

1 In RP-1998-0001, the Board issued a directive stating as follows: "The Board believes
2 that OHSC should adopt a consistent approach to allocating overhead costs to distribution
3 and transmission in order to ensure that customers of transmission and distribution pay a
4 fair share of the costs associated with the services received by these respective business
5 units. Therefore, in subsequent applications, the Board expects the Company to adopt a
6 consistent allocation methodology to be used by NAM (Network Asset Management) and
7 Network Services. OHSC should also be prepared, in the next rate application, to provide
8 the rationale and justification for the approach selected."
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10 In 2005, the Company commissioned a study by R. J. Rudden Associates ("Rudden") to
11 determine a methodology to allocate common costs among the business entities using the
12 common services. The methodology developed represents industry best practices,
13 identifying appropriate cost drivers to reflect cost causality and benefits received.
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15 Hydro One accepted the results of the Rudden study as providing a reasonable and
16 equitable approach to the assignment of common costs among the business entities using
17 the common services. This methodology was utilized and subsequently endorsed by the
18 Board in the previous Distribution rate decision RP-2005-0020/EB-2005-0378. The
19 Board also considered it reasonable for the Company to employ the Rudden methodology
20 in the subsequent Transmission rate application; this was done in EB-2006-0501. Hydro
21 One's test year submission in this Application reflects the same Rudden study
22 methodology.
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24 The elements of the OEB accepted Rudden methodology are outlined below:
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- 26 ● Identify the functions and services included in CCF&S
- 27 ● Identify activities that are performed in order to provide CCF&S
- 28 ● Distribute the 2008 budgeted cost to perform each function and service amongst the
29 activities required to perform it, based on time and/or cost studies

- 1 • Distribute the cost of each activity amongst the business units based on direct
2 assignment when possible, and based on cost drivers when not
- 3 • Allocate Asset Management activities on a detailed time study

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5 Cost drivers were selected on the basis of cost causation. Where this methodology could
6 not be implemented or established, cost drivers were based on benefits received. Other
7 factors considered in assigning cost drivers included practicality, stability, and
8 materiality.

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10 As a result of the Rudden study, approximately 30% of the total Corporate Common
11 Functions and Services OM&A expenditures have been directly assigned to the business
12 units. The remaining 70% have been allocated based on the established cost drivers.

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14 Hydro One's management participated in the study on behalf of the Transmission and
15 Distribution businesses, reviewed the model and the results, and was satisfied that the
16 overall allocation is reasonable. As well, the Hydro One subsidiaries have accepted the
17 results as being reasonable.

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19 In addition to the Rudden study addressing allocation of CCF&S, a time study was
20 completed to allocate the balance of the Common Costs for Asset Management,
21 Operating and Customer Care.

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23 The allocation of Asset Management, Operating and Customer Care Management costs is
24 based on a time study, as submitted in the Transmission submission EB-2006-0501
25 Exhibit C1-5-1. This time study is still relevant and yields an appropriate result.

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27 Table 1 below reflects the results of the cost allocation for all common costs for
28 Transmission, Distribution and other entities.

Table 1
Total Common Costs 2008
Allocation to Transmission, Distribution, and Other (\$ Millions)

Function/Service	Total	Transmission	Distribution	Other*
Common Corporate Costs	227.9	73.3	122.6	32.0
Asset Management	118.9	72.6	46.3	-
Operating	41.3	31.8	9.5	-
Customer Care Management	7.5	0.3	7.2	-
Total	395.6	178.0	185.6	32.0

* (Includes Hydro One Telecom, Hydro One Brampton, Remote Communities, Hydro One Inc. and Material Surcharge)

Table 2 identifies the results of the Hydro One Networks Inc. time study that are used to further break down costs between OM&A and Capital.

Table 2
Time Study Cost Allocation

	Transmission		Distribution	
	Oper. and Maint.	Capital Projects	Oper. and Maint.	Capital Projects
Operating	70%	7%	20%	3%
Customer Care Management	3%	1%	94%	2%
Asset Management (excl. facility cost)	42%	26%	23%	9%

The 2008 Asset Management costs of \$118.9 million identified in Table 1 includes \$10.8 million of real estate and other costs, \$33.2 million in facility costs and \$74.9 million in other Asset Management function costs as described in Exhibit C1, Tab 2, Schedule 6. The \$33.2 million in facility costs can be further broken down into common head office facility costs of \$14.7 million, and field facility costs consisting of \$1.7 million for the Ontario Grid Control Centre, and \$16.8 million for other field facilities. Table 3 provides

1 the Distribution allocation for these costs. This results in \$46.3 million allocated to
 2 Distribution in 2008 (Table 1).

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Table 3
Asset Management Cost Allocation

	Transmission	Distribution
Asset Management – Excluding Facility Cost	68%	32%
Facility Cost		
- Common, Head Office Facilities	53%	47%
- Ontario Grid Control Centre	77%	23%
- Other Field Facilities	32%	68%
Total Asset Management	60%	40%

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The following table provides the allocation of 2008 CCF&S costs to all business units.

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Table 4
Allocation of 2008 CCF&S Costs (\$ Millions)

Description	Total	Transmission	Distribution	Hydro One Telcom	Hydro One Brampton	Hydro One Remotes	Hydro One Inc.
Corporate Management	5.3	2.8	2.3	0.1	0.1	0.0	0.0
Finance	26.9	13.7	12.1	0.6	0.2	0.3	0.1
Human Resources	12.6	5.9	6.4	0.1	0.0	0.1	0.0
Corporate Communications	6.6	2.3	4.4	0.0	0.0	0.0	0.0
General Counsel & Secretariat	7.5	4.1	2.9	0.1	0.1	0.2	0.1
Regulatory Affairs	19.7	9.4	10.3	0.0	0.0	0.0	0.0
Corporate Security	2.5	1.3	1.2	0.0	0.0	0.0	0.0
Internal Audit	3.0	1.9	0.9	0.0	0.1	0.1	0.0
Total CCF&S Costs	84.2	41.3	40.5	0.9	0.5	0.7	0.2

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