

EXHIBIT 6

**CALCULATION OF REVENUE
DEFICIENCY OR SUFFICIENCY**

Table of Contents

EXHIBIT 6 – CALCULATION OF REVENUE DEFICIENCY/SUFFICIENCY.....	3
6.1 Overview	3
6.2 Revenue Requirement Calculation	4
6.3 Drivers of Test Year Deficiency.....	7
6.3.1 Impacts of Changes in Methodologies	7
6.3.2 Summary of Revenue Requirement Drivers.....	8
6.3.2.1 OM&A	9
6.3.2.2 Depreciation.....	9
6.3.2.3 Deemed Interest Expense and Deemed Equity	9
6.4 Revenue Requirement Work Form.....	11
APPENDICES.....	12
Appendix A – Revenue Requirement Work Form	13

TABLES

Table 1 - Revenue Sufficiency/Deficiency Calculation.....	5
Table 1 - Revenue Sufficiency/Deficiency Calculation Continued.....	6
Table 2 - Revenue Deficiency by Component	8
Table 3 – Rate Base Variance	10
Table 4 – Total Return Variance	10

LIST OF ATTACHMENTS

Attachment16_2020RRWF_BHI_10302020

1 **EXHIBIT 6 – CALCULATION OF REVENUE DEFICIENCY/SUFFICIENCY**

2 **6.1 OVERVIEW**

3 The information in this Exhibit 6 summarizes BHI's request for an increase to its revenue
4 requirement in 2021 based on a revenue deficiency in 2021 as compared to the revenue
5 requirement computed by applying its 2021 load forecast to its 2020 OEB-approved electricity
6 distribution rates. BHI requires this increase in order to:

- 7
- 8 • support its capital and operating expenditures for 2021 as described in Exhibits 2 and 4
9 respectively;
 - 10 • continue to provide a safe and reliable supply of electricity to its customers;
 - 11 • allow it to earn a fair return on the cost of its financial capital in a manner consistent with
12 the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities (EB-2009-*
13 *0084)* issued December 11, 2009 ("Cost of Capital Report") and as provided in Exhibit 5;
14 and
 - 15 • meet its Payments in Lieu of Taxes ("PILs") liabilities as provided in Exhibit 4.

1 **6.2 REVENUE REQUIREMENT CALCULATION**

2 BHI provides the following information in Table 1 below, excluding energy costs and energy
3 sales (i.e., cost of power and other associated costs):

4

- 5 • Determination of Net Utility Income
- 6 • Statement of Rate Base
- 7 • Actual Utility Return on Rate Base
- 8 • Indicated Rate of Return
- 9 • Requested Rate of Return
- 10 • Deficiency or Sufficiency in Revenue
- 11 • Gross Deficiency or Sufficiency in Revenue

12

13 The revenue deficiency calculation is net of electricity price differentials captured in the Retail
14 Settlement Variance Accounts (“RSVAs”). BHI does not incur low voltage charges; and does
15 not have distribution expenditures/revenues being tracked through approved deferral and
16 variance accounts for certain distribution assets for which disposition is not being sought in the
17 Application.

18

19 BHI’s proposed revenue deficiency for the 2021 Test Year is \$3,903,311. This deficiency is
20 calculated as the difference between the 2021 Test Year Distribution Revenue Requirement of
21 \$35,529,884 and the 2021 Test Year load forecast at 2020 OEB-approved electricity distribution
22 rates of \$31,626,573.

