

1 **RATE BASE**

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3 **1.0 INTRODUCTION**

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5 This exhibit provides the forecast of Hydro One Distribution's rate base for the 2008 test
6 year and provides a detailed description of each of the rate base components.

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8 In accordance with the 2006 Electricity Distribution Rate Handbook ("Handbook"), the
9 rate base underlying the test year revenue requirement includes a forecast of net fixed
10 assets, calculated on a mid-year average basis, plus a working capital allowance. Net
11 fixed assets are gross plant in service minus accumulated depreciation and contributed
12 capital¹. Working capital includes an allowance for cash working capital and materials
13 and supplies inventory.

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15 **2.0 UTILITY RATE BASE**

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17 Utility rate base for the distribution system for the test year is filed at Exhibit D2, Tab 1,
18 Schedule 1. The calculation of Net Utility Plant is provided at Exhibit D2, Tab 3,
19 Schedule 1 and 2.

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21 Hydro One Distribution's forecast rate base for the test year is \$4,382.0 million.

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¹ Contributed capital refers to amounts contributed by third parties to specific capital projects, e.g. Joint Use Assets, Customer Contributions

Table 1
Distribution Rate Base (\$ Millions)

Description	Test
	2008
Gross Plant	6,450.1
Accumulated Depreciation	(2,364.6)
Net Plant	4,085.5
Cash Working Capital	273.2
Materials and Supplies Inventory	23.3
Distribution Rate Base	4,382.0

The mid-year gross plant balance reflects the capital expenditure programs forecast for the bridge and test years. These programs are described in detail in the company's written evidence at Exhibits D1, Tab 3, Schedules 1 through 5 and in the supporting schedules filed at Exhibit D2, Tab 2, Schedule 2. The justification for capital projects in excess of \$1 million are filed at Exhibit D2, Tab 2, Schedule 3.

The net plant component of the 2006 rate base approved in the RP-2005-0020/EB-2005-0378 was \$3,423.3 million. The 2008 net plant of \$4,085.5 million is \$662 million or 19.3% higher than that last approved. Continuity schedules are provided in Exhibit D2, Tab 3.

Table 2
Continuity of Fixed Assets Summary (\$ Million)

Description	Historic			Bridge	Test
	2004	2005	2006	2007	2008
Opening Gross Asset Balance	4,941.9	5,224.8	5,492.7	5,866.5	6,177.3
In-Service Additions	285.1	290.7	379.9	513.7	595.9
Retirements	(31.8)	(23.2)	(10.9)	(210.1)	(50.8)
Sales	(16.3)	(3.6)	(10.3)	-	-
Transfers	45.9	4.0	15.1	7.2	0.6
Closing Gross Asset Balance	5,224.8	5,492.7	5,866.5	6,177.3	6,723.0
Mid Year Gross Asset Balance	5,083.4	5,358.8	5,679.6	6,021.9	6,450.1

In-service additions reflect the placing in service of Hydro One Distribution's capital programs. These programs are described in detail at Exhibit D1, Tab 3, Schedules 1 through 5.

In its RP-2005-0020/EB-2005-0378 Decision, the Board accepted the application of the Foster Associates depreciation study, which Hydro One indicated would be implemented for GAAP purposes in 2007. The depreciation study requires that plant older than the proposed amortization period be immediately retired from service. As a result, retirements in 2007 include a one-time adjustment to reflect the write-off of minor fixed assets (\$52 million) that reached the end of their normal service life and the removal of conventional meters (\$121 million) due to replacement as part of the Smart Meter program. Normal retirements (\$37M) comprise the remainder.

In 2008, retirements of \$51 million consist of \$14 million resulting from assets reaching their end of life, \$11 million due to the retirement of the Distribution portion of Passport, and \$25 million from normal retirements.

1 Transfers over the period reflect the company's efforts to properly reflect the use of its
2 shared service assets by the transmission and distribution systems as asset use changes
3 over time. During 2004, the company conducted a thorough review of these shared assets
4 to determine an allocation basis that more accurately reflected their proposed use. The
5 2006 transfers primarily reflect the transfer of wholesale meters to Distribution due to the
6 deregistration of the meters.

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8 The nature and composition of Hydro One Distribution's assets are described in detail in
9 Exhibit D1, Tab 1, Schedule 2.

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11 **3.0 WORKING CAPITAL**

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13 Per OEB direction, in RP-2005-0020/EB-2005-0378 Hydro One Distribution retained
14 Navigant Consulting Inc. to undertake a lead-lag study. The OEB accepted the results of
15 the Navigant study and the provision for working capital in 2008 incorporates the results
16 of this study.

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18 The Cash Working Capital requirement for the distribution system is based on the
19 following factors:

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- 21 • the forecast of OM&A,
- 22 • the retail cost of power,
- 23 • capital and income taxes,
- 24 • the net lead-lag days determined.

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26 The other component of Working Capital is materials and supplies inventory.

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1 The application of the methodology from the lead lag study results in a net cash working
2 capital requirement including the impact of GST of \$273.2 million for the test year. This
3 is an increase of \$7.6 million from the \$265.6 million level approved by the Board in RP-
4 2005-0020/EB-2005-0378. Details of the Working Capital requirements for Hydro One
5 Distribution are filed at Exhibit D1, Tab 1, Schedule 3 and Exhibit D2, Tab 4, Schedule 1
6 for the test year.

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