

1 **COMPLIANCE WITH OEB FILING REQUIREMENTS FOR**
2 **ELECTRICITY DISTRIBUTORS**

3
4 **1.0 INTRODUCTION**

5
6 This application by Hydro One Distribution is substantially consistent with the
7 requirements of the 2006 Electricity Distribution Rate Handbook (“the Handbook”)
8 issued by the Board on May 11, 2005 and with the Filing Requirements for Transmission
9 and Distribution Applications (the “Filing Requirements”) issued by the Board on
10 November 14, 2006.

11
12 Hydro One Distribution’s Application follows the format used in the previous
13 Distribution Rates proceeding, which was well received by the Board and intervenors,
14 and incorporates improvements made to the filing format as part of the recent
15 Transmission Application. Hydro One’s Application substantially satisfies the Filing
16 Requirements and Handbook requirements except where it was not practical or
17 appropriate to do so based on previous comments and direction from the Board, or as a
18 result of specific government regulation.

19
20 **2.0 TEST YEAR AND HISTORICAL PERIOD**

21
22 The Filing Requirements indicate that a forward test-year methodology is to be utilized
23 when a distributor is seeking the Board’s approval for rebasing its rates. Hydro One
24 Distribution’s application has been filed using a forward test year and provides three
25 years of historical data, consistent with the approach used in the two prior main rate cases
26 for Distribution and Transmission rates. As such, this Application includes written
27 evidence and supporting schedules for the following:

- 1 • 2008 test year;
- 2 • 2007 bridge year;
- 3 • 2004, 2005 and 2006 historical years;
- 4 • 2006 Board-approved historical year.

5

6 **3.0 RATE BASE**

7

8 The Filing Requirements, past direction from the Board, and a number of specific
9 government regulations influence the determination of Hydro One Distribution's rate
10 base and associated capital costs, as well as influencing the rate base information
11 provided in the Application.

12

13 **3.1 Sentinel Lighting**

14

15 Hydro One Distribution includes sentinel lighting as a regulated activity by virtue of
16 Regulation 116/02 dated March 22, 2002, made under the *Electricity Act, 1998*. This
17 regulation allows Hydro One Distribution to include in its regulated rate base the assets
18 and OM&A directly related to the provision of sentinel light services. As such, all costs
19 and external revenues associated with sentinel lights have been included in the
20 determination of the 2008 revenue requirement.

21

22 **3.2 Generation Assets**

23

24 Assets necessary to provide back up generation on Pelee Island continue to be included in
25 the rate base. Hydro One is allowed to provide back-up generation on Pelee Island by
26 virtue of an exemption granted to it by Ontario Regulation 71/02, made under the
27 *Electricity Act, 1998*, and gazetted March 30, 2002, which amended Ontario regulation
28 160/99.

1 **3.3 High Voltage Distribution Stations**

2
3 Pursuant to the Board's RP-1998-0001 Decision, Hydro One Distribution is allowed to
4 include the assets at its 88 High Voltage Distribution Stations (HVDSs) in the
5 Company's distribution rate base.

6
7 The functionality of Hydro One Distribution's HVDSs was subsequently reviewed at the
8 2002 OEB proceeding RP-2000-0023 and the OEB reaffirmed the designation of HVDSs
9 as distribution assets. This treatment of HVDS assets is also consistent with the
10 Company's transmission rate base proposed in EB-2006-0501, which excluded HVDS
11 assets.

12
13 **3.4 Amortization Rates**

14
15 Hydro One Distribution's 2008 Revenue Requirement reflects the adoption of the
16 amortization rates approved by the Board in EB-2005-0378, based on the depreciation
17 study by Foster Associates accepted by the Board in that proceeding.

18
19 **3.5 Working Capital Allowance**

20
21 Hydro One Distribution's 2008 Revenue Requirement reflects the cash working capital
22 requirements using the methodology from the lead-lag study by Navigant Consulting Inc.
23 approved by the Board in EB-2005-0378.

