



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

The following outlines how London Hydro has determined this amount.

6.1 RATE BASE

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

Table 6-1: Calculation of Average Net Fixed Assets

Distributors Rate Base	Original Application	
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 Net Fixed Assets	\$	356,610,437

Table 6 below shows the calculation of Working Capital Allowance to be included in the rate. More details can be found in Exhibit 2. Eligible Distribution Expenses can be found in Exhibit 4.

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

Table 6-2: Calculation of Working Capital

Expenses for Working Capital		
Eligible Distribution Expenses:		
3500-Distribution Expenses - Operation		12,141,622
3550-Distribution Expenses - Maintenance		8,660,916
3650-Billing and Collecting		6,324,404
3700-Community Relations		171,600
3800-Administrative and General Expenses		16,870,258
Other Deductions		126,800
Total Eligible Distribution Expenses		44,295,600
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
Total Expenses for Working Capital		358,046,716
Working Capital factor		7.50%
Working Capital Allowance		26,853,504

Table 6 below is the Calculation of Rate Base as derived in Table 6-1: Calculation of Average 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	7.50%	
Working Capital Allowance		\$ 26,853,504
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

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

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%

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

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

6.3 ELIGIBLE DISTRIBUTION EXPENSES

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

12 **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
		\$ 67,330,236

6.4 CALCULATION OF REVENUE REQUIREMENT

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

Table 6-6: Calculation of Revenue Requirement

Rate Base		\$ 383,463,940
Return on Rate Base		
Deemed Short Term Debt %	4.00%	\$ 15,338,558
Deemed Long Term Debt %	56.00%	\$ 214,739,807
Deemed Equity %	40.00%	\$ 153,385,576
Short Term Interest	1.75%	\$ 268,425
Long Term Interest	2.30%	\$ 4,939,016
Return on Equity	8.34%	\$ 12,792,357
Return on Rate Base		\$ 17,999,797
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	
		\$ 67,330,236
Revenue Requirement		
		\$ 85,330,034

6.5 REVENUE OFFSETS

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

Table 6-7: Revenue Offsets

Revenue Offsets		
Specific Service Charges	-\$ 1,070,100	
Late Payment Charges	-\$ 1,635,400	
Other Distribution Revenue	-\$ 2,370,100	
Other Income and Deductions	-\$ 923,488	
	\$ -	
	\$ -	-\$ 5,999,088

6.6 OTHER REVENUE INCLUSIONS

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

Table 6-8: Other Revenue Inclusions

Other Revenue Inclusions			
Transformer Allowance	\$	717,510	
	\$	-	
	\$	-	
	\$	-	
	\$	-	
			\$ 717,510

6.7 REVENUE REQUIREMENT FROM DISTRIBUTION RATES

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

Table 6-9: Revenue Requirement from Distribution Rates

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

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%

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 from the 2017 COS.

Table 6-11: Change in Revenue Deficiency

Revenue Requirement Comparison				
	2017 OEB Approved	2022 Proposed Test Year	Total Change	
			2017 Budget to 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%
PIs (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%



1 London Hydro is requesting \$90.8M more in Average Net Fixed Assets. London Hydro notes
2 that it consistently invests more in annual capital expenditures over what is accounted for and
3 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.

7 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,
9 which is driven primarily by the increase in Assets. Details on capitalization can be found in
10 Exhibit 5.

11 OM&A is up \$6.6M, the increase primarily related to inflation and customer growth. Details on
12 OM&A can be found in Exhibit 4.

13 Depreciation has increased by \$4.9M reflecting the growth in the value of gross fixed assets
14 between 2017 OEB Approved and the proposed 2022 Test Year, together with inflationary
15 impacts.

16 Grossed up PILs (Income Taxes) are down \$0.6M, the decrease is primarily the result of
17 increased capital cost allowance deductions due to the Accelerated Investment Incentive
18 introduced by the Government of Canada in 2018, as well as increases in additions to rate
19 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
21 benefit to our customers as it allows London Hydro to lower its revenue requirement from rate
22 payers. Details on Miscellaneous Revenue Offsets can be found in Exhibit 3.

23 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
26 revenue of \$1,500 per year or about \$476K in total for the four years.



1 London Hydro therefore is requesting \$12.7M more in adjustments over the final 2017 OEB
2 approved amounts. This is offset by the \$4.9M increase in the projected existing current
3 distribution revenues. Consequently, London Hydro is requesting a \$7.8M change in revenue
4 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.