits | (\$171,207) | | (\$171,207) | (\$171,207) |
| <u>Tax Rates</u> | | | | | |
| 11 | Federal tax (%) | 15.00% | | 15.00% | 15.00% |
| 12 | Provincial tax (%) | 11.20% | | 11.20% | 11.20% |
| 13 | Total tax rate (%) | 26.20% | | 26.20% | 26.20% |

Notes



Revenue Requirement Workform

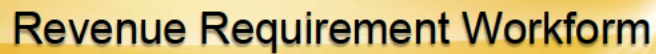
Capitalization/Cost of Capital

| Line No. | Particulars | Capitalization Ratio | | Cost Rate | Return |
|---------------------|------------------|----------------------|---------------|-----------|--------------|
| Initial Application | | | | | |
| | | (%) | (\$) | (%) | (\$) |
| Debt | | | | | |
| 1 | Long-term Debt | 56.00% | \$321,074,106 | 3.76% | \$12,087,771 |
| 2 | Short-term Debt | 4.00% | \$22,933,865 | 2.11% | \$483,905 |
| 3 | Total Debt | 60.00% | \$344,007,971 | 3.65% | \$12,571,676 |
| Equity | | | | | |
| 4 | Common Equity | 40.00% | \$229,338,647 | 9.36% | \$21,466,097 |
| 5 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 6 | Total Equity | 40.00% | \$229,338,647 | 9.36% | \$21,466,097 |
| 7 | Total | 100.00% | \$573,346,618 | 5.94% | \$34,037,773 |
| Per Board Decision | | | | | |
| | | (%) | (\$) | (%) | (\$) |
| Debt | | | | | |
| 1 | Long-term Debt | 0.00% | \$ - | 0.00% | \$ - |
| 2 | Short-term Debt | 0.00% | \$ - | 0.00% | \$ - |
| 3 | Total Debt | 0.00% | \$ - | 0.00% | \$ - |
| Equity | | | | | |
| 4 | Common Equity | 0.00% | \$ - | 0.00% | \$ - |
| 5 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 6 | Total Equity | 0.00% | \$ - | 0.00% | \$ - |
| 7 | Total | 0.00% | \$573,346,618 | 0.00% | \$ - |
| Per Board Decision | | | | | |
| | | (%) | (\$) | (%) | (\$) |
| Debt | | | | | |
| 8 | Long-term Debt | 0.00% | \$ - | 3.76% | \$ - |
| 9 | Short-term Debt | 0.00% | \$ - | 2.11% | \$ - |
| 10 | Total Debt | 0.00% | \$ - | 0.00% | \$ - |
| Equity | | | | | |
| 11 | Common Equity | 0.00% | \$ - | 9.36% | \$ - |
| 12 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 13 | Total Equity | 0.00% | \$ - | 0.00% | \$ - |
| 14 | Total | 0.00% | \$573,346,618 | 0.00% | \$ - |

Notes

(1)

Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I



| Line No. | Particulars | Initial Application | | Per Board Decision | | | |
|----------|--|---------------------------|----------------------|---------------------------|-----------------------|---------------------------|-----------------------|
| | | At Current Approved Rates | At Proposed Rates | At Current Approved Rates | At Proposed Rates | At Current Approved Rates | At Proposed Rates |
| 1 | Revenue Deficiency from Below | | \$3,568,776 | | (\$32,337,436) | | \$95,631,159 |
| 2 | Distribution Revenue | \$124,313,123 | \$124,313,123 | \$124,313,123 | \$160,219,334 | \$ - | (\$95,631,159) |
| 3 | Other Operating Revenue | \$5,753,899 | \$5,753,899 | \$ - | \$ - | \$ - | \$ - |
| 4 | Offsets - net | | | | | | |
| 4 | Total Revenue | \$130,067,021 | \$133,635,798 | \$124,313,123 | \$127,881,899 | \$ - | \$ - |
| 5 | Operating Expenses | \$95,631,159 | \$95,631,159 | \$95,631,159 | \$95,631,159 | \$95,631,159 | \$95,631,159 |
| 6 | Deemed Interest Expense | \$12,571,676 | \$12,571,676 | \$ - | \$ - | \$ - | \$ - |
| 8 | Total Cost and Expenses | \$108,202,835 | \$108,202,835 | \$95,631,159 | \$95,631,159 | \$95,631,159 | \$95,631,159 |
| 9 | Utility Income Before Income Taxes | \$21,864,187 | \$25,432,963 | \$28,681,964 | \$32,250,740 | (\$95,631,159) | (\$95,631,159) |
| 10 | Tax Adjustments to Accounting Income per 2013 PILs model | (\$9,641,214) | (\$9,641,214) | (\$9,641,214) | (\$9,641,214) | \$ - | \$ - |
| 11 | Taxable Income | \$12,222,973 | \$15,791,749 | \$19,040,750 | \$22,609,526 | (\$95,631,159) | (\$95,631,159) |
| 12 | Income Tax Rate | 26.20% | 26.20% | 26.20% | 26.20% | 26.20% | 26.20% |
| 13 | Income Tax on Taxable Income | \$3,202,910 | \$4,138,072 | \$4,989,441 | \$5,924,603 | (\$25,059,202) | (\$25,059,202) |
| 14 | Income Tax Credits | (\$171,207) | (\$171,207) | (\$171,207) | (\$171,207) | \$ - | \$ - |
| 15 | Utility Net Income | \$18,832,484 | \$21,466,097 | \$23,863,729 | (\$99,598,025) | (\$70,571,957) | (\$99,598,025) |
| 16 | Utility Rate Base | \$573,346,618 | \$573,346,618 | \$573,346,618 | \$573,346,618 | \$573,346,618 | \$573,346,618 |
| 17 | Deemed Equity Portion of Rate Base | \$229,338,647 | \$229,338,647 | \$ - | \$ - | \$ - | \$ - |
| 18 | Income/(Equity Portion of Rate Base) | 8.21% | 9.36% | 0.00% | 0.00% | 0.00% | 0.00% |
| 19 | Target Return - Equity on Rate Base | 9.36% | 9.36% | 0.00% | 0.00% | 0.00% | 0.00% |
| 20 | Deficiency/Sufficiency in Return on Equity | -1.15% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 21 | Indicated Rate of Return | 5.48% | 5.94% | 4.16% | 0.00% | -12.31% | 0.00% |
| 22 | Requested Rate of Return on Rate Base | 5.94% | 5.94% | 0.00% | 0.00% | 0.00% | 0.00% |
| 23 | Deficiency/Sufficiency in Rate of Return | -0.46% | 0.00% | 4.16% | 0.00% | -12.31% | 0.00% |
| 24 | Target Return on Equity | \$21,466,097 | \$21,466,097 | \$ - | \$ - | \$ - | \$ - |
| 25 | Revenue Deficiency/(Sufficiency) | \$2,633,614 | \$ - | (\$23,863,729) | \$ - | \$70,571,957 | \$ - |
| 26 | Gross Revenue Deficiency/(Sufficiency) | \$3,568,776 (1) | | (\$32,337,436) (1) | | \$95,631,159 (1) | |

