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Hydro One Distribution's capital expenditures are grouped into four different investment categories: Sustaining, Development, Operations, and Shared Services & Other Capital, the latter of which includes Customer Care capital expenditures and expenditures for fleet, service equipment, real estate, information technology and telecom. Table 1 provides a summary of Hydro One Distribution's capital expenditures for the historical, bridge and test years.

Table 1
Summary of Distribution Capital Expenditures (\$ Million)
Including Capitalized Overheads and AFUDC

Description	Historic			Bridge	Test
	2004	2005	2006	2007	2008
Sustaining	104.9	117.3	186.3	223.6	317.1
Development	138.6	141.7	146.8	154.2	167.7
Operations	6.3	4.7	2.1	2.0	3.6
Shared Services & Other Capital	22.2	53.4	57.4	96.7	77.8
TOTAL	272.0	317.2	392.6	476.6	566.2

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Capital expenditures totaled \$393 million in 2006 and \$477 million in 2007 and are forecasted to be \$566 million in 2008. The growth in capital is primarily due to increases in Sustaining Capital related to the requirements for smart meters and associated systems; increased Development Capital requirement related to customer growth; and, requirements in other Capital Programs related to the information technology initiative called Cornerstone. Investment Justification Documents (IJDs) in support of capital projects or programs in excess of \$1 million are filed at Exhibit D2, Tab 2, Schedule 3.

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2 In accordance with the accepted Rudden recommendation on overhead capitalization rate,
3 beginning in 2007 Hydro One Networks is adjusting the overhead capitalization rate
4 within the year to reflect projected changes in spending. This will better align the
5 overhead capitalization rate with overhead costs of the capital projects supported. This
6 adjustment, called E-Factor, trues up 2006 capitalized overheads by -\$14.4 million. This
7 is included as an adjustment to the derivation of the 2008 overhead capitalization rate.
8 The Rudden E-Factor adjustment for the overhead capitalization rate is described in detail
9 at Exhibit C1, Tab 5, Schedule 2.

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11 **2.0 SUSTAINING**

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13 The Sustaining capital expenditures include the costs for investments required to ensure
14 that existing distribution system facilities function as originally designed. Hydro One
15 Distribution manages its distribution sustaining program within three program categories,
16 namely stations, lines and meters (includes smart meters). Details of the expenditures
17 under this program are filed at Exhibit D1, Tab 3, Schedule 2.

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19 **3.0 DEVELOPMENT**

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21 The Development capital expenditures consist of the investments required to serve new
22 customers and meet increased demand of existing customers. Development capital
23 includes programs for customer connections and capacity reinforcements. Details of the
24 expenditures under this program are filed at Exhibit D1, Tab 3, Schedule 3.

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1 **4.0 OPERATIONS**

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3 The Operations capital program represents investments in infrastructure required to
4 sustain the Central Distribution Operations function, which is operated from Hydro One's
5 Ontario Grid Control Centre. Details of the expenditures under this program are filed at
6 Exhibit D1, Tab 3, Schedule 4.

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8 **5.0 SHARED SERVICES & OTHER CAPITAL**

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10 Shared Services & Other Capital consists of the sustainment and enhancement of existing
11 equipment and infrastructure, including computer-related hardware and software and
12 transport and work equipment ("T&WE") as well as projects initiated to improve
13 business support functions. The capital requirements for the Cornerstone Project and
14 Customer Care are also incorporated in Shared Services & Other Capital. Details of the
15 expenditures under this program are filed at Exhibit D1, Tab 3, Schedule 5.

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