

EXHIBIT 6 – REVENUE DEFICIENCY OR SUFFICIENCY



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6.0 REVENUE DEFICIENCY OR SUFFICIENCY

- London Hydro is herein requesting to recover \$85,330,034 in overall revenue requirement for 2
- our Test Year 2022. This includes \$80,048,456 to be recovered from rate payers against our 3
- revenue offset estimated amount of \$5,999,088 and includes \$717,510 in transformer 4
- ownership allowance. At the current 2021 rates (effective May 1, 2021), London Hydro has 5
- determined that for the year 2022 it would recover \$72,247,728 from consumers. This results in 6
- our request to increase our rates by the deficiency amount of \$7,800,729 or an overall rate 7
- increase of 10.80%. 8

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The following outlines how London Hydro has determined this amount.

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6.1 RATE BASE

Table 6 below shows the calculation of average net fixed assets to be included in the rate. The 13 support for these values can be found in Exhibit 2. 14

Table 6-1: Calculation of Average Net Fixed Assets

| Distributors Rate Base | | Original A | Application | 1 |
|---|-----|-------------|-------------|-------------|
| Average Net Fixed Assets | | | | |
| Gross Fixed Assets - Re-based Opening | \$ | 576,170,598 | | |
| Add: CWIP Re-based Opening | | | | |
| Re-based Capital Additions | \$ | 41,742,000 | | |
| Re-based Capital Disposals | | | | |
| Re-based Capital Retirements | -\$ | 11,586,600 | | |
| Deduct: CWIP Re-based Closing | | | | |
| Gross Fixed Assets - Re-based Closing | \$ | 606,325,998 | | |
| Average Gross Fixed Assets | | | \$ | 591,248,298 |
| • | | | | . , |
| Accumulated Depreciation - Re-based Opening | -\$ | 229,241,262 | | |
| Re-based Depreciation Expense | -\$ | 22,379,800 | | |
| Re-based Disposals | \$ | 11,586,600 | | |
| Re-based Retirements | | | | |
| Accumulated Depreciation - Re-based Closing | -\$ | 240,034,462 | | |
| Average Accumulated Depreciation | | | -\$ | 234,637,862 |
| Average Accumulated Depredation | | | Ψ | 204,007,002 |
| Average Net Fixed Assets | | | \$ | 356,610,437 |
| | | | ~ | 222,010,101 |

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Table 6 below shows the calculation of Working Capital Allowance to be included in the rate. 18

More details can be found in Exhibit 2. Eligible Distribution Expenses can be found in Exhibit 4. 19



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The calculation of Power Supply expenses can be found in sheets App.2-ZA: Commodity

- 2 Expense and App.2-ZB: Cost of Power in the OEB Appendix 2 workbook. London Hydro will
- continue to use the working capital factor of 7.50% as accepted in the 2017 COS application.