1 **Table 1 - Revenue Sufficiency/Deficiency Calculation**

Description	2021 Load Forecast at 2020 Rates	2021 Test Year
Revenue:		
Revenue Deficiency		3,903,311
Distribution Revenue	31,626,573	31,626,573
Other Operating Revenue (Net)	1,691,087	1,691,087
Total Revenue	33,317,660	37,220,971
Costs and Expenses:		
Administrative & General, Billing & Collecting	10,612,096	10,612,096
Operation & Maintenance	10,838,680	10,838,680
Donations - LEAP	47,000	47,000
Depreciation & Amortization	6,883,779	6,883,779
Property Taxes	341,790	341,790
Deemed Interest	2,976,954	2,976,954
Total Costs and Expenses	31,700,298	31,700,298
Income and Income Taxes:		
Utility Income Before Income Taxes	1,617,361	5,520,672
Corporate Income Taxes	(577,203)	457,175
Utility Net Income	2,194,564	5,063,498

Income Tax Expense Calculation:		
Accounting Income	1,617,361	5,520,672
Tax Adjustments to Accounting Income	(3,346,741)	(3,346,741)
Taxable Income	(1,729,380)	2,173,931
Income tax expense before credits	(458,286)	576,092
Credits	118,917	118,917
Income Tax Expense	(577,203)	457,175
Tax Rate Reflecting Tax Credits	26.50%	26.50%

2

1 **Table 1 - Revenue Sufficiency/Deficiency Calculation Continued**

Description	2021 Load Forecast at 2020 Rates	2021 Test Year
Actual Return on Rate Base:		
Rate Base	148,576,805	148,576,805
Interest Expense	2,976,954	2,976,954
Net Income	2,194,564	5,063,498
Total Actual Return on Rate Base	5,171,518	8,040,451
Actual Return on Rate Base	3.48%	5.41%
Required Return on Rate Base:		
Rate Base	148,576,805	148,576,805
Return Rates:		
Return on Debt (Weighted)	3.34%	3.34%
Return on Equity	8.52%	8.52%
Deemed Interest Expense	2,976,954	2,976,954
Return On Equity	5,063,498	5,063,498
Total Return	8,040,451	8,040,451
Expected Return on Rate Base	5.41%	5.41%
Revenue Deficiency After Tax	2,868,934	0
Revenue Deficiency Before Tax	3,903,311	0

Tax Calculation - PILs Workform		2021 Test Year
Deemed Utility Income		5,063,498
Tax Adjustments to Accounting Income		(3,346,741)
Taxable Income prior to adjusting revenue to PILs		1,716,756
Tax Rate		26.50%
Total PILs before gross up		454,940
Small Business Tax Credit		
Total PILs after SBTC		454,940
Tax Rate		26.50%
Apprentice Tax Credit		118,917
Total PILs before gross up after all credits		336,023
Grossed up PILs		457,175

1 **6.3 DRIVERS OF TEST YEAR DEFICIENCY**

2 BHI's revenue requirement is comprised of the following components:

- 3 • Operation and Maintenance Expense
- 4 • Administrative and General, Billing and Collection Expense
- 5 • Depreciation/Amortization Expense
- 6 • Property Taxes
- 7 • PILs
- 8 • Return on Rate Base (Deemed Interest Expense plus Return on Equity)

9 BHI derives its service revenue requirement through (i) distribution rates charged to its
10 customers and (ii) other revenues. Other revenues include OEB-approved specific service
11 charges, rent from electric property, late payment charges and other miscellaneous revenues.
12 These other revenues, described in detail in Exhibit 3, are treated as offsets against BHI's
13 service revenue requirement, the net amount of which represents the base revenue requirement
14 upon which class-specific distribution rates are calculated.

15 **6.3.1 Impacts of Changes in Methodologies**

16 BHI adopted new capitalization and depreciation policies under Revised CGAAP effective
17 January 1, 2013 as directed by the OEB. These policies incorporated changes to the useful
18 lives of its capital assets and changes to its capitalization policies with respect to overheads.

