



EXHIBIT 6

CALCULATION OF REVENUE DEFICIENCY OR SUFFICIENCY

EXHIBIT 6: Calculation of Revenue Deficiency/ Sufficiency

TAB 1 (of 3)

Calculation of Revenue Deficiency/ Sufficiency

SUMMARY OF REVENUE DEFICIENCY/ SUFFICIENCY

The information in this Exhibit supports Hydro One Brampton's request in this Application for an increase in its revenue requirement. Hydro One Brampton requires this increase in order to implement its capital and operating budgets for 2015 so it can continue to provide a safe and reliable supply of electricity to its customers, earn its regulated rate of return and pay its deemed Payments in Lieu of Taxes.

The Applicant has determined a Gross Revenue Deficiency for the 2015 Test Year of \$4,325,262¹. This is the shortfall in Hydro One Brampton's revenue requirement needed to enable the Company to earn its regulated return on rate base. The calculations relating to the deficiency is set out below.

In accordance with the Board's *Filing Requirements*, revised July 17, 2013, the calculation of gross revenue deficiency/sufficiency must isolate the delivery-related deficiency/sufficiency from any energy-related deficiency/sufficiency. The calculations performed are net of cost of power price differentials captured in the RSVAs, net of cost associated with LV charges, and any amounts related to recovery of Regulatory Assets. HOBNI used the combination of OEB approved Fixed/Variable Distribution Rates and the SMIRR Rate Riders multiplied by the 2015 Test Year load forecast to determine the revenue at existing rates.

On April 25, 2013 the Board approved HOBNI's 2013 Smart Meters Cost Recovery Application (EB-2012-0440) and approved SMIRR Rate Riders with an effective date of May 1, 2013. When smart meter costs are approved on a final basis in a stand-alone application, the SMIRR is a proxy for the incremental on-going change in base rate that would result if the amounts of approved smart meter costs were factored into rate base and revenue requirement. In addition, this rate rider remains in effect until 2015, HOBNI's next Cost of Service rebasing year. Effectively, the SMIRR rate rider acts as an adjustment to increase a distributors fixed monthly service charge. HOBNI has treated it as such to determine its revenue deficiency.

¹ See "8. Rev_Def_Suff" tab of the OEB Revenue Requirement Work Form in *Exhibit 6 Tab 3*.

DETERMINATION OF NET UTILITY INCOME

Hydro One Brampton has determined its allowable 2015 Test Year net utility income to be \$15,724,143. This represents a return of 9.71% on deemed equity. **Table 1** below provides a detailed breakdown of the calculation of net income for the 2015 Test Year.

Table 1: Determination of Utility Net Income²

| | | |
|--|--------------------|-----------------------------------|
| <u>Operating Revenues:</u> | | |
| Distribution Revenue (at Proposed Rates) | \$69,612,857 | |
| Other Revenue | <u>\$4,026,589</u> | |
| Total Operating Revenues | | \$73,639,446 |
| <u>Operating Expenses:</u> | | |
| OM&A Expenses | \$25,587,507 | |
| Depreciation/Amortization | \$15,936,873 | |
| Capital Taxes | <u>\$ -</u> | |
| Total Costs and Expenses | | <u>\$41,524,380</u> |
| Net Income Before Interest & Taxes | | \$32,115,065 |
| Deemed Interest Expense | | <u>\$14,205,895</u> |
| Net Income before Income Taxes | | \$17,909,170 |
| Income Taxes (grossed-up) | | \$2,185,027 |
| Utility Net Income | | <u><u>\$15,724,143</u></u> |

² See "5. Utility Income" tab of the OEB Revenue Requirement Work Form in *Exhibit 6 Tab 3*.

STATEMENT OF RATE BASE AND REQUESTED RETURN

Hydro One Brampton's calculated rate base for the 2015 Test Year is \$404,844,054. This rate base multiplied by HOBNI's weighted average cost of capital of 7.39% gives HOBNI's requested rate of return of \$29,930,038. Hydro One Brampton's rate base and requested return calculations are summarized in **Table 2** below. The requested return on rate base is the sum of the deemed return on debt (interest expense) and the deemed utility net income. **Table 3** summarizes the Working Capital Allowance portion of HOBNI's rate base.

