REVENUE REQUIREMENT AND SUFFICIENCY / DEFICIENCY

This Schedule provides a summary of the revenue requirement requested by Toronto Hydro for 2025. The utility's total Service Revenue Requirement is offset by revenues obtained through sources other than distribution rates, as outlined in Exhibit 6, Tab 1, Schedules 2-6. The calculation of the revenue deficiency/sufficiency does not include the clearance of deferral and variance accounts or low voltage charges. [1,2] In accordance with the Filing Requirements,[3] costs and revenues related to energy are kept separate from the determination of the distribution revenue sufficiency/deficiency.

Table 1 below summarizes Toronto Hydro's 2025 revenue requirement.

Table 1: 2025 Forecast Revenue Requirement ($ Millions)

	2025 Test Year
OM&A Expenses (incl. property taxes)	343.0
Amortization/Depreciation	285.3
Income Taxes (grossed up)	27.9
Deemed Interest Expense	143.2
Return on Deemed Equity	220.9
Service Revenue Requirement	1,020.3
Revenue Offsets	-47.9
Base Revenue Requirement	972.4

Full details on the calculation of revenue requirement, including the Determination of Net Utility Income, Statement of Rate Base, Actual Utility Return on Rate Base, Indicated Rate of

[1] Outlined in Exhibit 9, Tab 1, Schedule 1.
[2] Outlined in Exhibit 8, Tab 1, Schedule 1.
[3] OEB Filing Requirements for Electricity Distribution Rate Applications, Chapter 2 – Cost of Service (December 15, 2022), section 2.6.

Return, Requested Rate of Return, and the Deficiency in Revenue, can be found in the Revenue Requirement Workforms ("RRWF"), filed as Exhibit 6, Tab 1, Schedules 2-6.

In addition to the 2025 RRWF, Toronto Hydro is providing the RRWF for each of 2026-2029, in accordance with the Filing Requirements.[4] During the 2026 to 2029 period, the proposal is to set rates based on the Custom Revenue Cap Index[5] and not on a revenue requirement basis.

In order to meet the specific requirements of Toronto Hydro, some minor adjustments to the rates-related tabs of the OEB's RRWF were required. Appendix A to this Schedule fully documents these adjustments.

1. SERVICE REVENUE REQUIREMENT

Service revenue requirement is comprised of operating expenses (including depreciation and property taxes), cost of capital, and payments in lieu of taxes ("PILs").

Operating expenses, including administrative and general expenses, and property taxes, are explained in further detail in Exhibit 4 and summarized in Exhibit 4, Tab 1, Schedule 1.

Depreciation and amortization expenses are further discussed in detail in Exhibit 2A, Tab 2.

The weighted average cost of capital is calculated based on a weighted average of interest expense and return on equity. Toronto Hydro's capital structure for ratemaking purposes is

[4] OEB Filing Requirements for Electricity Distribution Rate Applications, Chapter 2 – Cost of Service (December 15, 2022), section 2.6.1.
[5] See Exhibit 1B, Tab 4, Schedule 1 for more information on Toronto Hydro's proposed Custom Revenue Cap Index rate framework.

determined in accordance with the OEB's cost of capital guidelines. The cost of capital, based on the OEB's deemed capital structure, is discussed in Exhibit 5, Tab 1.

Income taxes and PILs are explained in detail in Exhibit 6, Tab 2, Schedule 2.

2. REVENUE OFFSETS

In addition to revenue that Toronto Hydro earns from rates and charges set out in its tariff, it also earns other revenues from non-distribution related services, property and facility rentals, specific service charges, and short-term investment income. These other revenues offset the revenue requirement. Revenue offsets are detailed in Exhibit 3, Tab 2.

3. BASE REVENUE REQUIREMENT

The base revenue requirement is derived as service revenue requirement less revenue offsets. The base revenue requirement is allocated to and collected from the various customer classes through distribution rates.

4. OVERALL REVENUE DEFICIENCY

For 2025, the revenue deficiency is the difference between the 2025 forecast year revenue requirement and the 2025 forecast year revenues calculated at current rates.

The 2025 test year revenue is determined using the 2025 forecast of billing units at expected 2024 base distribution rates.[6]

Toronto Hydro's revenue deficiency for the 2025 test year is summarized in Table 2.

[6] Toronto Hydro has applied for 2024 distribution rates incorporating the OEB's 2024 inflation factor in EB-2023-0054, which is pending the OEB's decision as of the filing of this evidence.

