

1 **EXTERNAL REVENUES**

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3 **1.0 STRATEGY**

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5 Hydro One Distribution's strategy is to focus on core work and continue to be responsive  
6 to external work requests and accommodate customer needs where Hydro One  
7 Distribution can provide value and have the resources and/or assets to do so.

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9 Over 96% of Hydro One Distribution's revenues are earned through its distribution tariff.  
10 External revenues account for the remaining 4% [\$42.0 million in 2008] and are earned  
11 through the provision of services to third parties and through joint use of Hydro One  
12 Distribution's assets by third parties. These revenues are used to offset the revenue  
13 requirement from Hydro One distribution tariff and thereby reduce the required revenue  
14 to be collected from distribution ratepayers. External revenues are categorized into  
15 regulated and non-regulated categories.

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17 **2.0 COSTING AND PRICING**

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19 The costing of external work is determined on the basis of cost causality with estimates  
20 calculated in the same way as internal work estimates using the standard labor rates,  
21 equipment rates, material surcharge, and overhead rates (see Exhibit C1, Tab 4, Schedule  
22 1 for a description of costing for internal work and section 5 of Exhibit C1, Tab 2,  
23 Schedule 6 for a description of the costing of external work). For unregulated work an  
24 appropriate margin is added to cover, as a minimum, the risk of non-payment by third  
25 parties in order to ensure there is an overall benefit for the distribution ratepayers.

1 **3.0 DESCRIPTION**

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3 Regulated external revenues for 2008 (\$31.3M) account for about 75% of external  
4 distribution revenues. These revenues, shown in table 1, cover a wide range of  
5 miscellaneous services (e.g. joint use of poles for attachment of Telecommunications,  
6 sentinel light services) based on rates and underlying costs per the 2006 Electricity  
7 Distribution Rate Handbook issued May 2005 .

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9 **Table 1**  
10 **Regulated Revenues**  
11 **(\$M)**  
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\$M	2004	2005	2006	2007	2008
<b>Joint Use</b>	5.3	5.6	5.8	6.0	6.2
<b>Sentinel Lights</b>	4.9	3.5	3.6	3.3	4.0
<b>Retail Service Revenue</b>	N/A	N/A	N/A	0.9	1.1
<b>Other Regulated Misc. Services</b>	16.3	15.2	17.2	19.7	20.0
<b>Totals</b>	26.5	24.3	26.6	29.9	31.3

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14 Unregulated external revenues (e.g. competitive new connection and upgrade work, and  
15 emergency support to other North American utilities), as shown in Table 2, account for  
16 the remaining \$10.7M or about 25% of 2008 external distribution revenues.  
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**Table 2**  
**Unregulated Revenues**  
**(\$M)**

\$M	2004	2005	2006	2007	2008
<b>Joint Use</b>	2.5	2.2	3.2	3.3	3.3
<b>New Connects/Upgrades</b>	5.3	5.2	4.3	4.9	4.0
<b>Generation Studies</b>	0.1	0.1	0.7	1.5	0.5
<b>Other External Work</b>	23.3	9.9	2.4	3.1	2.2
<b>Non-Regulated Misc. Rev.</b>	1.0	0.6	0.9	0.8	0.7
<b>Totals</b>	32.2	18.0	11.6	13.5	10.7

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**3.1 Regulated Revenues**

**3.1.1 Joint Use Revenues**

11 Joint Use revenues are generated from third parties who jointly use Hydro One  
 12 Distribution's poles by stringing various attachments to the poles, mostly wire cables, and  
 13 in return Hydro One Distribution charges a per pole attachment fee. At the end of 2006,  
 14 there were approximately 800,000 joint use poles being used by 535 customers including  
 15 Bell Canada, Telecommunications companies, independent telephone companies, and  
 16 others including LDCs, fiber companies and municipalities. About 90% of the revenue in  
 17 this segment come from Bell Canada and Telecommunications companies. The Ontario  
 18 Energy Board sets the rates for joint use service, for Telecommunications companies.  
 19 Other joint use rates/contracts are negotiated and include other considerations such as  
 20 reciprocal pole sharing arrangements and vegetation management services are  
 21 unregulated and discussed in Section 3.2. Table 3 below is a summary of the volumes (#  
 22 of pole attachments) for the regulated segment of joint use.

**Table 3**  
**Volume of Joint Use permits by Customer Category**

	<b>2004 volume</b>	<b>2005 volume</b>	<b>2006 volume</b>	<b>2007 volume</b>	<b>2008 volume</b>
<b>Telecommunications</b>	234,734	237,623	265,399	272,415	280,588
<b>Street Lighting</b>	70,000	74,000	77,678	78,843	80,008

As can be seen from the table, the number of attachments is increasing over the 5-year period. The increase is due to new Telecommunications companies attaching to poles and existing companies expanding their service areas.

