

Kingsville Transmission Reinforcement - ICM Project Revenue Requirement

Line No.	Particulars (\$000's)	2019 (a)	2020 (b)	2021 (c)	2022 (d)	2023 (e)
<u>Incremental Rate Base Investment</u>						
1	Capital Expenditures	118,183	3,171	-	-	-
2	Average Rate Base	14,677	118,411	117,650	115,287	112,924
<u>Incremental Revenue Requirement Calculation:</u>						
<u>Return on Incremental Rate Base: (1)</u>						
3	Long-term Debt Interest	588	4,740	4,709	4,615	4,520
4	Short-term Debt Interest	(0)	(1)	(1)	(1)	(1)
5	Preference Shares	12	99	98	96	94
6	Equity	472	3,807	3,782	3,706	3,630
7	Total Return on Incremental Rate Base	<u>1,072</u>	<u>8,645</u>	<u>8,589</u>	<u>8,417</u>	<u>8,244</u>
<u>Incremental Operating Expenses:</u>						
8	Operating and Maintenance Expenses	-	-	-	-	-
9	Depreciation Expense (2)	192	2,331	2,363	2,363	2,363
10	Property Taxes (3)	45	270	274	278	282
11	Total Incremental Operating Expenses	<u>237</u>	<u>2,601</u>	<u>2,637</u>	<u>2,641</u>	<u>2,645</u>
<u>Incremental Income Taxes:</u>						
12	Return on Equity and Preference Shares (line 5 + line 6)	484	3,906	3,881	3,803	3,725
Utility Timing Differences						
13	Add: Depreciation Expense (line 9)	192	2,331	2,363	2,363	2,363
14	Less: Current Year Tax Deductions	(13,617)	(8,948)	(7,985)	(7,209)	(6,527)
15	Taxable Income (line 12 + line 13 + line 14)	<u>(12,941)</u>	<u>(2,711)</u>	<u>(1,741)</u>	<u>(1,044)</u>	<u>(439)</u>
16	Income Taxes Before Gross Up (line 15 x 26.5%) (4)	(3,429)	(719)	(461)	(277)	(116)
17	Total Incremental Income Taxes After Gross Up (line 16 / (1-26.5%) (4) (5))	<u>(4,666)</u>	<u>(978)</u>	<u>(628)</u>	<u>(376)</u>	<u>(158)</u>
18	Total Incremental Revenue Requirement (line 7 + line 11 + line 17)	<u><u>(3,358)</u></u>	<u><u>10,269</u></u>	<u><u>10,598</u></u>	<u><u>10,681</u></u>	<u><u>10,731</u></u>

Notes:

(1) The return on rate base is calculated based on Union's 2013 Board-approved capital structure:

Capital Structure	Component %	Cost Rate	Return Component
Long-term Debt	61.30%	6.53%	4.00%
Short-term Debt	-0.03%	1.31%	0.00%
Preference Shares	2.74%	3.05%	0.08%
Equity	<u>36.00%</u>	<u>8.93%</u>	<u>3.21%</u>
Total	100.00%		7.30%

(2) Depreciation expense at Union's 2013 Board-approved depreciation rates.

(3) Incremental property tax costs as a result of the project facilities.

(4) Union's current provincial and federal tax rate is equal to 26.5%.

(5) Incremental taxes related to utility timing differences are negative as the capital cost allowance deduction in arriving at taxable income exceeds the provision of book depreciation in the year.