24
25 **3.6 Interest Rates for Construction Work in Progress**

26
27 The interest rate used for construction work in progress (CWIP), also referred to as
28 Allowance for Funds Used During Construction (AFUDC), reflects the Board's decision

1 in EB-2006-0017, effective November 28, 2006. This decision prescribed that the interest
2 rate to use for CWIP would be the Scotia Capital All-Corporates Mid-Term Yield, as
3 published on the Bank of Canada website and updated quarterly. As a result, 2007 bridge
4 and 2008 test years reflect the prescribed CWIP rate on a forecast basis, while the
5 historical years reflect CWIP at Hydro One Distribution's previously approved embedded
6 cost of debt.

7 8 **3.7 Capital Projects and Programs**

9
10 Details for all capital projects and programs that exceed \$1 million in net capital costs are
11 provided in Investment Justification Documents (IJDs). The IJDs for these projects and
12 programs are filed at Exhibit D2, Tab 2, Schedule 3.

13 14 **3.8 In-Service Additions**

15
16 Hydro One Distribution continues to plan, manage and perform its internal and external
17 reporting on a work basis using its general ledger accounts, as these are reflective of the
18 way in which Hydro One Distribution manages its operations. The evidence has been
19 filed on the basis of Hydro One Distribution's accounting systems, but a schedule
20 showing distribution in-service additions by OEB-specified USofA accounts for the 2008
21 test year, 2007 bridge year and 2006 historical year is filed at Exhibit D2, Tab 2,
22 Schedule 4.

23 24 **4.0 COST OF CAPITAL**

25
26 Hydro One Distribution's filing reflects the direction provided in the Report of the Board
27 on Cost of Capital and Second Generation Incentive Regulation, issued December 20,

1 2006, with respect to the Company's deemed capital structure, forecast debt costs and a
2 common equity return.

3
4 **5.0 COST OF SERVICE**

5
6 **5.1 Operating (OM&A) Costs**

7
8 Hydro One Distribution continues to plan, manage and perform its internal and external
9 reporting on a work basis using its general ledger accounts, as these are reflective of the
10 way in which Hydro One Distribution manages its operations. The evidence has been
11 filed on the basis of Hydro One Distribution's accounting systems but a schedule
12 showing distribution OM&A expenditures by OEB-specified USofA accounts for the
13 2008 test year, 2007 bridge year and 2006 historical year is filed at Exhibit C2, Tab 2,
14 Schedule 2.

15
16 **5.2 Taxes / Payments-in-Lieu (PILs)**

17
18 Hydro One Distribution will not be using the OEB Tax Model since it is filing on a
19 forward test year basis. However, the equivalent level of detail has been filed for the
20 2008 test year at Exhibit C2, Tab 6, Schedule 1.

21
22 The Filing Requirements require an applicant to file the taxes it actually paid for the
23 historic years (in this case 2004, 2005 and 2006) with respect to the distribution business
24 of the applicant. Hydro One Distribution is not a legal entity and therefore does not file
25 income tax returns at the distribution level. Corporate tax returns are filed at the Hydro
26 One Networks Inc. level which includes transmission operations. The audited financial
27 statements filed as Attachments to Exhibit A, Tab 9, Schedule 1 do, however, provide

1 PILs information for the 2004 – 2006 period on a GAAP basis at Note 6 for the 2004 and
2 2006 historic years and at Note 7 for the 2005 historic year.

3

4 **6.0 OPERATING REVENUE AND REVENUE SUFFICIENCY/DEFICIENCY**

5

6 The revenue sufficiency/deficiency for 2008, including operating revenue, is provided as
7 Attachment A to Exhibit E1, Tab 1, Schedule 1. In addition, this Application provides
8 customers and the Board with the impact on current rates resulting from the requested
9 2008 Revenue Requirement and proposed rate design changes, as detailed in Exhibit G1,
10 Tab 7. Hydro One Distribution believes the detailed description of revenue requirement,
11 in a form consistent to what it has filed in its last two main rate cases, combined with the
12 assessment of rate impacts resulting from the proposals in this Application, provides
13 customers and the Board with the necessary information to fully assess the merits of the
14 Application.

15