(1) Revenue Deficiency/Sufficiency divided by (1 - Tax Rate)



Revenue Requirement Workform

Revenue Requirement

| Line No. | Particulars | Application | | Per Board Decision | |
|----------|---|----------------------|---------------------------|---------------------------|------------|
| 1 | OM&A Expenses | \$68,821,878 | | \$68,821,878 | |
| 2 | Amortization/Depreciation | \$26,490,670 | | \$26,490,670 | |
| 3 | Property Taxes | \$318,611 | | \$318,611 | |
| 5 | Income Taxes (Grossed up) | \$3,966,866 | | \$3,966,866 | |
| 6 | Other Expenses | \$ - | | \$ - | |
| 7 | Return | | | | |
| | Deemed Interest Expense | \$12,571,676 | \$ - | \$ - | |
| | Return on Deemed Equity | \$21,466,097 | \$ - | \$ - | |
| 8 | Service Revenue Requirement (before Revenues) | <u>\$133,635,798</u> | <u>\$99,598,025</u> | <u>\$99,598,025</u> | |
| 9 | Revenue Offsets | \$5,753,899 | \$ - | \$ - | |
| 10 | Base Revenue Requirement (excluding Tranformer Owership Allowance credit adjustment) | <u>\$127,881,899</u> | <u>\$99,598,025</u> | <u>\$99,598,025</u> | |
| 11 | Distribution revenue | \$127,881,899 | \$ - | \$ - | |
| 12 | Other revenue | \$5,753,899 | \$ - | \$ - | |
| 13 | Total revenue | <u>\$133,635,798</u> | <u>\$ -</u> | <u>\$ -</u> | |
| 14 | Difference (Total Revenue Less Distribution Revenue Requirement before Revenues) | <u>\$ -</u> | <u>(1) (\$99,598,025)</u> | <u>(1) (\$99,598,025)</u> | <u>(1)</u> |

Notes

(1) Line 11 - Line 8

IMPACT OF IFRS ON REVENUE REQUIREMENT

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Introduction

Horizon Utilities adopted International Financial Reporting Standards ("IFRS") effective January 1, 2012. IFRS has been the basis of financial reporting for Horizon Utilities since that date and will continue to be for the 2015-2019 test period.

Horizon Utilities has prepared this Application in accordance with the requirements of the OEB for regulatory accounting, reporting, and filing. Such requirements include certain modified accounting treatments for regulated utilities reporting under IFRS as specified by the OEB in its Report of the Board: *Transition to International Financial Reporting Standards* dated July 28, 2009 ("IFRS Report"). Specifically, the OEB requires modified IFRS ("MIFRS") filings and reporting requirements for utilities that have adopted IFRS. Horizon Utilities has incorporated the MIFRS requirements specified in the IFRS Report within the accounting and reporting components of the Application.

IFRS is a set of accounting standards (comprising both IFRS and International Accounting Standards ("IAS")) developed by the International Accounting Standards Board ("IASB") that is becoming the global standard for the preparation of public company financial statements. IFRS is intended to provide transparency and comparability in a global market.

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") officially confirmed the requirement for publicly accountable enterprises to adopt IFRS for financial reporting purposes in 2011. However, the concept of regulatory accounting is not considered under the current IFRS framework or in any specific related standard. As an example, items which were previously reported as regulatory assets and liabilities ("RA/Ls") under former Canadian generally accepted accounting principles ("CGAAP") do not meet the current definition of assets and liabilities under IFRS. Changes in RA/Ls under the former CGAAP are reported under IFRS as income or expense in the period in which the related transactions occur.

1 Due to the lack of an IFRS standard regarding rate regulated accounting, in October 2010, the
2 AcSB approved the incorporation of a one year deferral of Part 1 of the Canadian Institute of
3 Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate
4 regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for
5 interim and annual financial statements relating to annual periods beginning on or after January
6 1, 2012.

7 Horizon Utilities elected to defer the adoption of IFRS to January 1, 2012. Consequently,
8 Horizon Utilities has filed financial information within this Application as follows:

- 9 • 2011 - its last Board-Approved year and the IFRS transition year - in CGAAP and MIFRS;
- 10 • 2012 – 2019 Historical, Bridge and Test years in MIFRS.