5 Table 6-2: Calculation of Working Capital

| 3500-Distribution Expenses - Operation 3550-Distribution Expenses - Maintenance 3,660,916 3650-Billing and Collecting 6,324,404 3700-Community Relations 171,600 3800-Administrative and General Expenses 16,870,258 Other Deductions 126,800 126,800 3350-Power Supply Expenses 281,293,360 WMSR 9,426,409 RRRP 1,571,068 RTSR - Network 29,339,133 RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate Total Expenses for Working Capital 358,046,716 3758,046,716 | Expenses for Working Capital Eligible Distribution Expenses: | | |
|---|--|--------------|-------------|
| 3650-Billing and Collecting 6,324,404 3700-Community Relations 171,600 3800-Administrative and General Expenses 16,870,258 Other Deductions 126,800 Total Eligible Distribution Expenses 44,295,600 3350-Power Supply Expenses 281,293,360 WMSR 9,426,409 RRP 1,571,068 RTSR - Network 29,339,133 RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | 3500-Distribution Expenses - Operation | | 12,141,622 |
| 3700-Community Relations 171,600 3800-Administrative and General Expenses 16,870,258 Other Deductions 126,800° Total Eligible Distribution Expenses 44,295,600 3350-Power Supply Expenses 281,293,360 WMSR 9,426,409 RRRP 1,571,068 RTSR - Network 29,339,133 RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | 3550-Distribution Expenses - Maintenance | | 8,660,916 |
| 3800-Administrative and General Expenses 16,870,258 Other Deductions 126,800 Total Eligible Distribution Expenses 44,295,600 3350-Power Supply Expenses 281,293,360 Electricity 281,293,360 WMSR 9,426,409 RRRP 1,571,068 RTSR - Network 29,339,133 RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | 3650-Billing and Collecting | | 6,324,404 |
| Other Deductions 126,800 Total Eligible Distribution Expenses 44,295,600 3350-Power Supply Expenses 281,293,360 Electricity 281,293,360 WMSR 9,426,409 RRRP 1,571,068 RTSR - Network 29,339,133 RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | 3700-Community Relations | | 171,600 |
| Other Deductions 126,800 Total Eligible Distribution Expenses 44,295,600 3350-Power Supply Expenses 281,293,360 Electricity 281,293,360 WMSR 9,426,409 RRRP 1,571,068 RTSR - Network 29,339,133 RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | 3800-Administrative and General Expenses | | 16,870,258 |
| 3350-Power Supply Expenses Electricity 281,293,360 WMSR 9,426,409 RRRP 1,571,068 RTSR - Network 29,339,133 RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | · · · · · · · · · · · · · · · · · · · | | 126,800 |
| Electricity 281,293,360 WMSR 9,426,409 RRRP 1,571,068 RTSR - Network 29,339,133 RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | Total Eligible Distribution Expenses | | 44,295,600 |
| WMSR 9,426,409 RRRP 1,571,068 RTSR - Network 29,339,133 RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | 3350-Power Supply Expenses | • | |
| RRRP 1,571,068 RTSR - Network 29,339,133 RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | Electricity | 281,293,360 | |
| RTSR - Network 29,339,133 RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | WMSR | 9,426,409 | |
| RTSR - Connection 21,853,594 Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | RRRP | 1,571,068 | |
| Smart Meter Entity Charge 1,117,068 CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | RTSR - Network | 29,339,133 | |
| CBR 1,256,855 Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | RTSR - Connection | 21,853,594 | |
| Power Supply Expenses 345,857,487 OER Rebate (32,106,371) 313,751,116 | Smart Meter Entity Charge | 1,117,068 | |
| OER Rebate (32,106,371) 313,751,116 | CBR | 1,256,855 | |
| | Power Supply Expenses | 345,857,487 | |
| Total Expenses for Working Capital 358 046 716 | OER Rebate | (32,106,371) | 313,751,116 |
| 10tal Expenses for Fronting Capital 300,040,710 | Total Expenses for Working Capital | | 358,046,716 |
| Working Capital factor 7.50% | Working Capital factor | | 7.50% |
| Working Capital Allowance 26,853,504 | Working Capital Allowance | | 26,853,504 |

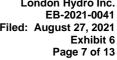
- Table 6 below is the Calculation of Rate Base as derived in Table 6-1: Calculation of Average
- 8 Net Fixed Assets and Table 6-2: Calculation of Working Capital shown above.

Table 6-3: Statement of Rate Base

| Average Net Fixed Assets | | \$ | 356,610,437 |
|--|-------------------|----|-------------|
| Working Capital Allowance Working Capital Allowance Base | \$ 358,046,716 | | |
| Working Capital Allowance Rate Working Capital Allowance | 7.50% | | 26.853.504 |
| working Capital Allowance | | • | 20,033,304 |
| Rate Base | | \$ | 383,463,940 |

6.2 RETURN ON RATE BASE

- Table 6- below shows the calculation of the Return on Rate Base. London Hydro is using the
- OEB's deemed interest and equity values and applying the effective January 1, 2021, deemed