Table 2: Revenue Deficiency ($ Millions)

	2025 Forecast
Service Revenue at expected 2024 Rates	918.1
Service Revenue Requirement	1020.3
Gross Revenue Deficiency	(102.2)

Full details of the calculation of revenue deficiency are shown in Tab 8 of the 2025 RRWF, filed in Exhibit 6, Tab 1, Schedule 2.

5. CAUSES OF REVENUE DEFICIENCY

The drivers of Toronto Hydro's revenue deficiency are summarized in Table 3.

Table 3: Revenue Deficiency Drivers ($ Millions)

	2020 OEB Approved	2025 Forecast	Difference	
Rate Base	4,514.8	5,901.2	1,386.4	Higher net fixed assets offset by lower working capital allowance
ROE	8.52%	9.36%	0.84%	Higher forecast ROE rate. 9.36% is based on OEB approved ROE rate for 2023.
Debt Rate	3.64%	4.04%	0.40%	Higher forecast embedded debt rates
DRIVERS OF DEFICIENCY				
OM&A	266.7[7]	343.0	76.3	Higher OM&A expenses
Depreciation	263.7	285.3	21.6	Higher rate base plus derecognition expense, partially offset by a net increase to the useful lives of distribution assets.

[7] In EB-2018-0165, the OEB approved a 2020 OM&A budget of $272.2 million and directed Toronto Hydro to amend the presentation of shared services within Other Revenue, under USoA Accounts 4375 and 4380 for revenues and expenses of non-rate regulated utility operations. Normalized for this change, the 2020 OEB-approved OM&A budget was $266.7 million.

	2020 OEB Approved	**2025 Forecast**	**Difference**	
Deemed Interest Expense	98.5	143.2	44.7	Higher rate base and higher forecast debt rates
Return on Equity	153.9	220.9	67.0	Higher rate base and higher forecast ROE rate
PILS	9.7	27.9	18.2	Higher net income
Total Service Revenue Requirement	**792.5**	**1,020.3**	**227.8**	
Distribution Revenue at 2020/24 Rates	771.4	870.2	98.8	Increase in OEB approved rates 2020-2024 and customer growth
Revenue Offsets	42.3	47.9	5.6	Increase in Other Revenues
Total Operating Revenue	**813.7**	**918.1**	**104.4**	
Total Deficiency		**102.2**	**102.2**	

Rate base increases are primarily due to fixed asset additions over the 2020-2024 period, as described in Exhibit 2A, Tab 1, partially offsetting the increase in net fixed assets is a decrease in working capital allowance based on the updated lead-lag study, as featured in Exhibit 2A, Tab 3, Schedules 1 and 2.

Debt and ROE rates are forecast to be higher in 2025 (Exhibit 5, Tab 1, Schedule 1), and the rate base to which those rates are applied is also larger as a result of capital investments during the 2020-2024 period. The result is an increased cost of capital.

The revenue deficiency arising from the 2025 OM&A costs is due to the forecast level of OM&A, as detailed in Exhibit 4, Tabs 1 and 2.

Higher depreciation amounts are primarily due to the additional capital assets included in rate base, as well as the requirements related to derecognition of assets, as discussed in Exhibit 2A, Tabs 1 and 2. This increase is partially offset by a net increase to the useful lives of distribution assets.[8]

The revenue deficiency is partially offset by higher revenue resulting from OEB-approved rate increases and customer growth over the 2020-2024 period and higher forecasted revenue offsets, as discussed respectively in Exhibit 3, Tabs 1 and 2.

[8] In accordance with the OEB's decision in the 2020-2024 Rate Application (EB-2018-0165), Toronto Hydro retained an expert consultant to complete a depreciation study, which is filed in Exhibit 2A, Tab 2, Schedule 1, Appendix D. The Study resulted in changes to asset useful lives and depreciation rates effective January 1, 2023.

APPENDIX A - MODIFICATIONS TO THE OEB's REVENUE REQUIREMENT WORK FORM

The following information details the changes that have been incorporated into the Ontario Energy Board's Revenue Requirement Workform for 2024 Filers V1.10.

1. WORKSHEET 13. RATE DESIGN

In all rate classes, the sum of revenue from the fixed and variable components adds to 100% of revenue for the class. Toronto Hydro's Unmetered Scattered Load rate class has an OEB-approved three-part rate. Therefore, the total class revenue in Cell O35 has been reallocated for a three-part rate across cells Q35, Q36, and S35. These changes are captured as follows:

- Fixed/variable split inputs (cells U35, U36, and W35)
- Monthly service charge calculations (cells AA35 and AA36)

Toronto Hydro's approved monthly service charge and kVA volumetric rates are based on 30 days of service. Both the monthly service charge and kVA volumetric rates calculation in columns AA and AE have been changed to reflect this requirement.