11 For financial reporting purposes, the OEB requires distributors adopting IFRS to present one
12 year of comparative information in its first IFRS financial statements. The comparative year is
13 referred to as the "transition year" and the first day of the comparative year is referred to as the
14 "transition date" (January 1, 2011 for Horizon Utilities). The first day of the year in which
15 Horizon Utilities chose to adopt IFRS for financial reporting purposes is referred to as the
16 "change-over date" (January 1, 2012).

1 Table 6-7 below summarizes the areas impacted by the conversion to MIFRS.

2 **Table 6-7 – MIFRS Conversion Impacts**

| Area | MIFRS | Impact |
|--|---|--|
| Property, Plant and Equipment (IAS 16) | Costs that are not directly attributable to items of Property, Plant and Equipment ("PP&E") cannot be capitalized. | General and administrative overhead, and other indirect costs, are generally not capitalized. Less cost will be capitalized; operating expenses will increase; depreciation expense will decrease. |
| | IAS 16 requires that an item of PP&E be separated into components when those parts are significant in relation to the total cost of the item. Each component is to be depreciated separately over its estimated useful life. | Estimated useful lives will generally be longer, resulting in lower annual depreciation expense and higher net PP&E. |
| | IAS 16 requires that the carrying value of an item of PP&E be derecognized on: (a) disposal; or (b) when no future economic benefits are expected from its use or disposal. The resultant gain/loss will be included in Profit or Loss when an item of PP&E is derecognized. Under MIFRS, gains/losses from derecognition are reclassified as depreciation expense. | Under CGAAP assets were removed at the end of their depreciable lives. Gains/losses from derecognition were not recorded. Under MIFRS, net PP&E will decrease as assets are derecognized. Under MIFRS, gains/losses arising from derecognition are reclassified as depreciation expense. Depreciation expense will increase as assets are derecognized at losses. |
| Borrowing Costs | Borrowing costs related to the construction of qualifying assets will be capitalized. | More costs will be capitalized; net finance costs will decrease; depreciation expense will increase. |

| | | |
|----------------------------|---|--|
| Capital Contributions | Capital Contributions will be recorded as deferred revenue, not as a contra asset. Capital Contributions will be amortized as revenue over the lives of the related assets. | No impact to rate base as under MIFRS, deferred revenue is included as an offset to rate base to preserve the continuity of rate base. Revenue is amortized to income and reclassified as an offset to depreciation expense. |
| Employee Benefits (IAS 19) | Actuarial gains or losses will be recognized immediately in the Statements of Comprehensive Income. | There will be higher volatility in the Statements of Comprehensive Income due to the recognition of actuarial gains/losses. |

1
2 The following section provides a summary of Horizon Utilities' accounting changes due to the
3 transition to IFRS.

4 **IFRS 1 Exemptions**

5 The IFRS 1 standard sets out the procedures that must be followed with respect to the initial
6 adoption of IFRS as the basis for preparing its financial statements. IFRS 1 requires distributors
7 to present one year of comparative information in its first IFRS financial statements, as identified
8 above. For Horizon Utilities, the first day of the comparative year is January 1, 2011 and the
9 first day of the year in which Horizon Utilities has chosen to adopt IFRS for reporting purposes is
10 January 1, 2012. This standard provided a number of mandatory and optional exemptions to
11 this general principle. Those exemptions are identified below, together with a description in
12 each case of the exemption adopted by Horizon Utilities.

13 *Business Combinations*

14 IFRS 1 provided an optional exemption whereby a first-time adopter may elect not to apply IFRS
15 3 - Business Combinations retrospectively to business combinations that occurred prior to the
16 date of transition. Horizon Utilities elected this exemption and did not restate business
17 combinations that occurred prior to the date of transition. This election does not result in a
18 financial difference with CGAAP and has no impact on revenue requirement.

Deemed Cost

IFRS 1 provided an optional exemption for a first-time adopter with rate-regulated activities to use the carrying amount (i.e. amortized original cost) of PP&E and intangible assets as the deemed opening cost on the transition date in circumstances where the carrying amount includes costs that do not otherwise qualify for capitalization in accordance with IFRS. Horizon Utilities elected to take this exemption and used the carrying amount of the PP&E and intangible assets under CGAAP as the deemed cost on transition date. This election does not result in a financial difference with CGAAP as of the transition date and has no impact on revenue requirement.

The carrying amount used as deemed cost was \$304,878,268 as indicated in Table 6-8 below.

Table 6-8 Determination of Deemed Cost under IFRS

| Description | Gross Fixed Assets Incr/(Decr) | Accumulated Depreciation Incr/(Decr) | Net Fixed Assets |
|---|--------------------------------|--------------------------------------|----------------------|
| Closing CGAAP, December 31st, 2010 | \$631,965,112 | \$327,086,844 | \$304,878,268 |
| Deemed Cost Exemption | (327,086,844) | (327,086,844) | 0 |
| Opening MIFRS, January 1st, 2011 | \$304,878,268 | \$0 | \$304,878,268 |

Employee Benefits

IFRS 1 provided the option to recognize all cumulative unamortized gains and losses at the date of transition. Horizon Utilities elected to recognize all cumulative actuarial gains and losses that existed at its date of transition for its employee benefit plan directly in retained earnings. Furthermore, Horizon Utilities elected to disclose the history of experience gains and losses related to plan assets and plan liabilities for accounting periods prospectively from the transition date in accordance with the IFRS 1 exemption. Horizon Utilities recognized a cumulative loss of \$2,117,012 at its date of transition. Formerly, such losses (valuation increases in the liability) would have been amortized into Operating, Maintenance and Administration ("OM&A") costs over the estimated average remaining service life ("EARS") of employees. These amortized amounts were recovered in rates under CGAAP. Horizon Utilities has not requested any recovery for these amounts in this Application. Consequently, this approach results in a financial difference and reduces revenue requirement relative to CGAAP. In 2011 and beyond,

1 actuarial gains and losses are recognized directly into other comprehensive income under
2 MIFRS. The impact of this change in 2011 was a decrease to OM&A costs reported under
3 MIFRS of \$43,000.