Table 2: 2015 Test Year Rate Base Calculation

| RATE BASE CALCULATION FOR 2015 | | |
|---|--------------|--------------------|
| Description | | \$ Amount |
| Fixed Assets Opening Balance 2015 | | 332,295,594 |
| Fixed Assets Closing Balance 2015 | | 348,427,470 |
| Average Fixed Asset Balance for 2015 | | 340,361,532 |
| Working Capital Allowance | | 64,482,522 |
| Rate Base | | 404,844,054 |
| | | |
| Deemed Return on Equity | 9.71% | 15,724,143 |
| Deemed Return on Debt | 5.85% | 14,205,895 |
| | | |
| Requested Return on Rate Base | 7.39% | 29,930,038 |

Table 3: 2015 Test Year Working Capital Allowance Calculation³

| WORKING CAPITAL ALLOWANCE FOR 2015 | |
|---|--------------------|
| Distribution Expenses | \$ Amount |
| Distribution Expenses - Operation | 4,979,224 |
| Distribution Expenses - Maintenance | 5,620,008 |
| Billing and Collecting | 6,142,599 |
| Community Relations | 900,903 |
| Administrative and General Expenses | 7,944,773 |
| Taxes Other than Income Taxes | - |
| Less: Capital Taxes within 6105 | - |
| Total Eligible Distribution Expenses | 25,587,507 |
| Power Supply Expenses | 470,431,894 |
| Total Working Capital Expenses | 496,019,401 |
| | |
| Working Capital Allowance rate of 13% | 64,482,522 |

³ See "4. Rate_Base" tab of the OEB Revenue Requirement Work Form in *Exhibit 6 Tab 3*.

ACTUAL AND INDICATED RATE OF RETURN

Actual Rate of Return

Hydro One Brampton's deemed actual return on rate base for the 2015 Test Year forecast at existing rates is summarized in **Table 4** below.

Table 4: Actual Utility Return on Rate Base⁴

| Particulars | 2015 Test Year at Existing Rates |
|---|----------------------------------|
| Rate Base | 404,844,054 |
| Interest Expense | 14,205,895 |
| Utility Net Income | 12,545,075 |
| Return on Rate Base | 26,750,971 |
| Actual Utility Return on Rate Base | 6.61% |

Indicated Rate of Return

The indicated rate of return of 6.61% for the 2015 Test Year is below the requested rate of return of 7.39%. HOBNI's net income will have to be increased from \$12,545,075 to \$15,724,143 in order for the Company to earn its requested return on rate base of 7.39% in the 2015 Test Year. Please see **Table 5** in the following section for calculation of the indicated return on rate base.

⁴ See "8. Rev_Def_Suff" tab of the OEB Revenue Requirement Work Form in *Exhibit 6 Tab 3*.

DEFICIENCY OR SUFFICIENCY IN REVENUE

Hydro One Brampton calculated revenue deficiency before tax gross up is \$3,179,068 for the 2015 Test Year. Once this amount is grossed up by the marginal income tax rate of 26.5% the gross revenue deficiency is \$4,325,262. **Table 5** below shows the revenue deficiency calculation.

Gross Deficiency or Sufficiency in Revenue

Hydro One Brampton calculated gross revenue deficiency of \$4,325,262 for the 2015 Test Year. The gross revenue deficiency is the difference between the 2015 Test Year base revenue requirement of \$69,612,857⁵ and the forecasted 2015 Test Year distribution revenue of \$65,287,595, calculated using the approved 2014 rates. **Table 5** below provides detailed calculations of Hydro One Brampton's 2015 Test Year gross revenue deficiency.

Revenue Requirement

Hydro One Brampton's Service Revenue Requirement consists of the following:

- Other Operating Revenues
- Operating Expenses including
 - Administrative & General
 - Billing & Collecting Expense
 - Operation & Maintenance Expense
 - Depreciation & Amortization Expense
- Deemed Interest Expense
- Payment in Lieu of Taxes
- Deemed Return on Equity

Hydro One Brampton collects its service revenue requirement through electricity distribution rates charged to customers and through other revenues. Other revenues are received through

⁵ See "8. Rev_Def_Suff" tab of the OEB Revenue Requirement Work Form in *Exhibit 6 Tab 3*.

