

COMMON ASSET ALLOCATION

This evidence will discuss the nature of Common Fixed Assets ("Shared Assets") and the method by which the costs of these assets are assigned to the Distribution and Transmission business units.

Similar to the common corporate costs discussed in Exhibit C1, Tab 5, Schedule 1, Hydro One has been able to maximize efficiencies through the centralization of the maintenance, management and purchase of shared assets at the corporate level. These assets include shared land and buildings, telecommunication equipment, computer equipment, applications software, tools and transportation and work equipment ("T&WE").

1.0 SHARED ASSETS AND FACILITIES COSTS

Most fixed assets are directly assigned to the appropriate business unit. The remaining assets (4% of total assets) are considered shared assets, and are allocated to Transmission and Distribution as described later in this exhibit. Table 1, below, summarizes the total gross fixed assets and identifies the proportion of allocated shared assets.

Table 1
Summary of Gross Fixed Assets
as at December 31, 2006 (\$ Million)

	Transmission	Distribution	Total
Total Fixed Assets	9,793.3	5,866.5	15,659.8
Shared Assets (in Total)	275.2	430.0	705.2
Shared Asset %	39.0%	61.0%	100%

Shared assets are sub-divided into two categories. Major Fixed Assets consist of land, buildings, applications software, and telecommunications equipment. Minor Fixed Assets

1 include office furniture, computer equipment, tools and T&WE. Table 2, below, shows
2 the proportion of major and minor shared fixed assets, accumulated depreciation and net
3 book value as of December 31, 2006.

4
5 **Table 2**
6 **Details of Shared Net Fixed Assets**
7 **as at December 31, 2006 (\$ Million)**
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Asset	Gross Asset Value	Accumulated Depreciation	Net Book Value
Shared Major Assets	230.2	113.8	116.4
Shared Minor Assets	474.9	311.0	163.9
Total Shared Assets	705.2	424.8	280.3

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10 **2.0 ALLOCATION OF SHARED ASSETS IN SERVICE**
11

12 Due to the nature of Hydro One's business, Shared Assets are not directly attributable to
13 either the Transmission or Distribution business units. In addition, from year to year, the
14 use of these shared assets changes, based upon changes in the underlying transmission
15 and distribution work programs. Consequently, the methodology by which shared assets
16 are allocated to the Transmission and Distribution business units is subject to periodic
17 review. The intent of such a review is to ensure that the assignment of assets is reflective
18 of their true use and that the costs are apportioned appropriately amongst the business
19 units.

20
21 In 2005, the Company commissioned a study by R. J. Rudden Associates ("Rudden") to
22 determine a methodology to allocate the assets which are not directly attributable to
23 Transmission or Distribution. The methodology developed represents industry best
24 practices, identifying appropriate cost drivers to reflect cost causality and benefits
25 received. The Rudden study resulted in the allocation of shared assets based on the

1 relative usage by Transmission and Distribution or by cost drivers, similar to those used
2 for the common corporate functions and services.

3
4 The Company has accepted the approach of the Rudden study as a reasonable
5 representation of the use of shared assets amongst the business units. This methodology
6 was utilized and subsequently endorsed by the Board in the previous Distribution rate
7 decision RP-2005-0020/EB-2005-0378, and also used in the subsequent Transmission
8 rate Application EB-2005-0501. Hydro One's test year submissions in this Application
9 reflect the same Rudden study methodology.

10
11 Table 3 below shows the Hydro One Common Asset allocation as at December 31, 2006.

12
13 **Table 3**
14 **Hydro One Common Asset Allocation**
15 **as at December 31, 2006 (\$ Million)**
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Total Gross Value			
All Hydro One Transmission & Distribution Assets			
\$15,660 million			
Transmission (Total)	\$9,793 m	Distribution (Total)	\$5,867 m
Transmission (Direct)	\$9,518 m	Distribution (Direct)	\$5,436 m
Transmission (Common)	\$275 m	Distribution (Common)	\$430 m