- short term interest and return on equity values prescribed by the OEB Cost of Capital 1
- Parameters Updates issued November 9, 2020 (see extract below). Further London Hydro is 2
- applying the long-term interest of 2.30% as calculated in Exhibit 5. 3

The OEB has determined that the updated cost of capital parameters for rate applications for rates effective in 2021 are:

| Cost of Capital Parameter | Value for Applications for rate changes in 2021 |
|---------------------------|---|
| ROE | 8.34% |
| Deemed LT Debt rate | 2.85% |
| Deemed ST Debt rate | 1.75% |

Table 6-4: Calculation of the Return on Rate Base

| Rate Base | | \$ | 383,463,940 |
|---|---------------------------|----------------|---|
| Return on Rate Base | | | |
| Deemed ShortTerm Debt % Deemed Long Term Debt % Deemed Equity % | 4.00% 56.00% 40.00% | \$ \$ \$ | 15,338,558 214,739,807 153,385,576 |
| Short Term Interest Long Term Interest Return on Equity Return on Rate Base | 1.75% 2.30% 8.34% | \$ \$ \$ | 268,425 4,939,016 12,792,357 17,999,797 |

6.3 ELIGIBLE DISTRIBUTION EXPENSES

- Table 6-, found below, details the eligible distribution expenses that London Hydro is requesting to recover. The details for the OM&A expenses, Amortization and Grossed up PILs can be 10
- found in Exhibit 4. 11

Table 6-5: Eligible Distribution Expenses

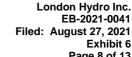
| Distribution Expenses | | |
|-------------------------|------------------|-----------------|
| Operation Expenses | \$ 12,141,622 | |
| Maintenance Expenses | \$ 8,660,916 | |
| Billing & Collecting | \$ 6,324,404 | |
| Community Relations | \$ 171,600 | |
| Administration Expenses | \$ 16,870,258 | |
| Other Adjustments | \$ 609,200 | |
| Amortization | \$ 22,148,800 | |
| Grossed Up PILs | \$ 403,436 | |
| • | | |
| | | \$ 67,330,23 |

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6.4 CALCULATION OF REVENUE REQUIREMENT

Table 6- below shows the calculation of our requested revenue requirement. 3

Table 6-6: Calculation of Revenue Requirement

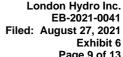
| Rate Base | | | \$ | 383,463,940 |
|---|----------------------------------|---|----------------|---|
| Return on Rate Base | | | | |
| Deemed ShortTerm Debt % Deemed Long Term Debt % Deemed Equity % | | 4.00% 56.00% 40.00% | \$ \$ \$ | 15,338,558 214,739,807 153,385,576 |
| Short Term Interest Long Term Interest Return on Equity Return on Rate Base | | 1.75% 2.30% 8.34% | \$ \$ \$ | 268,425 4,939,016 12,792,357 17,999,797 |
| Distribution Expenses Operation Expenses Maintenance Expenses Billing & Collecting Community Relations Administration Expenses Other Adjustments Amortization Grossed Up PILs | \$ \$ \$ \$ \$ \$ | 12,141,622 8,660,916 6,324,404 171,600 16,870,258 609,200 22,148,800 403,436 | | |
| · | | | \$ | 67,330,236 |
| Revenue Requirement | | | \$ | 85,330,034 |

6.5 REVENUE OFFSETS

Table 6- below details the revenue offsets that London Hydro estimates as determined in Exhibit 8 3. 9

Table 6-7: Revenue Offsets

| Revenue Offsets | | | |
|-----------------------------|-----|-----------|--------------|
| Specific Service Charges | -\$ | 1,070,100 | |
| Late Payment Charges | -\$ | 1,635,400 | |
| OtherDistribution Revenue | -\$ | 2,370,100 | |
| Other Income and Deductions | -\$ | 923,488 | |
| | \$ | - | |
| | \$ | - | -\$ 5,999,08 |



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6.6 OTHER REVENUE INCLUSIONS