19
20 BHI transitioned to IFRS as of January 1, 2015 and has prepared this Application on that basis.
21 Since BHI adopted the new capitalization and depreciation policies on January 1, 2013, these
22 changes were included in its 2014 Cost of Service application (EB-2013-0115) which was filed
23 under Revised CGAAP. There were no other material changes between the 2014 Revised
24 CGAAP and MIFRS statements with the exception of \$396,790 in depreciation allocated to
25 OM&A under Revised CGAAP, and depreciation expense under MIFRS. However, this was
26 removed from OM&A for the purposes of calculating working capital allowance in the OEB-
27 approved 2014 Test Year. Therefore the 2014 Test Year revenue requirement under Revised
28 CGAAP is the same as under MIFRS and as such, there is no impact to BHI's revenue
29 deficiency in the 2021 Test Year as a result of a change in methodologies. This change is
30 discussed in further detail in Section 1.4.12 of Exhibit 1.

1 **6.3.2 Summary of Revenue Requirement Drivers**

2 BHI provides a summary of the drivers of the 2021 Test Year deficiency and specific references to data in Table 2 below.

3 **Table 2 - Revenue Deficiency by Component**

Revenue Requirement	2014 Cost of Service (Revised CGAAP)	2014 Cost of Service (MIFRS)	2021 Load Forecast at 2021 Rates	Proposed 2021 Test Year	Revenue Deficiency	Exhibit	Reference
OM&A Expenses	\$17,687,000	\$17,302,974	\$19,110,098	\$21,497,775	\$2,387,677	4	Sections 4.1, 4.2 and 4.3
Depreciation	\$4,126,034	\$4,510,060	\$4,458,015	\$6,883,779	\$2,425,764	4	Section 4.4
Property Taxes	\$273,559	\$273,559	\$295,570	\$341,790	\$46,220	4	Section 4.5.2
PILs	\$211,146	\$211,146	\$228,135	\$457,175	\$229,040	4	Section 4.5
Deemed Interest Expense	\$3,603,142	\$3,603,142	\$3,893,051	\$2,976,954	(\$916,098)	5	Section 5.1, Table 1
Return on Deemed Equity	\$4,935,666	\$4,935,666	\$5,332,790	\$5,063,498	(\$269,293)	5	Section 5.1, Table 1
Total Service Revenue Requirement	\$30,836,547	\$30,836,547	\$33,317,660	\$37,220,971	\$3,903,311		
Other Operating Revenue	\$2,001,014	\$2,001,014	\$1,691,087	\$1,691,087	\$0	3	Section 3.3
Total Base Revenue Requirement	\$28,835,532	\$28,835,532	\$31,626,573	\$35,529,884	\$3,903,311		

4

5

6 BHI's 2021 Test Year deficiency of \$3,903,311 is primarily driven by an increase in Operating, Maintenance and Administration
 7 expenses ("OM&A") of \$2,387,677; and Depreciation of \$2,425,764; partially offset by a decrease in deemed interest expense and return
 8 on deemed equity after taxes of (\$956,351) - comprised of Deemed Interest Expense (\$916,098), Return on Deemed Equity (\$269,293),
 9 and PILs \$229,040.

1 **6.3.2.1 OM&A**

2 OM&A increased from \$17,302,974 in the OEB-approved 2014 Test Year (MIFRS) to
3 \$21,497,775 in the 2021 Test Year due to the following:

- 4
- 5 • An increase in base salaries and benefits primarily due to inflation;
 - 6 • An increase in overtime primarily in operations departments due to (i) an increased
7 number of outages and repairs as a result of extreme weather events; (ii) after-hours
8 equipment failures; and (iii) the significant rate of turnover in the corporation since 2014;
 - 9 • An increase in incentive compensation;
 - 10 • An increase in consulting fees in the Engineering and Information Technology
11 departments primarily driven by technological advancements and changes;
 - 12 • An increase in postage, mail service, and stationery costs as a result of the transition to
13 monthly billing;
 - 14 • An increase in regulatory costs associated with rebasing and the OEB cost assessment;
 - 15 • A decrease in locates due to the switch to a new locate provider; and
 - 16 • An increase in vegetation management expenditures driven by current market costs.
- 17

18 These changes are discussed in further detail in Section 4.1.2 in Exhibit 4.

19 **6.3.2.2 Depreciation**

20 Depreciation increased from \$4,510,060 in the OEB-approved 2014 Test Year (MIFRS) to
21 \$6,883,779 in the 2021 Test Year primarily due to an increase in in-service capital additions,
22 discussed in further detail in Section 2.2.2 of Exhibit 2.

