

1 **REVENUE REQUIREMENT**

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3 **1.0 SUMMARY OF REVENUE REQUIREMENT**

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5 Hydro One Distribution follows standard regulatory practice and has calculated revenue
6 requirement consistent with the principles of the 2006 Electricity Distribution Rate
7 Handbook as follows:

8 Sum of:

9 **Table 1**
10 **(\$ Millions)**

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OM&A	478	Exhibit C1, Tab 2, Schedule 1
Depreciation and Amortization	239	Exhibit C1, Tab 6, Schedule 1
Capital Taxes	11	Exhibit C2, Tab 4, Schedule 1
Income Taxes	39	Exhibit C2, Tab 6, Schedule 1, Att A
Return on Capital	300	Exhibit B1, Tab 1, Schedule 1
Total Revenue Requirement	\$1,067	Exhibit E2, Tab 1, Schedule 1

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13 The resultant Revenue Requirement of \$1,067 million is the amount required by Hydro
14 One Distribution to ensure the most appropriate, cost-effective solution to respond to
15 corporate objectives mainly related to public and employee safety, electricity market and
16 regulatory requirements.

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18 **2.0 CALCULATION OF REVENUE REQUIREMENT**

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20 The details of the Revenue Requirement components are as follows:

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1 **2.1 OM&A Expense**

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Sustaining	\$280.0
Development	9.1
Operations	13.4
Customer Care	103.8
Shared Services and Other Costs	66.9
Taxes Other Than Income Tax	4.5
Total OM&A	\$477.7

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4 **2.2 Depreciation and Amortization Expense**

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Depreciation	\$207.4
Amortization	\$31.6
Total Expense	\$238.9

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7 **2.3 Capital Taxes**

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Capital Tax	\$11.3
Total Capital Taxes	\$11.3

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10 **2.4 Payments in Lieu of Corporate Income Taxes**

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Income Before Payments in Lieu of Corporate Income Taxes	\$115.8
Tax Rate	34.50%
Total Payments in Lieu of Corporate Income Taxes	\$38.8¹

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13 **2.5 Return on Capital**

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Return on Capital	\$299.9
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¹ Calculated on the basis of regulatory taxes payable, as per 2006 Electricity Distribution Rate Handbook; adjusted for R&D ITC (\$0.3 million) and Ontario Education Credit (\$0.8) see Exhibit C2, Tab 6, Schedule 1 for detailed calculation.

1 **3.0 REVENUE REQUIREMENT – COMPARISON OF YEAR 2006 TO YEAR**
2 **2008**

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4 Table 2 below compares, by element, the Year 2006 approved Revenue Requirement (as
5 per RP-2005-0020/EB-2005-0378) against the Year 2008 proposed Revenue
6 Requirement.

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Table 2
Comparison of Revenue Requirements: 2006 vs. 2008 (\$ Millions)

Line No	Description	Year 2006 OEB Approved	Year 2008	Difference
1	OM&A	423	478	55
2	Depreciation	202	239	37
3	Capital Taxes	10	11	1
4	Income Taxes	69	39	(30)
5	Return	261	300	39
	Total Revenue Requirement	965	1,067	102

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12 There are a number of key operational and financial factors contributing to the increased
13 revenue requirement that have an impact across the cost components in Table 2. The
14 increase in Total Revenue Requirement is largely attributable to the increase in OM&A
15 costs (\$45 million), Smart Meters (\$10 million OM&A, \$12 million rate base) and the net
16 impact of rate base growth (\$63 million) offset by lower cost of debt and lower income
17 tax rates.

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19 Table 3 illustrates the value of the key impacts of the increase in the Revenue
20 Requirement.

HYDRO ONE NETWORKS INC.
DISTRIBUTION

Revenue Deficiency/(Sufficiency)
Year Ending December 31, 2008
(\$ Millions)

Line No.	Particulars	2008
1	Revenue requirement (excl. riders)	\$ 1,066.8
2	Recovery of deferral accounts	12.3
3	Total revenue requirement (incl. riders)	1,079.1
4	Revenue at prior-year rates (incl. riders)	1,056.6
5	Revenue deficiency/(sufficiency)	\$ 22.5