### 3.1.2 Sentinel Light Revenues

The sentinel light rental program is designed to provide rural customers with low-cost security lighting. The service is provided primarily to rural residential, farm, and cottage customers, for whom street lighting is not available.

Exhibit A, Tab 5, Schedule 1, section 3, provides reference to the legislation that allows the sentinel light program to continue for existing Hydro One Distribution customers.

Table 4 summarizes the historical volumes of sentinel lights and poles owned and maintained by Hydro One Distribution. The decrease over the five-year period reflects the fact that there is no new customers added and there is a continuing decrease in the number of existing customers as discussed in Exhibit C1, Tab2, Schedule 2.

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**Table 4**  
**Year-End Volume of Sentinel Lights in service**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>volume</b>	<b>volume</b>	<b>volume</b>	<b>volume</b>	<b>volume</b>
<b>Sentinel Lights</b>	40,603	40,029	38,754	37,812	36,870
<b>Sentinel Light Poles</b>	2,490	2,513	2,377	2,319	2,261
<b>Total</b>	43,093	42,542	41,131	40,131	39,131

**3.1.3 Other Regulated Miscellaneous Services**

Hydro One Distribution provides a number of other regulated miscellaneous services as identified in Table 5 below. The rates for these services are approved and regulated by the Ontario Energy Board. A description for items 1 through 7 can be found in the “2006 Electricity Distribution Rate Handbook, Chapter 11”. The associated volumes of items 1 through 7 (as identified in Table 5) are shown in Table 6 along with the 2008 revenues. Brief descriptions for items 8 and 9 follow the tables.

**Table 5**

<b>Service Description</b>
1. Dispute Meter Test
2. Collection of Account, Disconnect/load Limiter/Reconnect Trips
3. Account Set-up Charge
4. Arrears Certificate
5. NSF Cheque Charge
6. Easement Charge for Unregistered Rights
7. Late Payment Charge
8. Tingle Voltage Test
9. Standby Rate

**Table 6**  
**Other Regulated**  
**Miscellaneous Services**  
**2004 - 2008 Volumes**

	<b>2004 volume</b>	<b>2005 volume</b>	<b>2006 volume</b>	<b>2007 volume</b>	<b>2008 volume</b>	<b>2008 Revenue (k\$)</b>
<b>Dispute Meter Test</b>	135	140	193	182	184	\$6
<b>Collection of Account</b>	N/A	2,585	2,300	2,300	2,300	\$69
<b>Disconnect/load Limiter/Reconnect Trips</b>	4,544	9,750	10,511	10,722	10,839	\$760
<b>Account Set-up Charge</b>	149,345	144,437	141,778	140,392	144,800	\$4,256
<b>Non Sufficient Funds (NSF) Cheque Charge</b>	11,159	9,781	9,240	9,330	9,429	\$189
<b>Easement Charge for Unregistered Rights (approx)</b>	N/A	N/A	N/A	N/A	N/A	\$265
<b>Late Payment Charge applied to number of distinct accounts</b>	N/A	N/A	N/A	N/A	N/A	\$14,491
<b>Total 2008 Revenue</b>						\$20,035

3.1.3.1 Tingle Voltage Test

Tingle voltage (also known as high neutral voltage) is undesirable as it may have an adverse effect on dairy cattle, and in extreme cases may be noticeable by humans. Hydro One Distribution strives to limit neutral voltage to 10V. In cases where customers deem the voltage to be excessive, a voltage test is conducted to determine the cause of the abnormality. Usually, there is no charge to the customer for this type of analysis; however, should the customer request further testing, the additional costs are recovered from the customer. Historically, the number of times that additional testing is required is approximately 30 per year.

1 3.1.3.2 Standby Charges

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3 A standby charge is a monthly fee that is applied to a customer that has their own  
4 generation facilities and addresses those instances when the customer is dependent on  
5 Hydro One Distribution for their electricity supply whenever their own generation  
6 facilities are out of service. The monthly charge marginally offsets the cost to Hydro One  
7 of having facilities available to ensure emergency supply whenever the customer's  
8 facilities are out of service. The charge is only applicable when electricity is not supplied  
9 by Hydro One Distribution. The 2006 Electricity Distribution Rate Handbook allows  
10 standby administration charge to cover the incremental cost of monitoring, billing and  
11 administration. The Board approved this charge on an Interim basis as part of the Generic  
12 Decision on 2006 EDR issues in proceeding RP-2005-0020/EB-2005-0529. In its  
13 decision in EB-2005-0378, the OEB directed Hydro One to establish such a variance  
14 account which it has done. Hydro One will place any revenues received from the  
15 application of this rate into this variance account and will be credited back to the  
16 customers of this province, as part of the next distribution rate hearing process. To-date  
17 there have been no such charges and it is expected that there will be none in 2008.