Board approved retail services charge, SSS administration charge, service transaction request revenue, specific service charges, rent, and other miscellaneous revenues. These other revenues are described in detail in *Exhibit 3* and are treated as offsets against Hydro One Brampton's service revenue requirement to calculate the base revenue requirement upon which class-specific distribution rates are calculated.

For detailed 2015 Test Year Revenue Requirement calculations see the OEB Revenue Requirement Work Form Model presented in *Tab 3* of this Exhibit.

Table 5: Requested Return, Indicated Return, Revenue Deficiency/Sufficiency and Gross Revenue Deficiency/Sufficiency⁶

| Particulars | At Current Approved Rates | At Proposed Rates |
|--|---------------------------|----------------------|
| Revenue Deficiency from Below | | \$4,325,262 |
| Distribution Revenue | \$65,287,595 | \$65,287,595 |
| Other Operating Revenue Offsets - net | \$4,026,589 | \$4,026,589 |
| Total Revenue | \$69,314,184 | \$73,639,446 |
| Operating Expenses | \$41,524,380 | \$41,524,380 |
| Deemed Interest Expense | \$14,205,895 | \$14,205,895 |
| Total Cost and Expenses | \$55,730,276 | \$55,730,276 |
| Utility Income Before Income Taxes | \$13,583,908 | \$17,909,170 |
| Tax Adjustments to Accounting Income per 2015 PILs Model | (\$9,332,464) | (\$9,332,464) |
| Taxable Income | \$4,251,444 | \$8,576,707 |
| Income Tax Rate | 26.50% | 26.50% |
| Income Tax on Taxable Income | \$1,126,633 | \$2,272,827 |
| Income Tax Credits | (\$87,800) | (\$87,800) |
| Utility Net Income | \$12,545,075 | \$15,724,143 |
| Utility Rate Base | \$404,844,054 | \$404,844,054 |
| Deemed Equity Portion of Rate Base | \$161,937,622 | \$161,937,622 |
| Income/(Equity Portion of Rate Base) | 7.75% | 9.71% |
| Target Return - Equity on Rate Base | 9.71% | 9.71% |
| Deficiency/Sufficiency in Return on Equity | -1.96% | 0.00% |
| Indicated Rate of Return | 6.61% | 7.39% |
| Requested Rate of Return on Rate Base | 7.39% | 7.39% |
| Deficiency/Sufficiency in Rate of Return | -0.79% | 0.00% |
| Target Return on Equity | \$15,724,143 | \$15,724,143 |
| Revenue Deficiency/(Sufficiency) | \$3,179,068 | \$ - |
| Gross Revenue Deficiency/(Sufficiency) | \$4,325,262 | |

⁶ See "8. Rev_Def_Suff" tab of the OEB Revenue Requirement Work Form in *Exhibit 6 Tab 3*.

EXHIBIT 6: Calculation of Revenue Deficiency/ Sufficiency

TAB 2 (of 3)

Drivers of Test Year Deficiency/ Sufficiency

OVERVIEW OF THE DRIVERS

Hydro One Brampton calculated gross revenue deficiency of \$4,325,262 for the 2015 Test Year. The revenue deficiency has been determined by comparing the 2015 base revenue at existing rates of \$65,287,595 based on the Company's 2015 load forecast with the 2015 base revenue requirement requested for approval of \$69,612,857 in this application.

The drivers of the revenue deficiency have been determined by comparing the 2015 base revenue requirement applied for of \$69,612,857 with the 2011 Board approved base revenue requirement of \$55,553,649. The drivers of the 2015 test year revenue deficiency explain the reasons for the change in each of the components of base revenue requirement. Column F of **Table 1** below presents the "Components of Revenue Deficiency" which were determined after adjusting for changes in accounting policy that was outside of the Company's control.

Column A of **Table 1** below presents the 2011 OEB approved components of the base revenue requirement, see OEB Decision and Order on 2011 Cost of Service Electricity Distribution Rate Application (EB-2010-0132). Column B relates to HOBNI's 2015 Revenues at Existing Rates (see *Exhibit 7, Tab 3, Schedule 1, "Sheet O1 Revenue to Cost Summary Worksheet"*). Column C relates to HOBNI's 2015 Revenues at Proposed Rates (see *Exhibit 7, Tab 4, Schedule 1, Appendix 1 "Sheet O1 Revenue to Cost Summary Worksheet"*). Column D relates to changes in accounting policy of \$2.1 million and the components of base revenue requirement impacted (see *Exhibit 1, Tab 9, Schedule 8, Appendix 1* for detail).