23 **6.3.2.3 Deemed Interest Expense and Deemed Equity**

24 The components contributing to the decrease in deemed interest expense and return on
25 deemed equity are identified in Tables 3 and 4 below.

26

27 Rate base increased from \$131,828,683 in the 2014 Cost of Service to \$148,576,805 in the
28 2021 Test Year due to:

- 29 • an increase in average net fixed assets of \$27,828,061; partially offset by a decrease in
30 the working capital allowance of (\$11,079,938) primarily as a result of a decrease in the

1 default working capital allowance percentage from 13.0% to 7.5%¹ as identified in Table
 2 3; and

- 3 • BHI's weighted average cost of capital decreased from 6.48% in the 2014 Cost of
 4 Service to 5.41% in the 2021 Test Year as a result of decreases in the OEB's Cost of
 5 Capital Parameters² as identified in Table 4.

6
 7 The net effect of these changes was a decrease in deemed interest expense and return on
 8 deemed equity before tax of (\$498,356) as identified in Table 4.

9 **Table 3 – Rate Base Variance**

Description	2014 Cost of Service (EB-2013-0115)	Proposed 2021 Test Year	Increase/ (Decrease)	Exhibit	Reference
Net Fixed Assets	\$104,752,440	\$132,580,500	\$27,828,061	2	Section 2.1.1
OM&A	\$17,576,533	\$21,839,565	\$4,263,032	4	Sections 4.1, 4.2 and 4.3
Cost of Power	\$190,702,260	\$191,444,505	\$742,245	3	OEB Chapter 2 Appendices - 2Z Tab "App.2zb_Cost of Power"
Total OM&A and Cost of Power	\$208,278,793	\$213,284,070	\$5,005,277		
Working Capital Allowance %	13.00%	7.50%	\$0		Section 2.1.3
Working Capital Allowance \$ at 13.0%	\$27,076,243	\$27,726,929	\$650,686		
Working Capital Allowance \$ reduction to 7.5%		(\$11,730,624)	(\$11,730,624)		
Working Capital Allowance \$	\$27,076,243	\$15,996,305	(\$11,079,938)		
Rate Base	\$131,828,683	\$148,576,806	\$16,748,123	2	Section 2.1.1.2

11 **Table 4 – Total Return Variance**

Description	Rate Base \$	Return %	Return \$
2014 Cost of Service	\$131,828,683	6.48%	\$8,538,807
Increase in Net Fixed Assets	\$27,828,061	6.48%	\$1,802,479
Decrease in Working Capital Allowance	(\$11,079,938)	6.48%	(\$717,670)
2021 Test Year before Reduction to Cost of Capital Parameters	\$148,576,806	6.48%	\$9,623,617
Reduction in Deemed Interest Expense		-1.22%	(\$1,083,948)
Reduction in Deemed Equity		-0.84%	(\$499,218)
2021 Test Year before Reduction to Cost of Capital Parameters	\$148,576,806	5.26%	\$8,040,451
Net Change from 2014 Cost of Service to 2021 Test Year	\$16,748,123	-1.22%	(\$498,356)

¹ OEB Letter, *Allowance for Working Capital for Electricity Distribution Rate Applications*, June 3, 2015

² <https://www.oeb.ca/industry/rules-codes-and-requirements/cost-capital-parameter-updates>

1 **6.4 REVENUE REQUIREMENT WORK FORM**

2 BHI has completed the OEB's Revenue Requirement Work Form ("RRWF") which is filed as a
3 live Excel file Attachment16_2020RRWF_BHI_10302020. A PDF version of the RRWF is
4 provided as Appendix A.

APPENDICES

Appendix A – Revenue Requirement Work Form