- Table 6- below highlights the Transformer Ownership allowance amount that needs to be added 2
- to the affected rate classes for recovery. The calculation for this is determined in the load 3
- forecast found in Exhibit 3. 4

Table 6-8: Other Revenue Inclusions



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6.7 REVENUE REQUIREMENT FROM DISTRIBUTION RATES

- Table 6- below shows the calculation of the Revenue Requirement from Distribution Rates. 10
- This is the overall amount that will be used to set the final rates design as found in 11
- Exhibit 8. 12

Table 6-9: Revenue Requirement from Distribution Rates

| Revenue Requirement | | | \$ | 85,330,034 |
|---|-------------------|--|-----|------------|
| Revenue Offsets | | | | |
| Specific Service Charges Late Payment Charges OtherDistribution Revenue Other Income and Deductions | -\$ -\$ -\$ | 1,070,100 1,635,400 2,370,100 923,488 | | |
| | \$ \$ | _ | -\$ | 5,999,088 |
| Revenue Requirement from Distribution Rates Other Revenue Inclusions | 1 | | \$ | 79,330,946 |
| Transformer Allowance | \$ | 717,510 | | |
| Hansiomer Allowance | \$ \$ \$ | - - - | \$ | 717,510 |
| Revenue Requirement from Distribution Rates | | | \$ | 80,048,456 |

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6.8 CALCULATION OF REVENUE DEFICIENCY

- London Hydro has determined that it requires to collect \$80,048,456 in revenue from its
- ratepayers. If London Hydro were to continue billing with its current rates, we expect to recover
- \$72,247,728 from rate payers. Accordingly, London Hydro needs to increase revenues by
- \$7,800,729 or 10.80% to remain whole. Table 6- below shows this calculation.

Table 6-10: Calculation of Revenue Deficiency

| Revenue Requirement from Distribution Rates | \$ | 80,048,456 |
|---|-----|------------|
| Revenue from Current Rates | \$ | 72,247,728 |
| Revenue Sufficiency (Deficiency) | -\$ | 7,800,729 |
| Resulting Distribution Rate Change | | 10.80% |

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6.9 COMPARISON TO 2017 DEFICIENCY

2022 Deficiency Adjustment

- London Hydro is requesting an overall 10.80% (\$7.8M) deficiency adjustment to our current
- rates. The net result is a \$4.3M change in London Hydro's deficiency adjustment from the
- previous OEB Approved deficiency of \$3.5M. Table 6-1 below highlights the change drivers
- 14 from the 2017 COS.

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Table 6-11: Change in Revenue Deficiency

| Revenue Requirement Comparison | | | | | | |
|---|-------------|-------------|--------------|--------|--|--|
| · | | | Total Char | nge | | |
| | | 2022 | 2017 Budget | | | |
| | 2017 OEB | Proposed | to | | | |
| | Approved | Test Year | 2022 Test | Change | | |
| | \$ | \$ | \$ | % | | |
| | | | | | | |
| Rate Base | | | | | | |
| Average fixed assets | 265,772,982 | 356,610,437 | 90,837,455 | 34.2% | | |
| Cost of power | 413,130,174 | 313,751,116 | (99,379,058) | -24.1% | | |
| OM&A expenses | 37,592,000 | 44,168,800 | 6,576,800 | 17.5% | | |
| Working Capital | 450,722,174 | 357,919,916 | (92,802,258) | -20.6% | | |
| | 7.50% | 7.50% | | | | |
| Working capital allowance | 33,795,804 | 26,853,504 | (6,942,300) | -20.5% | | |
| Rate Base | 299,568,786 | 383,463,940 | 83,895,155 | 28.0% | | |
| Cost of Capital | | | | | | |
| Return on equity | 10,520,856 | 12,792,357 | 2,271,501 | 21.6% | | |
| Interest (deemed) | 4,690,049 | 5,207,440 | 517,391 | 11.0% | | |
| | 15,210,905 | 17,999,797 | 2,788,892 | 18.3% | | |
| Operating expenses | | | | | | |
| Amortization/depreciation | 17,272,758 | 22,148,800 | 4,876,042 | 28.2% | | |
| OM&A expenses | 37,592,000 | 44,168,800 | 6,576,800 | 17.5% | | |
| PILs (grossed up) | 982,051 | 403,436 | (578,615) | -58.9% | | |
| Property taxes | 505,000 | 609,200 | 104,200 | 20.6% | | |
| | 56,351,809 | 67,330,236 | 10,978,427 | 19.5% | | |
| Revenue Requirement | | | | | | |
| Service revenue requirement | 71,562,714 | 85,330,034 | 13,767,320 | 19.2% | | |
| Other revenues | (5,007,326) | (5,999,088) | (991,762) | 19.8% | | |
| Base Revenue Requirement | 66,555,388 | 79,330,946 | 12,775,558 | 19.2% | | |
| Transformer Allowance | 801,759 | 717,510 | (84,249) | -10.5% | | |
| Revenue Requirement from Distribution Rates | 67,357,147 | 80,048,456 | 12,691,309 | 18.8% | | |
| Revenue at Current Rates | 67,357,147 | 72,247,728 | 4,890,581 | 7.3% | | |
| Revenue Deficiency | | 7,800,728 | 7,800,728 | | | |
| Requested Rate Increase % | | 10.80% | | | | |