Table 1: Drivers of 2015 Test Year Gross Revenue Deficiency

| Description | 2011 Board Approved Revenue Requirement | 2015 Revenue at Existing Rates | 2015 Test Year Revenues | Changes in Accounting Policy | 2015 Adjusted Test Year | Components of Revenue Deficiency | Change (%) |
|---------------------------------|---|--------------------------------|-------------------------|------------------------------|-------------------------|----------------------------------|--------------|
| | A | B | C | D | E = C + D | F = E - B | G = F / B |
| OM&A Expenses | 20,070,266 | 20,070,266 | 25,587,507 | (1,703,858) | 23,883,649 | 3,813,383 | 19.00% |
| Depreciation/Amortization | 12,441,951 | 12,441,951 | 15,936,873 | (598,942) | 15,337,931 | 2,895,980 | 23.28% |
| Interest | 12,441,104 | 12,441,104 | 14,205,895 | 202,309 | 14,408,205 | 1,967,100 | 15.81% |
| Return of Equity | 12,642,948 | 12,642,948 | 15,724,143 | 223,930 | 15,948,073 | 3,305,125 | 26.14% |
| Payment in Lieu of Taxes (PILs) | 1,943,791 | 1,943,791 | 2,185,027 | (249,271) | 1,935,756 | (8,035) | -0.41% |
| Revenue Offsets | (3,986,412) | (3,986,412) | (4,026,589) | - | (4,026,589) | (40,177) | 1.01% |
| Changes in Accounting Policy | - | - | - | 2,125,831 | 2,125,831 | 2,125,831 | 0.00% |
| Load Growth & IRM Adjustments | - | 9,733,946 | - | - | - | (9,733,946) | -100.00% |
| Totals | 55,553,649 | 65,287,595 | 69,612,857 | - | 69,612,857 | 4,325,262 | 6.62% |

The impacts of the drivers are derived from the differences between the 2011 Board Approved values and the 2015 Test Year forecast.

The following provides a brief explanation of the drivers of the revenue deficiency:

- ***Increase in OM&A Expenses:*** Hydro One Brampton's OM&A expenditures are made in a prudent and cost effective manner and are focused on maintaining the reliability and safety of the system while meeting customer growth and ensuring customer satisfaction. Core Operations and Maintenance costs have increased moderately over this time due to the expansion and increasing complexity of the distribution system due to load growth and customer growth. Changes in the Community Relations, Billing and Collecting and Administrative areas reflect additional work to meet external stakeholder requirements (e.g. OEB, OPA and Government) and due to the ever increasing number of customers. Also contributing to the increase in this area is a small growth in staff levels, wage increases, and increasing costs for materials and supplies. The general drivers of the increase of \$3.8 million in OM&A costs over the period 2011 to 2015 are as follows:
 - Inflationary pressures as they apply to materials and supplies. Inflation (as measured by Ontario CPI) has been approximately 2.0% a year over this period;
 - Increase in cost of labour;
 - Increased Operations and Maintenance work activities required to respond to load and system growth as well as customer growth and aging assets;
 - Improvements in processes such as the Asset Management Planning and Distribution System Planning.
- ***Increase in Depreciation/Amortization:*** Depreciation/Amortization increased by \$2.9 million due to additions to PP&E brought on by the expanding size of the distribution system, additions to general plant, and replacements of fixed assets at the end of their service lives. The increase in depreciation/amortization was also impacted by the addition of smart meters between 2010 and 2012 as well as depreciation related to smart meter capital assets between 2007 and 2009 that were not approved during the 2011 Cost of Service proceedings but were subsequently approved during HOBNI's 2013 Smart Meters Cost Recovery Application (EB-2012-0440).