In addition, Toronto Hydro's volumetric rates are based on either kWh or kVA, showing 5 and 4 decimals, respectively, reflected by changes in column AI.

In the **Revenue Reconciliation** section, the total distribution revenues value needs to be converted back to 365 days of revenue and therefore reflects the "days of service" adjustment factor of 365/360, or 1.013888889, shown in cell AK25.

CORPORATE TAXES (PILS)

1. INTRODUCTION

The Revenue Requirement filed at Exhibit 6, Tab 1, Schedule 1 of this application reflects amounts for Payments in Lieu of Taxes ("PILs") of $27.9 million (excluding investment tax credits of $2.5 million reallocated to OM&A), for the 2025 Test Year. The 2025 PILs tax models are filed at Exhibit 6, Tab 2, Schedule 2.

Toronto Hydro used the OEB's PILs model for 2024 filers to prepare the 2025 PILs tax models. Other than the changes described below, no other changes to the OEB's PILs tax models have been made:

- All Tabs: The date in the header changed from "…2024 Filers" to "…2025 Filers".
- Tab "S. Summary":
  - Lines listed below have been added and linked to Tab "T0 PILs, Tax Provision Test" accordingly:
    - "Test Year – Grossed-up PILs before tax credits reclass to OM&A",
    - "Test Year – Tax credis reclass to OM&A:, and
    - "Test Year – Tax credits reclass to OM&A – gross up".
  - Description for "Test Year – Grossed-up PILs" changed to "Test Year – Grossed-up PILS after tax credits reclass to OM&A".
- Tab "B. Tax Rates & Exemptions": tax rates are updated for Toronto Hydro effective January 1, 2019 to January 1, 2025.
- Tabs "B0 PILs, Tax Provision Bridge" and "T0 PILs, Tax Provision Test" for bridge and test years: added adjustments for tax credits included in OM&A. The following lines have been added:

    - "Corporate PILs/Income Tax Provision Gross Up" (only for Tab "B0 PILs, Tax Provision Bridge")
    - "Income Tax (grossed up) before tax credits reclass to OM&A"
    - "Tax credits reclass to OM&A"
    - "Tax credits reclass to OM&A – gross up", and
    - "Income Tax (grossed-up) after tax credits reclass to OM&A" (only for Tab "B0 PILs, Tax Provision Bridge").
    - Description for "Income Tax (grossed-up)" changed to "Income Tax (grossed-up) after tax credits reclass to OM&A (only for Tab "T0 PILs, Tax Provision Test")
    - Formula referencing is updated accordingly.
- Tabs "B8 Sch 8 CCA Bridge" and "T8 Sch 8 CCA Test", updated the following in the "Relevant factor" column for 2024 Bridge year and 2025 Test year:
    - Class 43.1 updated from 2.33 to 1.5
    - Class 43.2 updated from 1.0 to 0.5
    - Added Class 54 row and added relevant factor with 1.5, and
    - Other Classes updated from 0.5 to 0
- Tab "T8 Sch 8 CCA Test", updated formula in the following columns for 2025 Test year:
    - Column (9) *Proceeds of dispositions of the DIEP (enter amount from column 8 that relates to the DIEP reported in column 4)*
    - Column (11) *UCC of the DIEP (enter the UCC amount that relates to the DIEP reported in column 4)*
    - Column (13) *Cost of acquisitions on remainder of Class (column 3 minus column 4 plus* column 11 minus column 12)

- Column (14) *Cost of acquisitions from column 13 that are accelerated investment incentive properties (AIIP) or properties included in Classes 54 to 56*
- Column (15) *Remaining UCC (column 10 minus column 12) (if negative, enter "0")*
- Column (16) *Proceeds of disposition available to reduce the UCC of AIIP and property included in Classes 54 to 56 (column 8 minus column 9 plus column 6 minus column 13 plus column 14 minus column 7) (if negative, enter "0")*
- Column (23) *CCA (for declining balance method, the result of column 15 plus column 18 minus column 19, multiplied by column 20 or a lower amount, plus column 12))*
- Column (24) *UCC at the end of the test year (column 10 minus column 23)*

2. PRUDENT MANAGEMENT OF PILS/TAXES

The amount of PILs paid by Toronto Hydro in any given year is correlated with net income calculated for tax purposes. Toronto Hydro manages its tax costs diligently in an effort to keep the effective rate of tax as low as possible. Where appropriate, Toronto Hydro takes advantage of available tax deductions and tax credits, such as research and development tax credits to minimize its tax burden.