4 *Capital Contributions*

5 Under CGAAP, Horizon Utilities recorded capital contributions as an offset to the cost of the
6 capital asset and amortized them on the same basis as the corresponding capital asset. Under
7 IFRS, capital contributions are recorded as deferred revenue and amortized as revenue over
8 the lives of the related assets. Under MIFRS for regulatory and rate-making purposes, the
9 amortization of capital contributions is reclassified from revenue to an offset to depreciation
10 expense.

11 IFRS 1 provided the option to adopt the accounting treatment for capital contributions
12 prospectively. Horizon Utilities elected to take the exemption and recorded capital contributions
13 received prior to January 1, 2011 as a contra asset, consistent with the accounting treatment
14 under CGAAP. Capital contributions received after this date have been recorded as deferred
15 revenue. This election results in similar treatment for both financial reporting and regulatory
16 reporting purposes. However, depreciable asset lives are generally longer under IFRS than
17 CGAAP. Consequently, the amount of annual amortization of capital contributions received
18 prior to January 1, 2011 and computed subsequent to that date is lower than amounts otherwise
19 computed under CGAAP.

20 **Accounting Policies**

21 *Property, Plant and Equipment*

22 Horizon Utilities elected under IFRS 1 to use the carrying value (i.e., amortized original cost) of
23 items of PP&E and intangible assets as the deemed cost as at the date of transition. Therefore,
24 there was no change to the net PP&E and intangible assets as at January 1, 2011. The effect
25 of this transitional adjustment was an equal and offsetting decrease to each of the aggregate
26 original cost and accumulated depreciation of the affected PP&E and intangible assets of
27 \$327,086,844. This resulted in an opening carrying amount for MIFRS purposes of
28 \$304,878,268 equal to the closing net carrying value for former CGAAP purposes. This

1 accounting policy does not result in a financial difference with CGAAP as of the transition date
2 and has no impact on revenue requirement.

3 *Capitalization of Overhead Costs*

4 Overhead costs refer to all ongoing business costs not including or related to direct labour,
5 direct materials, and direct contract costs.

6 Overhead costs can be direct or indirect costs. Under IFRS, direct overhead costs are
7 overhead costs that are directly attributable to bringing an asset to the location and condition
8 necessary for it to be capable of operating in the manner intended by management. Direct
9 overhead costs can include specific capital engineering costs, fuel for vehicles used in the
10 construction of an item of PP&E, and employee benefit costs for staff working on specific capital
11 projects. Such direct overhead costs can be capitalized under IFRS.

12 Indirect overhead costs are overhead costs that are not directly attributable to bringing an asset
13 to the location and condition necessary for it to be capable of operating in the manner intended
14 by management. Indirect costs include costs of staff training, administration, repairs and
15 maintenance and other general overhead costs. Indirect overhead costs must be expensed
16 under IFRS.

17 Under IFRS, the cost of an item of PP&E includes only costs that are directly attributable to
18 bringing an asset to the location and condition necessary for it to be capable of operating in the
19 manner intended by management. The term “directly attributable” is not specifically defined
20 under IFRS. However, there must be a direct relationship that is established by fact between a
21 cost element and a construction or acquisition activity in order for such cost to be “directly
22 attributable” to such activities and, on this basis capitalized as PP&E.

23 CGAAP requires costs “directly attributable” to an asset to be capitalized as PP&E. However,
24 CGAAP also permits capitalization of certain indirect costs as PP&E.

25 Consequently, IFRS diverges from CGAAP as it does not permit the capitalization of indirect
26 overhead costs as PP&E. The areas of divergence are elaborated in Table 6-9.

1 Horizon Utilities, in conjunction with its IFRS advisor, performed a thorough analysis of cost
2 eligibility for capitalization under IFRS. A summary of differences between CGAAP and MIFRS
3 cost eligibility as PP&E is provided in Table 6-9 below. The costs eligible for capitalization are
4 discussed in further detail in Exhibit 2, Tab 6, Schedule 5.

1 **Table 6-9 – Summary of Capital Cost Eligibility Differences**

| Category of Cost | CGAAP Treatment | MIFRS Treatment | Financial Impact in 2011 (reduction in \$ capitalized) |
|---------------------------------------|---|--|--|
| Fleet | Hourly rate based on an allocation of maintenance costs, fuel, consumables, depreciation of equipment and administration costs | Hourly rate to include only fuel and vehicle insurance costs | \$2,038,721 |
| Materials (Procurement and Logistics) | 25% charge to cover depreciation of Stores' equipment, purchasing and warehousing costs | Nil | \$2,522,941 |
| Engineering and Operations | 341% charge to cover utility operations oversight, management and project coordination | Nil | \$2,980,390 |
| Payroll (Other Labour Costs) | % of hourly costs varies <ul style="list-style-type: none"> • Direct benefits (CPP, EI, dental, medical, OMERS) • Other administrative costs (training, safety, communications, tools protective equipment) | % of hourly costs varies <ul style="list-style-type: none"> • Direct benefits (CPP, EI, dental, medical, OMERS) | \$1,797,606 |
| TOTAL | | | \$9,339,658 |

2

3 The impact of removing non-directly attributable costs, identified in Table 6-9, from capital in

4 2011, as a result of the transition to MIFRS, was a reduction in PP&E of \$9,339,658 at

5 December 31, 2011 and a corresponding increase to operating expenses of \$9,339,658 for the

6 year ended December 31, 2011 (\$8,008,453 of the increase is OM&A costs and \$1,331,205 of

7 the increase is stores and fleet depreciation).