- 1 • **Increase in Interest Expenses:** Hydro One Brampton requires additional funding of
2 \$2.0 million to finance debt equity due to continued growth in its expanding rate base
3 which included capital spent for smart meters between 2010 and 2012.
- 4 • **Increase in Return on Equity:** HOBNI's return on rate base increased by \$3.3 million
5 due to increases in its rate base. Hydro One Brampton continues to make prudent and
6 reasonable investment in its distribution system to ensure the provision of reliable
7 service to its customers including addition of smart meters between 2010 and 2012.
- 8 • **Decrease in Payment in Lieu of Taxes:** Increased return on rate base provided more
9 revenue from operations as well as a decrease in the marginal income tax rate offset by
10 higher operating costs and depreciation resulted in a reduction to the Company's
11 payments in lieu of taxes by \$0.008 million. The increased revenue from operations
12 included revenue requirement approved by the OEB (see OEB Decision and Order on
13 EB-2012-0440) for smart meters installed between 2010 and 2012.
- 14 • **Increase in Revenue Offset:** Increase in other revenues offset gross revenue
15 deficiency by approximately \$0.04 million.
- 16 • **Changes in Accounting Policy:** changes in Accounting Policy for capitalization of
17 overheads implemented January 1, 2013 increased OM&A expenses by \$2.1 million and
18 contributed to the revenue deficiency.
- 19 • **Increase in Load Growth and IRM Adjustments:** Increases in load growth and Board
20 Approved IRM adjustments offset gross revenue deficiency by approximately \$9.7M.

EXHIBIT 6: Calculation of Revenue Deficiency/ Sufficiency

TAB 3 (of 3)

Model



Revenue Requirement Workform



Version 4.00

Utility Name Hydro One Brampton Networks Inc.

Service Territory City of Brampton

Assigned EB Number EB-2014-0083

Name and Title Scott Miller, Director of Regulatory Affairs and Com

Phone Number 905-452-5504

Email Address smiller@hydroonebrampton.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 the results.



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) | \$642,557,044 | | \$ | 642,557,044 | \$642,557,044 |
| | Accumulated Depreciation (average) | (\$302,195,512) | (5) | | (\$302,195,512) | (\$302,195,512) |
| | Allowance for Working Capital: | | | | | |
| | Controllable Expenses | \$25,587,507 | | \$ | 25,587,507 | \$25,587,507 |
| | Cost of Power | \$470,431,894 | | \$ | 470,431,894 | \$470,431,894 |
| | Working Capital Rate (%) | 13.00% | (9) | | 13.00% | (9) |
| 2 | Utility Income | | | | | |
| | Operating Revenues: | | | | | |
| | Distribution Revenue at Current Rates | \$65,287,595 | | | | |
| | Distribution Revenue at Proposed Rates | \$69,612,857 | | | | |
| | Other Revenue: | | | | | |
| | Specific Service Charges | \$413,000 | | | | |
| | Late Payment Charges | \$1,321,854 | | | | |
| | Other Distribution Revenue | \$2,137,735 | | | | |
| | Other Income and Deductions | \$154,000 | | | | |
| | Total Revenue Offsets | \$4,026,589 | (7) | | | |
| | Operating Expenses: | | | | | |
| | OM+A Expenses | \$25,587,507 | | \$ | 25,587,507 | \$25,587,507 |
| | Depreciation/Amortization | \$15,936,873 | | \$ | 15,936,873 | \$15,936,873 |
| | Property taxes | \$ - | | \$ | - | \$0 |
| | Other expenses | \$ - | | | 0 | \$0 |
| 3 | Taxes/PILs | | | | | |
| | Taxable Income: | | | | | |
| | | (\$9,332,464) | (3) | | | |
| | Adjustments required to arrive at taxable income | | | | | |
| | Utility Income Taxes and Rates: | | | | | |
| | Income taxes (not grossed up) | \$1,605,995 | | | | |
| | Income taxes (grossed up) | \$2,185,027 | | | | |
| | Federal tax (%) | 15.00% | | | | |
| | Provincial tax (%) | 11.50% | | | | |
| | Income Tax Credits | (\$87,800) | | | | |
| 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 (%) | 6.12% | | | | |
| | Short-term debt Cost Rate (%) | 2.11% | | | | |
| | Common Equity Cost Rate (%) | 9.71% | | | | |
| | 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 (%)
- (2) 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
- (3) Net of addbacks and deductions to arrive at taxable income.
- (4) Average of Gross Fixed Assets at beginning and end of the Test Year
- (5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
- (6) 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.
- (7) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement
- (8) 4.0% unless an Applicant has proposed or been approved for another amount.
- (9) 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.