3. METHODOLOGY

The methodology for calculating PILs is consistent with the principles set out in Chapter 2 of the OEB's Filing Requirements for Electricity Distribution Rate Applications (December 15, 2022), and reflects applicable legislative and regulatory changes, such as changes to corporate tax rates and capital cost allowance rates. Toronto Hydro confirms that nonrecoverable expenses and expenses disallowed for regulatory purposes have been excluded from the regulatory tax calculation.

4. DISCLOSURE OF PILS TAX ADMINISTRATION AND TAX RULINGS

Toronto Hydro has not received any specific tax rulings that are inconsistent with Toronto Hydro's previously filed and approved tax model.

5. TAX STATUS

Toronto Hydro has not changed its tax status.

6. TAX REASSESSMENTS

The Ministry of Finance recently completed its review of Toronto Hydro's 2018 PILs return. The PILs amount computed reflects methodologies approved by the Ministry of Finance through its audits.

7. TAX TREATMENT OF DIVIDENDS PAID IN PRIOR YEARS

Dividends paid in the historical years were treated as payments out of tax paid retained earnings, and therefore were not treated as deductible for tax purposes.

8. LOSS CARRY-FORWARDS

Toronto Hydro does not have any non-capital or capital loss carry-forwards as of the end of December 2022, and does not expect to have such loss carry-forwards as of the end of December 2029.

9. CAPITAL COST ALLOWANCE ("CCA")

Toronto Hydro is filing this application on a forward test year basis and therefore, CCA is computed for 2025 based on projections of the change in capital assets from the 2022 historical year. A separate schedule is prepared to compute the projected CCA for 2024 to derive the projected undepreciated capital cost balances at January 1, 2025 (Exhibit 6, Tab 2, Schedule 2). Maximum CCA is claimed in the 2025 test year. Any projected additions are subject to the half-year rule in the year of acquisition, and a first-year increase in CCA is provided if the capital assets are eligible for accelerated CCA purposes.

10. INTEREST DEDUCTION

Actual interest expense is lower than the deemed interest expense calculated based on the 2025 model, as filed at Exhibit 6, Tab 2, Schedule 2. Therefore, the difference between actual and deemed interest expense has not been deducted in calculating taxable income in the tax models for that year.

11. CAPITALIZED INTEREST

Interest is not capitalized to construction work in progress ("CWIP") for tax purposes. However, interest is capitalized for accounting purposes in the 2025 projection.

12. NON-DISTRIBUTION ELIMINATION

In this application, Toronto Hydro only included income from the rate-regulated business.

13. TAX CREDITS

Toronto Hydro expects that the level of expenditures qualifying for Scientific Research and Experimental Development ("SRED") in 2025 will be similar to expenditures in 2022. Toronto Hydro used the latest filed historical SRED credit in 2022 ($1.5 million) as projected tax credit for 2025 .

Toronto Hydro also included the Federal Apprenticeship Job Creation Tax Credit and the Ontario Co-Operative Education Tax Credit in its PILs-related revenue requirement. A projected tax credit of $0.9 million, based on the average benefit of 2020 through 2022 claims, is included in the 2025 tax models.

14. CAPITAL LEASES

Appropriate adjustments have been made in determining taxable income in the 2025 tax model with respect to leases capitalized for accounting purposes.

15. INTEGRITY CHECKS

The following integrity checks have been completed in respect of the PILs model:

- Depreciation and amortization added back agrees with the numbers disclosed in the rate base section of the application;
- Capital additions and deductions agree with the rate base section for historical, bridge and test years;
- Schedule 8 of the most recent tax return filed with the application has a closing December 31 historic year undepreciated capital cost ("UCC") that agrees with the opening bridge year UCC at January 1. A reconciliation has been provided to remove the non-distribution amounts in Exhibit 6, Tab 2, Schedule 2;
- The CCA deductions in the application's PILs tax model for historical, bridge and test years agree with the numbers in Schedule 8;
- Accounting other post-employment benefits and pension amounts added back on Schedule 1;
- Reconciliation of accounting income to net income for tax purposes agrees with the OM&A analysis for compensation and is reasonable when compared with the notes to the audited financial statements and the actuarial valuations; and

- The income tax rate used to calculate the tax expense is consistent with the current legislated rate.

16. TAX PAYABLE FILINGS

Details of actual taxes paid by Toronto Hydro from 2019 to 2022, as well as the forecasted taxes to be paid for 2023, are outlined in the table below. Explanations of the variances for the forecast years are also provided. The tax return copy for the historical year 2022 is provided in Exhibit 6, Tab 2, Schedule 3.