8

9

1 *Componentization/ Change to Useful Lives*

2 In accordance with IFRS, Horizon Utilities revised its accounting policy to address the
3 component accounting requirements for PP&E. IFRS requires more rigorous accounting for
4 significant components of PP&E than is required under CGAAP.

5 IFRS requires each significant component of an item of PP&E and intangible asset, to be
6 depreciated separately. A significant component of an item of PP&E is characterized by a cost
7 that is significant in relation to the total cost of the item and for which different depreciation
8 methods or rates are appropriate relative to the useful lives of respective individual components.
9 IFRS requires that the amount initially recognized in respect of an item of PP&E be allocated to
10 its significant components, and that each component is depreciated separately. The PP&E item
11 may be acquired as a whole or constructed.

12 As part of the project to transition to IFRS, Horizon Utilities, in conjunction with its IFRS advisor,
13 performed a thorough analysis of PP&E componentization requirements. Horizon Utilities
14 established a new level of componentization under IFRS consistent with the requirements of
15 IAS 16.

16 Prior to the adoption of IFRS, Horizon Utilities engaged Kinectrics Inc., an engineering
17 consulting firm, to undertake an asset depreciation study and report. The report, *Horizon*
18 *Utilities Corporation Useful Life of Assets*, dated May 3, 2010 ("Horizon Utilities' Asset
19 Depreciation Study"), is appended at Appendix 4-10 in Exhibit 4. The Horizon Utilities' Asset
20 Depreciation Study was prepared along the same timeline, and was informed by, the *Asset*
21 *Depreciation Study for the Ontario Energy Board*, dated July 8, 2010, ("OEB Asset Depreciation
22 Study"); also prepared by Kinectrics Inc. for the OEB. Furthermore, Horizon Utilities was one of
23 the six Ontario distributors selected to participate in the OEB Asset Depreciation Study.

24 The useful life ranges recommended in the Horizon Utilities Asset Depreciation Study and the
25 OEB Asset Depreciation Study are generally consistent. However, the OEB Asset Depreciation
26 Study provides a suggested component structure. Horizon Utilities and other distributors have
27 different component structures. A "perfect" alignment of components and typical useful lives
28 ("TULs") is not practical. Horizon Utilities confirms that its new useful lives are within the range
29 recommended by Kinectrics in the Horizon Utilities' Asset Depreciation Study. Horizon Utilities

1 has also, to the best of its ability, matched its components to the components used in the OEB
2 Asset Depreciation Study. The useful lives chosen are also within the range recommended by
3 Kinectrics in the OEB Asset Depreciation Study. These differences have been identified in
4 Appendix 2-BB Service Life Comparison in Exhibit 4, Tab 5, Schedule 2.

5 As part of the componentization exercise, the depreciable lives of the various components were
6 determined and the amortization was recorded for the comparative prior year to adoption from
7 January 1, 2011 using the new depreciable lives.

8 The impact of restating 2011 financial results to IFRS on depreciation and PP&E was as follows:

- 9 • Depreciation expense reported under IFRS for the year ended December 31, 2011 was
10 \$11,591,159 lower than the amount reported under CGAAP; and
- 11 • The net carrying value of PP&E reported under IFRS as at December 31, 2011 was
12 \$11,591,159 higher than the amount reported under CGAAP.

13 The impact to depreciation of \$11,591,159 was due to the impact of componentization
14 (\$11,463,261) and the impact of expensing indirect costs (\$127,897).

15 *Borrowing Costs*

16 IAS 23 establishes the criteria for the recognition of interest on borrowings as a component of
17 the carrying amount of an acquired or self-constructed item of capital assets. IAS 23 requires
18 that borrowing costs be expensed as they are incurred unless they relate to “qualifying” assets,
19 in which case they must be capitalized if certain conditions are met. Borrowing costs that are
20 directly attributable to the acquisition or construction of a qualifying asset will form part of the
21 cost of that asset.

22 Under CGAAP, rate-regulated entities were permitted to include borrowing costs in the cost of
23 an asset that is acquired, constructed, or developed over time. Horizon Utilities did not
24 capitalize borrowing costs under CGAAP on the basis that they were not significant and that the
25 construction period was generally within a fiscal year.

Under IFRS, a qualifying asset is an asset that takes a “substantial period of time” to bring it to its intended use or sale. Horizon Utilities has interpreted a “substantial period of time” as a period greater than twelve (12) months. This period will exclude “extended periods” of interruption or delays. Horizon Utilities has interpreted “extended periods” as three (3) months or greater. Horizon Utilities will capitalize borrowing costs as part of the cost of a qualifying asset when the following conditions are met: (i) expenditures for the asset have been incurred; (ii) borrowing costs have been incurred; and (iii) activities have been undertaken that are necessary to prepare the asset for its intended use or sale.

Eligible borrowing costs are those directly attributable to the acquisition or construction of a qualifying asset that would have otherwise been avoided if the expenditures on the qualifying asset had not been made. Borrowing costs capitalized will be based on the weighted average of the actual borrowing costs incurred in respect of funds borrowed. Funds borrowed include interest on bank operating lines of credit and promissory notes.

