

REVENUE REQUIREMENT AND SUFFICIENCY / DEFICIENCY

Toronto Hydro earns the majority of its revenue through the distribution tariff and earns other revenues through the provision of non-distribution related activities. These other revenues offset the required revenue to be collected from Toronto Hydro's distribution service customers.

The recovery of Deferral and Variance Accounts is not included in the revenue requirement. Deferral and Variance Accounts are recovered through separate rate riders as described in Exhibit 9.

Table 1 below summarizes THESL's 2015 revenue requirement.

Table 1: 2015 Revenue Requirement (\$ millions)

	2015 Test Year
OM&A Expenses	265.1
Amortization/Depreciation	208.2
Property Taxes	6.5
Income Taxes (Grossed up)	22.4
Deemed Interest Expense	81.8
Return on Deemed Equity	123.3
Service Revenue Requirement	707.3
Revenue Offsets	46.1
Base Revenue Requirement	661.2

} /C

Full details on the calculation of Revenue Requirement, including the Determination of Net Utility Income, Statement of Ratebase, Actual Utility Return on Rate Base, Indicated Rate of Return, Requested Rate of Return and the Deficiency in Revenue can be found in the Revenue Requirement WorkForm, filed as Exhibit 6, Tab 1, Schedule 2.

1 **1. SERVICE REVENUE REQUIREMENT**

2 Service Revenue Requirement is comprised of operating expenses, cost of capital and
3 PILs.

4
5 The operating expenses, including administrative and general, depreciation and
6 amortization, and property taxes are explained in further detail in Exhibits 4A and 4B. A
7 summary of distribution expenses is contained in Exhibit 4A, Tab 1.

8
9 Cost of capital is calculated based on a weighted average of interest expense and return
10 on equity. Toronto Hydro's capital structure for ratemaking purposes is determined in
11 accordance with the OEB's Cost of Capital guidelines. The cost of capital based on the
12 OEB's deemed capital structure is calculated in Exhibit 5, Tab 1.

13
14 Income Taxes and PILs are explained in detail in Exhibit 4B, Tab 2, Schedule 2.

15
16 **2. REVENUE OFFSETS**

17 Toronto Hydro earns revenue from its distribution tariff as well as other revenues from
18 non-distribution related services, rentals and short term investment income. These other
19 revenues are used to offset the revenue requirement to be collected from the distribution
20 tariff.

21
22 The forecast of other revenues which form the Revenue Offsets are explained in detail in
23 Exhibit 3, Tab 2.

24
25 **3. BASE REVENUE REQUIREMENT**

26 Base Revenue Requirement is Service Revenue Requirement less Revenue Offsets. The
27 Base Revenue Requirement is allocated to and collected from the various customer
28 classes through distribution rates.

4. OVERALL REVENUE DEFICIENCY

For the test year, revenue deficiency/sufficiency is the difference between the 2015 test year Revenue Requirement and the 2015 test year revenues calculated at current rates (before rates are adjusted to recover the 2015 Base Revenue Requirement).

The test year revenue at current rates is determined using the 2015 forecast of billing units at 2014 approved base distribution rates.

Toronto Hydro's revenue deficiency for the 2015 test year is forecast as follows:

Table 2: Revenue Deficiency (\$ millions)

	2015 Test Year
2015 Revenue at Current (2014 approved) Rates	600.9
2015 Service Revenue Requirement	707.3
Gross Revenue Deficiency	(106.4)

/C

/C

Full details of the calculation of Revenue Deficiency are shown in the Revenue Requirement Workform tab 8, filed in Exhibit 6, Tab 1, Schedule 2.

5. CAUSES OF REVENUE DEFICIENCY

The drivers of the revenue deficiency are summarized as follows:

1 **Table 3: Revenue Deficiency Drivers (\$ millions)**

	2015 Test	Driver
Higher Net Fixed Assets	66.2	Inclusion of ICM and streetlighting capital, plus 2015 capital (Exhibit 2A, Tab 1), offset by removal of stranded meters (Exhibit 2A, Tab 4)
Lower WCA	-3.4	Increased due to higher COP and expenses offset by results of lead-lag study (Exhibit 2A, Tab 3)
Lower Cost of Capital	-17.3	Lower debt and equity rates (Exhibit 5, Tab 1)
Higher OMA	33.5	Higher operating expenses (Exhibit 4A, Tabs 1 & 2)
Higher Depreciation	69.4	Higher net fixed assets (Exhibit 2A, Tab 1), plus increase due to derecognition amounts (Exhibit 4B, Tab 1)
Higher PILS	10.7	Exhibit 4B, Tab 2
Higher Distribution Revenue	-32.7	Result of 2012-14 IRM funding on base rates (Exhibit 2A, Tab 1) and load/customer growth (Exhibit 3, Tab 1)
Higher Revenue Offsets	-20.1	Higher Revenue Offsets (Exhibit 3, Tab 2)
Total Revenue Deficiency	106.4	