Revenue Requirement Workform

Rate Base and Working Capital

| Rate Base | | | | | | | | | | |
|-----------|------------------------------------|-----|---------------------|--|------|-----------------|--------------------|------|--|-----------------|
| Line No. | Particulars | | Initial Application | | | | Per Board Decision | | | |
| 1 | Gross Fixed Assets (average) | (3) | \$642,557,044 | | \$ - | \$642,557,044 | | \$ - | | \$642,557,044 |
| 2 | Accumulated Depreciation (average) | (3) | (\$302,195,512) | | \$ - | (\$302,195,512) | | \$ - | | (\$302,195,512) |
| 3 | Net Fixed Assets (average) | (3) | \$340,361,532 | | \$ - | \$340,361,532 | | \$ - | | \$340,361,532 |
| 4 | Allowance for Working Capital | (1) | \$64,482,522 | | \$ - | \$64,482,522 | | \$ - | | \$64,482,522 |
| 5 | Total Rate Base | | \$404,844,054 | | \$ - | \$404,844,054 | | \$ - | | \$404,844,054 |

(1) Allowance for Working Capital - Derivation

| | | | | | | |
|----|----------------------------|---------------|-------|---------------|-------|---------------|
| 6 | Controllable Expenses | \$25,587,507 | \$ - | \$25,587,507 | \$ - | \$25,587,507 |
| 7 | Cost of Power | \$470,431,894 | \$ - | \$470,431,894 | \$ - | \$470,431,894 |
| 8 | Working Capital Base | \$496,019,401 | \$ - | \$496,019,401 | \$ - | \$496,019,401 |
| 9 | Working Capital Rate % (2) | 13.00% | 0.00% | 13.00% | 0.00% | 13.00% |
| 10 | Working Capital Allowance | \$64,482,522 | \$ - | \$64,482,522 | \$ - | \$64,482,522 |

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 |
|----------|--|---------------------|--|----------------|--|----------------|------|--------------------|
| | Operating Revenues: | | | | | | | |
| 1 | Distribution Revenue (at Proposed Rates) | \$69,612,857 | | (\$69,612,857) | | \$ - | \$ - | \$ - |
| 2 | Other Revenue (1) | \$4,026,589 | | (\$4,026,589) | | \$ - | \$ - | \$ - |
| 3 | Total Operating Revenues | \$73,639,446 | | (\$73,639,446) | | \$ - | \$ - | \$ - |
| | Operating Expenses: | | | | | | | |
| 4 | OM+A Expenses | \$25,587,507 | | \$ - | | \$25,587,507 | \$ - | \$25,587,507 |
| 5 | Depreciation/Amortization | \$15,936,873 | | \$ - | | \$15,936,873 | \$ - | \$15,936,873 |
| 6 | Property taxes | \$ - | | \$ - | | \$ - | \$ - | \$ - |
| 7 | Capital taxes | \$ - | | \$ - | | \$ - | \$ - | \$ - |
| 8 | Other expense | \$ - | | \$ - | | \$ - | \$ - | \$ - |
| 9 | Subtotal (lines 4 to 8) | \$41,524,380 | | \$ - | | \$41,524,380 | \$ - | \$41,524,380 |
| 10 | Deemed Interest Expense | \$14,205,895 | | (\$14,205,895) | | \$ - | \$ - | \$ - |
| 11 | Total Expenses (lines 9 to 10) | \$55,730,276 | | (\$14,205,895) | | \$41,524,380 | \$ - | \$41,524,380 |
| 12 | Utility income before income taxes | \$17,909,170 | | (\$59,433,551) | | (\$41,524,380) | \$ - | (\$41,524,380) |
| 13 | Income taxes (grossed-up) | \$2,185,027 | | \$ - | | \$2,185,027 | \$ - | \$2,185,027 |
| 14 | Utility net income | \$15,724,143 | | (\$59,433,551) | | (\$43,709,408) | \$ - | (\$43,709,408) |

Notes

Other Revenues / Revenue Offsets

| | | | | | | | | |
|-----|-----------------------------|-------------|--|------|--|------|------|------|
| (1) | Specific Service Charges | \$413,000 | | | | \$ - | | \$ - |
| | Late Payment Charges | \$1,321,854 | | | | \$ - | | \$ - |
| | Other Distribution Revenue | \$2,137,735 | | | | \$ - | | \$ - |
| | Other Income and Deductions | \$154,000 | | | | \$ - | | \$ - |
| | Total Revenue Offsets | \$4,026,589 | | \$ - | | \$ - | \$ - | \$ - |