For 2011, the IFRS transition year, no qualifying assets were identified and therefore no borrowing costs were capitalized during the year ending December 31, 2011. However, Horizon Utilities has and expects to capitalize interest on qualifying projects in 2013 and 2014. The impact of this change is an increase in the value of assets recorded under MIFRS and a corresponding decrease in interest expense as compared to CGAAP. Horizon Utilities confirms that where incurred debt is acquired on an arm’s length basis, the actual borrowing cost is used for determining the amount of carrying charges to be capitalized to Work-in-Progress (“WIP”), in accordance with IFRS. The lower of the actual borrowing cost and the Board’s published rates is used where incurred debt is not acquired on an arm’s length basis.

Capital Contributions

Under CGAAP, capital contributions were netted against the cost of PP&E and amortized to net income as an offset to depreciation expense on the same basis as the related assets. Under IFRS, capital contributions are recognized initially as credit support for service delivery until the related asset is constructed, at which time the capital contributions are recognized as deferred revenue and amortized into net income over the life of the related asset.

Under IFRS, the amount of capital contributions is classified as deferred revenue and amortized to income over the life of the asset to which it relates. However, under MIFRS the deferred revenue is classified as an offset to rate base. This reclassification is necessary to preserve the continuity of rate base, and accordingly the amortization of contributions produces an offset to depreciation expense. As a result, other than the impact of the change to depreciable lives, there is no difference between CGAAP and MIFRS for capital contributions.

Derecognition of Assets

Under CGAAP for rate regulated entities using a pooled approach to fixed asset recognition, PP&E assets were removed at the end of their depreciable lives. Under IFRS, an item of PP&E is derecognized when it is disposed of or when no future economic benefits are expected from its continued use or retention.

The impact of transitioning to IFRS derecognition requirements on results otherwise reported under CGAAP was:

- the recognition of a loss on disposal of PP&E by \$1,512,181 for the year ended December 31, 2011; and
- the corresponding decrease to PP&E by \$1,512,181 at December 31, 2011.

Under MIFRS for regulatory reporting and rate-making purposes, the derecognition of PP&E is reclassified to depreciation expense in the year of the loss on disposal.

1 **Impact of Transition to IFRS in 2011**

2 The impact of the changes described above as a result of the transition to MIFRS in 2011 is summarized in Table 6-10, below.

3 **Table 6-10 – Impact to 2011 due to Transition to MIFRS**

| Description | 2011 MIFRS | 2011 CGAAP | MIFRS vs CGAAP | Comments |
|--|----------------------|----------------------|--------------------|---|
| Opening Net PP&E | \$304,878,268 | \$304,878,268 | \$0 | No change to 2011 opening net PP&E |
| Additions | 30,500,974 | 39,840,632 | (9,339,658) | Non-directly attributable costs/burdens not capitalized under CGAAP; \$8,008,453 is capitalized OM&A; \$1,331,205 is capitalized depreciation |
| Depreciation ¹ | (16,129,776) | (27,720,934) | 11,591,159 | Lower depreciation due to (i) the extension of useful lives \$11,463,261 and (ii) reduction in capitalized overhead under MIFRS \$127,897 |
| Derecognition of Assets (Net of Depreciation) | (1,512,181) | 0 | (1,512,181) | Assets derecognized and removed from rate base under MIFRS |
| Closing Net PP&E | 317,737,285 | 316,997,965 | 739,320 | |
| Average Net PP&E | 311,307,777 | 310,938,117 | 369,660 | |
| Working Capital Allowance | 63,645,753 | 62,570,417 | 1,075,336 | Non-directly attributable costs included in OM&A of \$8,008,453 under MIFRS offset by amortization of loss on post retirement benefits of \$43,000 @ 13.5% WCA |
| Rate Base | \$374,953,530 | \$373,508,534 | \$1,444,996 | |
| OM&A | 49,610,107 | 41,644,654 | 7,965,453 | Non-directly attributable costs/burdens of \$8,008,453 expensed under MIFRS; partly offset by a decrease of \$43,000 losses for post employment benefits which are recognized in OM&A under CGAAP and OCI under MIFRS |
| Depreciation Expense (before derecognition impact) | 17,460,981 | 27,720,934 | (10,259,954) | Lower depreciation due to: (i) the extension of useful lives and (ii) reduction in capitalized overhead under MIFRS of \$11,591,159; partly offset by non-directly attributable depreciation of \$1,331,205 |
| Loss on Disposal | 1,512,181 | 0 | 1,512,181 | Assets derecognized under MIFRS; excludes \$45,623 in disposal proceeds which are recognized in both CGAAP (as Other Revenue) and MIFRS (as an offset to deprn expense) resulting in \$0 impact to net income |
| Net Impact on Pre-Tax Income | 68,583,269 | 69,365,588 | (782,320) | Due to changes in OM&A, Depreciation and Derecognition Losses |

4 ¹ CGAAP depreciation excludes impact of CGAAP write-off of assets at end-of-life of \$29,100,768

Deferral Account

Article 510 of the *Accounting Procedures Handbook* ("APH") requires adjustments arising from the transition to IFRS to be recognized for regulatory accounting and reporting purposes on January 1, 2012. Adjusting entries include any differences arising on the transition date as well as differences arising during the 2011 fiscal year. The adjusting entries are generally recognized directly in opening retained earnings. Horizon Utilities has used Account 1575, IFRS-CGAAP Transitional PP&E Amounts, to record differences arising as a result of accounting policy changes in respect of PP&E, caused by the transition from the former CGAAP to modified IFRS, in compliance with OEB guidance in Article 510 of the *Accounting Procedures Handbook*. On page 11 of the OEB's *"Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment"* (EB-2008-0408), the OEB stated that this account be used *"by utilities to record PP&E differences arising during the period since their last rebasing under CGAAP up to their first rebasing under IFRS."* Therefore, Horizon Utilities has recorded PP&E differences from January 1, 2011 to December 31, 2014 in Account 1575. The application of accounting policies was applied on a prospective basis in 2011. This is evident in the 2011 Fixed Asset Continuity Schedules, in which the opening January 1, 2011 values for net PP&E are the same under MIFRS and CGAAP. Horizon Utilities confirms that the Fixed Asset Continuity Schedules have not been adjusted for balances related to Account 1575.