Table 1: Summary of PILs by Year ($ Millions)

	Actual				Bridge		Test
	2019	2020	2021	2022	2023	2024	2025
Income Taxes	31.3	2.0	8.0	7.6	3.4	9.3	27.9

The decrease/increase in PILs from year to year is mainly due to the change in net income before tax and the differences between tax and accounting treatments of various costs. These differences primarily stem from the variance between capital cost allowance and accounting depreciation, other post-employment benefit adjustments, investment tax credits and other costs.

17. PROPERTY TAX

Property taxes are discussed in the Facilities Management program at Exhibit 4, Tab 2, Schedule 12.

CONFIDENTIAL

Canada Revenue Agency / Agence du revenu du Canada

T2 Corporation Income Tax Return

200

This form serves as a federal, provincial, and territorial corporation income tax return, unless the corporation is located in Quebec or Alberta. If the corporation is located in one of these provinces, you have to file a separate provincial corporation return.

All legislative references on this return are to the federal Income Tax Act and Income Tax Regulations. This return may contain changes that had not yet become law at the time of publication.

Send one completed copy of this return, including schedules and the General Index of Financial Information (GIFI), to your tax centre. You have to file the return within six months after the end of the corporation's tax year.

For more information see **canada.ca/taxes** or Guide T4012, T2 Corporation – Income Tax Guide.

055 **Do not use this area**

Identification

Business number (BN) . . . . 001 [redacted]

Corporation's name

002 TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

Address of head office

Has this address changed since the last time the CRA was notified? . . . . 010 Yes [ ] No [X]

If **yes**, complete lines 011 to 018.

011 14 CARLTON STREET

012

City	Province, territory, or state
015 TORONTO	016 ON
Country (other than Canada)	Postal or ZIP code
017	018 M5B 1K5

Mailing address (if different from head office address)

Has this address changed since the last time the CRA was notified? . . . . 020 Yes [ ] No [X]

If **yes**, complete lines 021 to 028.

021 c/o [redacted]

022 14 CARLTON STREET

023 5TH FLOOR-CORPORATE TAX DEPT

City	Province, territory, or state
025 TORONTO	026 ON
Country (other than Canada)	Postal or ZIP code
027	028 M5B 1K5

Location of books and records (if different from head office address)

Has this address changed since the last time the CRA was notified? . . . . 030 Yes [ ] No [X]

If **yes**, complete lines 031 to 038.

031 14 CARLTON STREET

032

City	Province, territory, or state
035 TORONTO	036 ON
Country (other than Canada)	Postal or ZIP code
037	038 M5B 1K5

040 **Type of corporation at the end of the tax year** (tick one)

- [X] 1 Canadian-controlled private corporation (CCPC)
- [ ] 2 Other private corporation
- [ ] 3 Public corporation
- [ ] 4 Corporation controlled by a public corporation
- [ ] 5 Other corporation (specify)

If the type of corporation changed during the tax year, provide the effective date of the change . . . . 043 Year Month Day

To which tax year does this return apply?

	Tax year start (Year Month Day)		Tax year-end (Year Month Day)
060	2022-01-01	061	2022-12-31

Has there been an acquisition of control resulting in the application of subsection 249(4) since the tax year start on line 060? . . . . 063 Yes [ ] No [X]

If **yes**, provide the date control was acquired . . . . 065 Year Month Day

Is the date on line 061 a deemed tax year-end according to subsection 249(3.1)? . . . . 066 Yes [ ] No [X]

Is the corporation a professional corporation that is a member of a partnership? . . . . 067 Yes [ ] No [X]

Is this the first year of filing after:

Incorporation? . . . . 070 Yes [ ] No [X]

Amalgamation? . . . . 071 Yes [ ] No [X]

If **yes**, complete lines 030 to 038 and attach Schedule 24.

Has there been a wind-up of a subsidiary under section 88 during the current tax year? . . . . 072 Yes [ ] No [X]

If **yes**, complete and attach Schedule 24.

Is this the final tax year before amalgamation? . . . . 076 Yes [ ] No [X]

Is this the final return up to dissolution? . . . . 078 Yes [ ] No [X]

If an election was made under section 261, state the functional currency used 079

Is the corporation a resident of Canada? 080 Yes [X] No [ ]

If **no**, give the country of residence on line 081 and complete and attach Schedule 97.

081

Is the non-resident corporation claiming an exemption under an income tax treaty? . . . . 082 Yes [ ] No [X]

If **yes**, complete and attach Schedule 91.

If the corporation is exempt from tax under section 149, tick one of the following boxes:

085
- [ ] 1 Exempt under paragraph 149(1)(e) or (l)
- [ ] 2 Exempt under paragraph 149(1)(j)
- [X] 4 Exempt under other paragraphs of section 149

Do not use this area

095 096 898