Revenue Requirement Workform

Taxes/PILs

| Line No. | Particulars | Application | | | | Per Board Decision | |
|--|--|---------------|--|-------------|--|--------------------|--|
| <u>Determination of Taxable Income</u> | | | | | | | |
| 1 | Utility net income before taxes | \$15,724,143 | | \$ - | | \$ - | |
| 2 | Adjustments required to arrive at taxable utility income | (\$9,332,464) | | \$ - | | (\$9,332,464) | |
| 3 | Taxable income | \$6,391,679 | | \$ - | | (\$9,332,464) | |
| <u>Calculation of Utility income Taxes</u> | | | | | | | |
| 4 | Income taxes | \$1,605,995 | | \$1,605,995 | | \$1,605,995 | |
| 6 | Total taxes | \$1,605,995 | | \$1,605,995 | | \$1,605,995 | |
| 7 | Gross-up of Income Taxes | \$579,032 | | \$579,032 | | \$579,032 | |
| 8 | Grossed-up Income Taxes | \$2,185,027 | | \$2,185,027 | | \$2,185,027 | |
| 9 | PILs / tax Allowance (Grossed-up Income taxes + Capital taxes) | \$2,185,027 | | \$2,185,027 | | \$2,185,027 | |
| 10 | Other tax Credits | (\$87,800) | | (\$87,800) | | (\$87,800) | |
| <u>Tax Rates</u> | | | | | | | |
| 11 | Federal tax (%) | 15.00% | | 15.00% | | 15.00% | |
| 12 | Provincial tax (%) | 11.50% | | 11.50% | | 11.50% | |
| 13 | Total tax rate (%) | 26.50% | | 26.50% | | 26.50% | |