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2 The revenue deficiency arising from the increase in net fixed assets is primarily due to
3 the combination of the additions to fixed assets over the 2012-15 period. Expenditures
4 undertaken through the approved ICM programs (see Exhibit 2A, Tab 1, Schedule 1) and
5 Streetlighting assets (see Exhibit 2A, Tab 5) are added to ratebase at the beginning of
6 2015, with Toronto Hydro's significant capital program (see Exhibit 2B) continuing in
7 2015. Partially offsetting the increase in ratebase described above is the removal of the
8 Stranded Meter assets, which had been previously included in rate base (see Exhibit 2A,
9 Tab 4).

10

11 A combination of the updated Lead-Lag study (Exhibit 2A, Tab 3, Schedule 2) which has
12 resulted in a reduction in the Working Capital Allowance, together with a lower overall
13 Cost of Capital (Exhibit 5, Tab 1), results in a reduction in revenue deficiency.

14

1 The revenue deficiency arising from the 2015 OM&A costs is due to the forecast level of
2 OM&A, as detailed in Exhibits 4A.

3

4 Higher depreciation amounts arise primarily due to the additional capital included in
5 ratebase (Exhibit 2A, Tab 1), as well as the requirements related to derecognition of
6 assets (Exhibit 4B, Tab 1, Schedule 2)

7

8 The revenue deficiency is partially offset by higher revenue due to IRM rate increases
9 and customer growth over the 2012-14 period (Exhibit 3, Tab 1), as well as higher
10 forecasted Revenue Offsets (Exhibit 3, Tab 2).



Ontario Energy Board

Revenue Requirement Workform (RRWF) for 2015 Filers



Version 5.00

Utility Name	Toronto Hydro-Electric System Limited
Service Territory	
Assigned EB Number	EB-2014-0116
Name and Title	Anthony Lam, Economist - Rates
Phone Number	416 542 2876
Email Address	alam@torontohydro.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.



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Revenue Requirement Workform (RRWF) for 2015 Filers

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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**



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Revenue Requirement Workform (RRWF) for 2015 Filers

Data Input ⁽¹⁾

	Initial Application	(2)		(6)		Per Board Decision
1	<u>Rate Base</u>					
	Gross Fixed Assets (average)	\$5,843,735,467		\$ 5,843,735,467		\$5,843,735,467
	Accumulated Depreciation (average)	(\$2,771,912,553)	(5)	(\$2,771,912,553)		(\$2,771,912,553)
	<u>Allowance for Working Capital:</u>					
	Controllable Expenses	\$269,529,393		\$ 269,529,393		\$269,529,393
	Cost of Power	\$2,751,934,010		\$2,751,934,010		\$2,751,934,010
	Working Capital Rate (%)	8.00%	(9)	8.00%	(9)	8.00% (9)
2	<u>Utility Income</u>					
	<u>Operating Revenues:</u>					
	Distribution Revenue at Current Rates	\$554,785,563				
	Distribution Revenue at Proposed Rates	\$661,187,867				
	<u>Other Revenue:</u>					
	Specific Service Charges	\$9,877,024				
	Late Payment Charges	\$4,000,000				
	Other Distribution Revenue	\$30,677,670				
	Other Income and Deductions	\$1,540,639				
	Total Revenue Offsets	\$46,095,333	(7)			
	<u>Operating Expenses:</u>					
	OM+A Expenses	\$265,067,891	(10)	\$ 265,067,891		\$265,067,891
	Depreciation/Amortization	\$208,240,460		\$ 208,240,460		\$208,240,460
	Property taxes	\$6,461,502		\$ 6,461,502		\$6,461,502
	Other expenses					

3 Taxes/PILs

Taxable Income:

Adjustments required to arrive at taxable income	(\$52,284,153)	(3)			
<u>Utility Income Taxes and Rates:</u>					
Income taxes (not grossed up)	\$16,510,963				
Income taxes (grossed up)	\$22,448,834				
Federal tax (%)	15.00%				
Provincial tax (%)	11.45%				
Income Tax Credits	(\$2,263,000)				

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 (%)					
	100.0%				

Cost of Capital

Long-term debt Cost Rate (%)	4.31%				
Short-term debt Cost Rate (%)	1.38%				
Common Equity Cost Rate (%)	9.30%				
Preferred Shares Cost Rate (%)					

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)
- (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.
- (10) Investment tax credits of \$2 million reclass to Taxes/PILs



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Revenue Requirement Workform (RRWF) for 2015 Filers

Rate Base and Working Capital

Line No.	Particulars		Initial Application				Per Board Decision
1	Gross Fixed Assets (average)	(3)	\$5,843,735,467	\$ -	\$5,843,735,467	\$ -	\$5,843,735,467
2	Accumulated Depreciation (average)	(3)	(\$2,771,912,553)	\$ -	(\$2,771,912,553)	\$ -	(\$2,771,912,553)
3	Net Fixed Assets (average)	(3)	\$3,071,822,914	\$ -	\$3,071,822,914	\$ -	\$3,071,822,914
4	Allowance for Working Capital	(1)	\$241,654,830	\$ -	\$241,654,830	\$ -	\$241,654,830
5	Total Rate Base		\$3,313,477,744	\$ -	\$3,313,477,744	\$ -	\$3,313,477,744

(1) Allowance for Working Capital - Derivation

6	Controllable Expenses		\$269,529,393	\$ -	\$269,529,393	\$ -	\$269,529,393
7	Cost of Power		\$2,751,934,010	\$ -	\$2,751,934,010	\$ -	\$2,751,934,010
8	Working Capital Base		\$3,021,463,403	\$ -	\$3,021,463,403	\$ -	\$3,021,463,403
9	Working Capital Rate %	(2)	8.00%	0.00%	8.00%	0.00%	8.00%
10	Working Capital Allowance		\$241,654,830	\$ -	\$241,654,830	\$ -	\$241,654,830

Notes

(2)

(3)

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%.

Average of opening and closing balances for the year.



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Revenue Requirement Workform (RRWF) for 2015 Filers

Utility Income

Line No.	Particulars	Initial Application						Per Board Decision
<u>Operating Revenues:</u>								
1	Distribution Revenue (at Proposed Rates)	\$662,167,111	(\$662,167,111)	\$ -	\$ -		\$ -	
2	Other Revenue	(1) \$45,116,089	(\$45,116,089)	\$ -	\$ -		\$ -	
3	Total Operating Revenues	\$707,283,200	(\$707,283,200)	\$ -	\$ -		\$ -	
<u>Operating Expenses:</u>								
4	OM+A Expenses	\$265,067,891	\$ -	\$265,067,891	\$ -		\$265,067,891	
5	Depreciation/Amortization	\$208,240,460	\$ -	\$208,240,460	\$ -		\$208,240,460	
6	Property taxes	\$6,461,502	\$ -	\$6,461,502	\$ -		\$6,461,502	
7	Capital taxes	\$ -	\$ -	\$ -	\$ -		\$ -	
8	Other expense	\$ -	\$ -		\$ -			
9	Subtotal (lines 4 to 8)	\$479,769,854	\$ -	\$479,769,854	\$ -		\$479,769,854	
10	Deemed Interest Expense	\$81,803,139	(\$81,803,139)	\$ -	\$ -		\$ -	
11	Total Expenses (lines 9 to 10)	\$561,572,992	(\$81,803,139)	\$479,769,854	\$ -		\$479,769,854	
12	Utility income before income taxes	\$145,710,208	(\$625,480,062)	(\$479,769,854)	\$ -		(\$479,769,854)	
13	Income taxes (grossed-up)	\$22,448,834	\$ -	\$22,448,834	\$ -		\$22,448,834	
14	Utility net income	\$123,261,374	(\$625,480,062)	(\$502,218,688)	\$ -		(\$502,218,688)	

Notes**Other Revenues / Revenue Offsets**

(1)	Specific Service Charges	\$9,877,024			\$ -			\$ -
	Late Payment Charges	\$4,000,000			\$ -			\$ -
	Other Distribution Revenue	\$30,677,670			\$ -			\$ -
	Other Income and Deductions	\$1,540,639			\$ -			\$ -
	Total Revenue Offsets	\$46,095,333		\$ -	\$ -		\$ -	\$ -