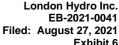


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London Hydro

- London Hydro is requesting \$90.8M more in Average Net Fixed Assets. London Hydro notes
- that it consistently invests more in annual capital expenditures over what is accounted for and
- requested in annual depreciation. Details on Fixed Assets can be found in Exhibit 2.
- 4 London Hydro will continue to use the working capital factor of 7.50 % as accepted in the 2017
- 5 COS application, resulting in a \$6.9M reduction in Working Capital calculation.
- 6 Accordingly, London Hydro's requested Rate Base increase is a net \$83.9M higher.
- Due to an increase in debt, offset by reduced negotiated interest rates we are requesting a
- 8 recovery of \$0.5M more in our interest request. Return on Equity has increased by \$2.3M,
- which is driven primarily by the increase in Assets. Details on capitalization can be found in
- 10 Exhibit 5.
- OM&A is up \$6.6M, the increase primarily related to inflation and customer growth. Details on
- OM&A can be found in Exhibit 4.
- Depreciation has increased by \$4.9M reflecting the growth in the value of gross fixed assets
- between 2017 OEB Approved and the proposed 2022 Test Year, together with inflationary
- impacts.
- Grossed up PILs (Income Taxes) are down \$0.6M, the decrease is primarily the result of
- increased capital cost allowance deductions due to the Accelerated Investment Incentive
- introduced by the Government of Canada in 2018, as well as increases in additions to rate
- base. Details on PILs can found in Exhibit 4.
- 20 Miscellaneous Revenue Offsets have increased \$1.0M. The resulting increase in this area is a
- benefit to our customers as it allows London Hydro to lower its revenue requirement from rate
- payers. Details on Miscellaneous Revenue Offsets can be found in Exhibit 3.
- Also, as identified in our Load Forecast in Exhibit 3, London Hydro transferred a net of 139
- 24 customers (10 in 2018, 42 in 2019, 52 in 2020, and 35 in 2021) from GS>50 kW rate class to
- 25 the GS<50 kW rate class. It is estimated that each of the net transfers results in erosion in
- revenue of \$1,500 per year or about \$476K in total for the four years.



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- London Hydro therefore is requesting \$12.7M more in adjustments over the final 2017 OEB
- approved amounts. This is offset by the \$4.9M increase in the projected existing current
- distribution revenues. Consequently, London Hydro is requesting a \$7.8M change in revenue
- deficiency over the 2017 OEB Final approved deficiency adjustment.
- 5 This all leads to a gross \$7.8M deficiency adjustment or a 10.80% requested increase in rates.
- 6 At the end of the day, this manifests into a \$3.30 per month increase to the average residential
- 7 customer's total bill.