Impact on PP&E

Horizon Utilities has recorded the cumulative difference between PP&E reported under the former CGAAP and the same reported under MIFRS for 2011 to 2014 in Account 1575 and as identified in Table 6-11 below.

1 **Table 6-11 - Breakdown of Impact of Conversion to IFRS on PP&E**

| Description | 2011 | 2012 | 2013 | 2014 |
|--|----------------------|----------------------|----------------------|----------------------|
| Closing CGAAP Net PP&E | \$316,997,965 | \$365,070,186 | \$382,168,427 | \$400,764,743 |
| | | | | |
| Burdens (Expensed vs Capitalized) | (9,339,658) | (9,742,252) | (10,747,773) | (12,241,448) |
| Change to Useful Lives | 11,591,159 | 11,656,238 | 11,967,046 | 12,339,493 |
| Interest Capitalization | | | \$201,155 | \$73,969 |
| Derecognition of Assets (net of depreciation) | (1,512,181) | (1,623,107) | (1,547,291) | (1,640,446) |
| Yearly Impact due to IFRS transition | 739,320 | 290,879 | (126,863) | (1,468,432) |
| | | | | |
| Cumulative Impact due to IFRS transition (1575) | 739,320 | 1,030,199 | \$903,337 | (565,095) |
| Closing MIFRS Net PP&E | \$317,737,285 | \$366,100,385 | \$383,071,764 | \$400,199,647 |

2
 3 PP&E under MIFRS at the end of 2014 is forecast to be \$400,199,647 compared to
 4 \$400,764,743 otherwise forecast under CGAAP. The corresponding amount of the cumulative
 5 difference, or balance, in Account 1575 is \$565,095, which Horizon Utilities is proposing be
 6 collected from rate payers over one year.

7 In the Board's letter to Licensed Electricity Distributors entitled "*Accounting Policy Changes for*
 8 *Accounts 1575 and 1576*", dated June 25, 2013, the Board identified the new treatment for
 9 disposition of the account balances in 1575 and 1576. The Board requires the use of separate
 10 rate riders for the disposition of these account balances, effective for 2014 Cost of Service rate
 11 applications and subsequent rate years. On page 14, in the "*Addendum to the Report of the*
 12 *Board: Implementing IFRS in an Incentive Rate Mechanism Environment*" (EB-2008-0405), the
 13 Board also stated that, in general, the account should be cleared at the first rebasing under
 14 MIFRS, while recognizing that some portion of the amount for which clearance is sought is
 15 based on a forecast.

16 Prior to June 25, 2013, the Board's policy required the dispositions of these account balances in
 17 rates to be applied through adjustments to the revenue requirement in the Cost of Service rate
 18 applications. Account 1576 is for utilities to record the impact of changes to capitalization and
 19 depreciation policies under CGAAP, and therefore is not used by Horizon Utilities.

1 The calculation of the proposed rate rider, including a rate of return component, to recover the
2 balance in 1575 is discussed in further detail in Exhibit 9, Tab 3, Schedule 2.

3 **Impact on 2015 Revenue Requirement**

4 Table 6-12 (Board Appendix 2-YA) summarizes the impact of the conversion to MIFRS from
5 CGAAP on revenue requirement for the 2015 Test Year. The revenue requirement of
6 \$112,913,088 under MIFRS is \$5,162,245 lower than the revenue requirement under CGAAP.
7 This is driven by the accounting changes to capitalized overhead, depreciation, derecognition,
8 and PILs. The impact on PILs as a result of the transition to IFRS is discussed in further detail
9 below.

1 **Table 6-12 – Appendix 2-YA: Summary of Impacts to Revenue Requirement from Transition to MIFRS**

| Revenue Requirement Component | 2015 MIFRS | 2015 CGAAP | Difference | Reasons why the revenue requirement component is different under MIFRS versus CGAAP |
|--|----------------------|----------------------|----------------------|---|
| Closing NBV 2014 | \$400,199,647 | \$400,764,742 | (\$565,095) | NBV decreases as non-directly attributable costs (burdens) are expensed |
| Closing NBV 2015 | 417,009,023 | 418,965,339 | (1,956,316) | and assets are derecognized under MIFRS; partly offset by lower deprn |
| Average NBV | 408,604,335 | 409,865,041 | (1,260,706) | |
| Working Capital | 74,015,044 | 72,582,955 | 1,432,090 | Working capital increases by 12.7% of burdens expensed under MIFRS |
| Rate Base | 482,619,379 | 482,447,995 | 171,384 | Includes balance of deferred revenue account per APH Article 510 |
| | | | | |
| Return on Rate Base | 27,915,576 | 27,905,683 | 9,893 | Regulated rate of return of 5.77% applied to increase in rate base |
| | | | | |
| OM&A ¹ | 62,632,679 | 51,356,383 | 11,276,296 | Non-directly attributable costs are expensed under MIFRS |
| Depreciation | 24,970,308 | 37,072,457 | (12,102,149) | Average useful lives are extended under MIFRS and proceeds on disposition are reclassified to depreciation expense under MIFRS; partly offset by non-directly attributable depreciation expensed under IFRS |
| PILs or Income Taxes | 2,872,441 | 7,533,725 | (4,661,285) | |
| Less: Revenue Offsets | (5,477,916) | (5,792,915) | 315,000 | Proceeds on disposition are recorded in Other Revenue under CGAAP and in depreciation expense under MIFRS |
| | | | | |
| Insert description of additional item(s) | | | | |
| Total Base Revenue Requirement | \$112,913,088 | \$118,075,333 | (\$5,162,245) | |