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% | \$226,712,670 | 6.12% | \$13,864,207 |
| 2 | Short-term Debt | 4.00% | \$16,193,762 | 2.11% | \$341,688 |
| 3 | Total Debt | 60.00% | \$242,906,432 | 5.85% | \$14,205,895 |
| | Equity | | | | |
| 4 | Common Equity | 40.00% | \$161,937,622 | 9.71% | \$15,724,143 |
| 5 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 6 | Total Equity | 40.00% | \$161,937,622 | 9.71% | \$15,724,143 |
| 7 | Total | 100.00% | \$404,844,054 | 7.39% | \$29,930,038 |
| | | 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% | \$404,844,054 | 0.00% | \$ - |
| | | Per Board Decision | | | |
| | | (%) | (\$) | (%) | (\$) |
| | Debt | | | | |
| 8 | Long-term Debt | 0.00% | \$ - | 6.12% | \$ - |
| 9 | Short-term Debt | 0.00% | \$ - | 2.11% | \$ - |
| 10 | Total Debt | 0.00% | \$ - | 0.00% | \$ - |
| | Equity | | | | |
| 11 | Common Equity | 0.00% | \$ - | 9.71% | \$ - |
| 12 | Preferred Shares | 0.00% | \$ - | 0.00% | \$ - |
| 13 | Total Equity | 0.00% | \$ - | 0.00% | \$ - |
| 14 | Total | 0.00% | \$404,844,054 | 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 | | \$4,325,262 | | (\$27,247,436) |
| 2 | Distribution Revenue | \$65,287,595 | \$65,287,595 | \$65,287,595 | \$96,860,293 |
| 3 | Other Operating Revenue | \$4,026,589 | \$4,026,589 | \$ - | \$ - |
| | Offsets - net | | | | |
| 4 | Total Revenue | <u>\$69,314,184</u> | <u>\$73,639,446</u> | <u>\$65,287,595</u> | <u>\$69,612,857</u> |
| 5 | Operating Expenses | \$41,524,380 | \$41,524,380 | \$41,524,380 | \$41,524,380 |
| 6 | Deemed Interest Expense | \$14,205,895 | \$14,205,895 | \$ - | \$ - |
| 8 | Total Cost and Expenses | <u>\$55,730,276</u> | <u>\$55,730,276</u> | <u>\$41,524,380</u> | <u>\$41,524,380</u> |
| 9 | Utility Income Before Income Taxes | \$13,583,908 | \$17,909,170 | \$23,763,214 | \$28,088,476 |
| 10 | Tax Adjustments to Accounting Income per 2013 PILs model | (\$9,332,464) | (\$9,332,464) | (\$9,332,464) | (\$9,332,464) |
| 11 | Taxable Income | <u>\$4,251,444</u> | <u>\$8,576,707</u> | <u>\$14,430,751</u> | <u>\$18,756,013</u> |
| 12 | Income Tax Rate | 26.50% | 26.50% | 26.50% | 26.50% |
| 13 | Income Tax on Taxable Income | \$1,126,633 | \$2,272,827 | \$3,824,149 | \$4,970,343 |
| 14 | Income Tax Credits | (\$87,800) | (\$87,800) | (\$87,800) | (\$87,800) |
| 15 | Utility Net Income | <u>\$12,545,075</u> | <u>\$15,724,143</u> | <u>\$20,026,865</u> | <u>(\$43,709,408)</u> |
| 16 | Utility Rate Base | \$404,844,054 | \$404,844,054 | \$404,844,054 | \$404,844,054 |
| 17 | Deemed Equity Portion of Rate Base | \$161,937,622 | \$161,937,622 | \$ - | \$ - |
| 18 | Income/(Equity Portion of Rate Base) | 7.75% | 9.71% | 0.00% | 0.00% |
| 19 | Target Return - Equity on Rate Base | 9.71% | 9.71% | 0.00% | 0.00% |
| 20 | Deficiency/Sufficiency in Return on Equity | -1.96% | 0.00% | 0.00% | 0.00% |
| 21 | Indicated Rate of Return | 6.61% | 7.39% | 4.95% | 0.00% |
| 22 | Requested Rate of Return on Rate Base | 7.39% | 7.39% | 0.00% | 0.00% |
| 23 | Deficiency/Sufficiency in Rate of Return | -0.79% | 0.00% | 4.95% | 0.00% |
| 24 | Target Return on Equity | \$15,724,143 | \$15,724,143 | \$ - | \$ - |
| 25 | Revenue Deficiency/(Sufficiency) | \$3,179,068 | \$ - | (\$20,026,865) | \$ - |
| 26 | Gross Revenue Deficiency/(Sufficiency) | <u>\$4,325,262 (1)</u> | | <u>(\$27,247,436) (1)</u> | |

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 | \$25,587,507 | | \$25,587,507 | | \$25,587,507 | |
| 2 | Amortization/Depreciation | \$15,936,873 | | \$15,936,873 | | \$15,936,873 | |
| 3 | Property Taxes | \$ - | | \$ - | | \$ - | |
| 5 | Income Taxes (Grossed up) | \$2,185,027 | | \$2,185,027 | | \$2,185,027 | |
| 6 | Other Expenses | \$ - | | \$ - | | \$ - | |
| 7 | Return | | | | | | |
| | Deemed Interest Expense | \$14,205,895 | | \$ - | | \$ - | |
| | Return on Deemed Equity | \$15,724,143 | | \$ - | | \$ - | |
| 8 | Service Revenue Requirement (before Revenues) | <u>\$73,639,446</u> | | <u>\$43,709,408</u> | | <u>\$43,709,408</u> | |
| 9 | Revenue Offsets | \$4,026,589 | | \$ - | | \$ - | |
| 10 | Base Revenue Requirement (excluding Transformer Ownership Allowance credit adjustment) | <u>\$69,612,857</u> | | <u>\$43,709,408</u> | | <u>\$43,709,408</u> | |
| 11 | Distribution revenue | \$69,612,857 | | \$ - | | \$ - | |
| 12 | Other revenue | <u>\$4,026,589</u> | | <u>\$ -</u> | | <u>\$ -</u> | |
| 13 | Total revenue | <u>\$73,639,446</u> | | <u>\$ -</u> | | <u>\$ -</u> | |
| 14 | Difference (Total Revenue Less Distribution Revenue Requirement before Revenues) | <u>\$ -</u> | (1) | <u>(\$43,709,408)</u> | (1) | <u>(\$43,709,408)</u> | (1) |

Notes

(1) Line 11 - Line 8