Ontario Energy Board

Revenue Requirement Workform (RRWF) for 2015 Filers

Taxes/PILs

Line No.	Particulars	Application				Per Board Decision	
<u>Determination of Taxable Income</u>							
1	Utility net income before taxes	\$123,261,372		\$ -		\$ -	
2	Adjustments required to arrive at taxable utility income	(\$52,284,153)		\$ -		(\$52,284,153)	
3	Taxable income	<u>\$70,977,219</u>		<u>\$ -</u>		<u>(\$52,284,153)</u>	
<u>Calculation of Utility income Taxes</u>							
4	Income taxes	<u>\$16,510,963</u>		<u>\$16,510,963</u>		<u>\$16,510,963</u>	
6	Total taxes	<u>\$16,510,963</u>		<u>\$16,510,963</u>		<u>\$16,510,963</u>	
7	Gross-up of Income Taxes	<u>\$5,937,871</u>		<u>\$5,937,871</u>		<u>\$5,937,871</u>	
8	Grossed-up Income Taxes	<u>\$22,448,834</u>		<u>\$22,448,834</u>		<u>\$22,448,834</u>	
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$22,448,834</u>		<u>\$22,448,834</u>		<u>\$22,448,834</u>	
10	Other tax Credits	(\$2,263,000)		(\$2,263,000)		(\$2,263,000)	
<u>Tax Rates</u>							
11	Federal tax (%)	15.00%		15.00%		15.00%	
12	Provincial tax (%)	11.45%		11.45%		11.45%	
13	Total tax rate (%)	26.45%		26.45%		26.45%	

Notes

Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
Initial Application					
	Debt				
1	Long-term Debt	56.00%	\$1,855,547,537	4.31%	\$79,974,099
2	Short-term Debt	4.00%	\$132,539,110	1.38%	\$1,829,040
3	Total Debt	60.00%	\$1,988,086,647	4.11%	\$81,803,139
	Equity				
4	Common Equity	40.00%	\$1,325,391,098	9.30%	\$123,261,372
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.00%	\$1,325,391,098	9.30%	\$123,261,372
7	Total	100.00%	\$3,313,477,744	6.19%	\$205,064,511
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%	\$3,313,477,744	0.00%	\$ -
	Debt				
8	Long-term Debt	0.00%	\$ -	4.31%	\$ -
9	Short-term Debt	0.00%	\$ -	1.38%	\$ -
10	Total Debt	0.00%	\$ -	0.00%	\$ -
	Equity				
11	Common Equity	0.00%	\$ -	9.30%	\$ -
12	Preferred Shares	0.00%	\$ -	0.00%	\$ -
13	Total Equity	0.00%	\$ -	0.00%	\$ -
14	Total	0.00%	\$3,313,477,744	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