2 ¹ Excludes any differences which arise from post-employment benefits. Horizon Utilities does not have an estimate of the amortization of actuarial gains/losses arising from post-employment benefits for 2015 CGAAP

Impact of IFRS on PILs and Regulatory and Accounting Rates of Return

Horizon Utilities makes Payments in Lieu of Taxes ("PILs") on its taxable income in accordance with Section 93 of the *Electricity Act, 1998, S.O. 1998*, as amended. The Tax Model supplied by the Board for 2014 Cost of Service Applications was used to calculate PILs owing for each of the Test Years in respect of its regulated distribution business. Horizon Utilities is forecasting taxable income in each of the Test Years 2015 through 2019 and is therefore including PILs amounts in the revenue requirements for each of the Test Years based on the estimated taxes owing in those years. The PILs expected to be paid ("Cash PILs") is grossed up and included in the revenue requirement. The calculation of PILs is explained in Exhibit 4, Tab 6, Schedule 1.

Depreciation and Capital Cost Allowance ("CCA") are key inputs to the calculation of PILs and differences between the two have a material impact on net income reported for external purposes. This Application is Horizon Utilities' first Cost of Service Application since it adopted IFRS in 2012. Prior to the adoption of IFRS in 2012, Horizon Utilities depreciated fixed assets in accordance with Board established asset depreciable lives. Depreciation expense calculated using the previous Board established asset depreciable lives was \$2,543,581 higher than CCA amounts deducted in the calculation of PILs that was included in the revenue requirement in the 2011 Cost of Service Application (EB-2010-0131). The transition to IFRS precipitated a review of depreciable lives, which in many cases, resulted in depreciating assets over longer periods and accordingly lowering depreciation expense. CCA rates did not change with the adoption of IFRS and in 2015 CCA will exceed depreciation expense by \$9,932,330. PILs expense is recorded based on pre-tax accounting income at the statutory tax rate on an accounting basis, whereas on a regulatory basis the allowance for PILs in the revenue requirement considers Cash PILs only, thereby depressing returns on an accounting basis under IFRS (used for external reporting purposes).

Table 6-13 below identifies the impact to net income in the 2015 Test Year from the inclusion of Cash PILs only in the revenue requirement.

Table 6-13 – Comparison of Regulatory Net Income vs. Accounting Net Income

| Calculation of Net Income | Regulatory Basis | Accounting (External Reporting) Basis | Difference |
|-------------------------------------|----------------------|---------------------------------------|-----------------------|
| Net income before PILs ¹ | \$ 23,722,889 | \$ 23,722,889 | |
| Less PILs | \$ (2,923,898) | \$ (6,286,566) | |
| Net Income | \$ 20,798,991 | \$ 17,436,323 | \$ (3,362,668) |
| Effective Tax Rate | 12.33% | 26.50% | |

¹ For illustrative purposes, assumes no differences between Regulatory and External Pre-PILs Income

Cash PILs are deducted from income on a regulatory basis while on an accounting basis, consistent with IFRS, the statutory tax rate of 26.5% is used and any timing differences between Cash PILs and total PILs expensed are recorded as deferred PILs on the balance sheet. Deferred PILs is recognized in the external financial statements using the balance sheet method. Deferred PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes and are carried forward to future years.

The timing difference between depreciation and CCA will reverse in future years but until such time, net income reported externally will be lower than net income reported for regulatory purposes. Horizon Utilities is concerned that these material differences between externally reported net income (on an accounting basis) and allowed net income calculated on a regulatory basis may be viewed negatively by lenders and rating agencies.

Horizon Utilities is planning significant investments in fixed assets and, as a result, CCA deductions will exceed depreciation deductions for accounting purposes in all Test Years. Such will result in lower net income reported on an accounting basis for external reporting purposes. Cost effective financing is dependent on ongoing fair rates of return reported externally. Horizon Utilities requires access to short term and long term debt in the normal course of business and its ability to attract favourable rates of financing is advantageous to Horizon Utilities and its customers.

In its Application, Horizon Utilities has calculated PILs on the basis of the Board's existing policy. The purpose of this discussion is to identify this issue to the Board and suggest that the

Board review its current practice of including only Cash PILs in the revenue requirement, in light of the significant impact on externally reported net income.

Moreover, in the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities* (EB-2009-0084), the Board stated the following with respect to the Fair Return Standard ("FRS"):

"All three requirements – comparable investment, financial integrity and capital attraction – must be met and none ranks in priority to the others. It is not sufficient for a formulaic approach for determining ROE to produce a numerical result that satisfies the FRS on average, over time. The Board is of the view that each time a formulaic approach is used to calculate an allowed ROE; it must generate a number that meets the FRS, as determined by the Board using its experience and informed judgment".

Horizon Utilities suggests that the Board's current practice, under which only Cash PILs are included in the revenue requirement, conflicts with the position of the Board as identified in the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities (above) in that the Fair Return Standard is not met in the early years for a given investment. In Horizon Utilities' view, the Fair Return Standard ought to be the target for any year of a given investment.

For the above reasons, Horizon Utilities respectfully requests that the Board comment on this matter in order to guide Horizon Utilities and the sector at large going forward.