Ontario Energy Board

Revenue Requirement Workform (RRWF) for 2015 Filers

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		\$106,402,303		(\$96,895,613)
2	Distribution Revenue	\$554,785,563	\$554,785,565	\$554,785,563	\$758,083,480
3	Other Operating Revenue	\$46,095,333	\$46,095,333	\$ -	\$ -
	Offsets - net				
4	Total Revenue	\$600,880,896	\$707,283,200	\$554,785,563	\$661,187,867
5	Operating Expenses	\$479,769,854	\$479,769,854	\$479,769,854	\$479,769,854
6	Deemed Interest Expense	\$81,803,139	\$81,803,139	\$ -	\$ -
8	Total Cost and Expenses	\$561,572,992	\$561,572,992	\$479,769,854	\$479,769,854
9	Utility Income Before Income Taxes	\$39,307,904	\$145,710,208	\$75,015,709	\$181,418,014
10	Tax Adjustments to Accounting Income per 2013 PILs model	(\$52,284,153)	(\$52,284,153)	(\$52,284,153)	(\$52,284,153)
11	Taxable Income	(\$12,976,249)	\$93,426,055	\$22,731,556	\$129,133,861
12	Income Tax Rate	26.45%	26.45%	26.45%	26.45%
13	Income Tax on Taxable Income	(\$3,432,307)	\$24,711,835	\$6,012,653	\$34,156,795
14	Income Tax Credits	(\$2,263,000)	(\$2,263,000)	(\$2,263,000)	(\$2,263,000)
15	Utility Net Income	\$45,003,211	\$123,261,374	\$71,266,056	(\$502,218,688)
16	Utility Rate Base	\$3,313,477,744	\$3,313,477,744	\$3,313,477,744	\$3,313,477,744
17	Deemed Equity Portion of Rate Base	\$1,325,391,098	\$1,325,391,098	\$ -	\$ -
18	Income/(Equity Portion of Rate Base)	3.40%	9.30%	0.00%	0.00%
19	Target Return - Equity on Rate Base	9.30%	9.30%	0.00%	0.00%
20	Deficiency/Sufficiency in Return on Equity	-5.90%	0.00%	0.00%	0.00%
21	Indicated Rate of Return	3.83%	6.19%	2.15%	0.00%
22	Requested Rate of Return on Rate Base	6.19%	6.19%	0.00%	0.00%
23	Deficiency/Sufficiency in Rate of Return	-2.36%	0.00%	2.15%	0.00%
24	Target Return on Equity	\$123,261,372	\$123,261,372	\$ -	\$ -
25	Revenue Deficiency/(Sufficiency)	\$78,258,161	\$2	(\$71,266,056)	\$ -
26	Gross Revenue Deficiency/(Sufficiency)	\$106,402,303 (1)		(\$96,895,613) (1)	\$479,769,854 (1)

Notes:

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



Ontario Energy Board

Revenue Requirement Workform (RRWF) for 2015 Filers

Revenue Requirement

Line No.	Particulars	Application		Per Board Decision	
1	OM&A Expenses	\$265,067,891		\$265,067,891	
2	Amortization/Depreciation	\$208,240,460		\$208,240,460	
3	Property Taxes	\$6,461,502		\$6,461,502	
5	Income Taxes (Grossed up)	\$22,448,834		\$22,448,834	
6	Other Expenses	\$ -		\$ -	
7	Return				
	Deemed Interest Expense	\$81,803,139		\$ -	
	Return on Deemed Equity	\$123,261,372		\$ -	
8	Service Revenue Requirement (before Revenues)	<u>\$707,283,198</u>		<u>\$502,218,688</u>	
9	Revenue Offsets	\$46,095,333		\$ -	
10	Base Revenue Requirement (excluding Transformer Ownership Allowance credit adjustment)	<u>\$661,187,866</u>		<u>\$502,218,688</u>	
11	Distribution revenue	\$661,187,867		\$ -	
12	Other revenue	\$46,095,333		\$ -	
13	Total revenue	<u>\$707,283,200</u>		<u>\$ -</u>	
14	Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)	<u>\$2</u>	(1)	<u>(\$502,218,688)</u>	(1)

Notes

(1) Line 11 - Line 8



Ontario Energy Board

Revenue Requirement Workform (RRWF) for 2015 Filers

Tracking Form

The last row shown is the most current estimate of the cost of service data reflecting the original application and any updates provided by the applicant distributor (for updated evidence, responses to interrogatories, undertakings, etc.) Please ensure a Reference (Column B) and/or Item Description (Column C) is entered. Please note that unused rows will automatically be hidden and the PRINT AREA set when the PRINT BUTTON on Sheet 1 is activated.

⁽¹⁾ Short reference to evidence material (interrogatory response, undertaking, exhibit number, Board Decision, Code, Guideline, Report of the Board, etc.)

⁽²⁾ Short description of change, issue, etc.

60 Tracking Rows have been provided below. If you require more, please contact Industry Relations @ IndustryRelations@ontarioenergyboard.ca.

Summary of Proposed Changes

1

Reference ⁽¹⁾	Item / Description ⁽²⁾	Cost of Capital		Rate Base and Capital Expenditures			Operating Expenses			Revenue Requirement			
		Regulated Return on Capital	Regulated Rate of Return	Rate Base	Working Capital	Working Capital Allowance (\$)	Amortization / Depreciation	Taxes/PILs	OM&A	Service Revenue Requirement	Other Revenues	Base Revenue Requirement	Grossed up Revenue Deficiency / Sufficiency
	Original Application	\$ 205,064,511	6.19%	\$3,313,477,744	\$3,021,463,403	\$ 241,654,830	\$ 208,240,460	\$ 22,448,834	\$ 265,067,891	\$ 707,283,198	\$ 45,116,089	\$ 662,167,109	#####