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19 **3.2 Unregulated Revenue**

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21 **3.2.1 Joint Use Revenue**

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23 As noted in section 3.1.1 above, the rates for Bell Canada and Local Distribution  
24 Company (LDC) attachments are based on a negotiated price rather than rates approved  
25 by the OEB due to other considerations such as reciprocal pole sharing arrangements and  
26 vegetation management services.

**Table 9**  
**Volume of Joint Use permits – Unregulated**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>volume</b>	<b>volume</b>	<b>volume</b>	<b>volume</b>	<b>volume</b>
<b>Bell Canada</b>	479,232	479,232	479,232	479,232	479,232
<b>LDCs</b>	7,244	7,295	7,236	9,615	9,903

3.2.2 New Connections/Upgrades

Hydro One Distribution connects approximately 17,500 new customers to its distribution system each year consisting primarily of subdivision and rural residential customers along with farms, cottages, and industrial customers. Approximately 6,500 upgrade services are also completed each year that involves increasing a customer's existing supply capacity to meet their increased electricity requirements.

Both the new connection service and the upgrade service have elements of work that must be done by Hydro One Distribution under its Distribution License. This includes: working within Limits of Approach [working within pre-determined boundaries of live equipment which is voltage level dependent but nominally for distribution equipment is 3 metres or 10 feet] of the distribution equipment to install any required equipment; connect the customer to Hydro One's distribution system; and connect the meter at the customer site.

The remainder of the new connection/upgrade work may be performed by a qualified contractor of the customer's choice. As required by the Distribution System Code, Hydro One Distribution will carry out this work, if requested by the customer at Hydro One's fully burdened cost, since crews are usually on-site and set up. For an above ground new connection, this work would include the installation of poles, conductor, and related equipment to run from the distribution line to the meter at the customer site. Similarly,

1 for an underground connection, this would include digging the trench and laying the  
2 cable and related equipment. This type of project is known as contestable or competitive  
3 work and is what contributes to the external revenues for this segment.

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5 Table 10 represents the number of New Connections and Upgrades Hydro One  
6 Distribution provides to customers each year.

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8 **Table 10**  
9 **Volume of New Customer Connections & Upgrades**

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	2004 volume	2005 volume	2006 volume	2007 volume	2008 volume
<b>New Connections &amp; Upgrades</b>	24,083	23,647	22,898	24,059	24,194

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12 Into the future, it is expected that the volumes will remain relatively flat, as discussed in  
13 Exhibit D1, Tab 3, and Schedule 1.

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15 **3.2.3 Distribution Generation Studies**

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17 The external revenue shown is for undertaking connection impact assessments in  
18 response to requests from generation proponents. Hydro One does assessments based on  
19 the customer request that includes the proposed size of the generator and where it will be  
20 located. Connection impact assessments are technical studies that determine the impact of  
21 the new generation facility on the Distribution System and ensure the generator will  
22 comply with the technical requirements. The technical requirements generators must  
23 meet to connect to Hydro One distribution system are outlined in “Technical  
24 Requirements for Generators Connecting to Hydro One's Distribution System”. These  
25 requirements are in place to ensure public and employee safety, protect the integrity of  
26 Hydro One's system and guarantee reliable and quality service to our customers. For

1 more information about these studies, refer to Exhibit C1, Tab 2, and Schedule 3. The  
2 volume is expected to decline in 2008 due to the best area's for generation would have  
3 been developed first and remaining areas would not be as economical.

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5 **Table 11**  
6 **Volume of Generation Studies Completed**  
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	2004 volume	2005 volume	2006 volume	2007 volume	2008 volume
<b>Distribution Generation Studies</b>	30	30	70	300	225

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9 **3.2.4 Other External Work**

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11 Revenues from external work in this segment include minor amounts of forestry line  
12 clearing and brush control work; training related to health, safety & environment;  
13 streetlight maintenance; and subdivision redesign.

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15 External training covers a wide range of practical and classroom delivered courses. These  
16 include courses like Electrical Safety Awareness, a mandatory course for anyone working  
17 in the proximity of live electrical apparatus regardless of trade or occupation. Packaged  
18 delivery of technical courses for numerous trade and professional types are delivered for  
19 Lines, Forestry, Power Electricians, Metering technicians, Protection engineers and  
20 technicians. Customers include large (Toronto Hydro) and small utilities (Peninsula West  
21 Utilities Limited), large (INCO) and small (Wardrop Engineering) companies including  
22 Non Utility Generators (Trans Alta, Brighton Beach) that send trainees to a cross section  
23 of courses in various trades/disciplines.

24  
25 Hydro One Distribution will provide an initial subdivision design and will recover this  
26 cost through the staking fee charged to the developer. When the developer revises the

1 subdivision plan, a redesign of the subdivision is needed. The cost of the redesign is  
2 borne by the developer.

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4 If a subdivision design has been completed but construction has not commenced for a  
5 period of 12 months or more, a review of the subdivision design is necessary. This review  
6 includes a field visit and is necessary to determine if the original design is still viable or if  
7 a revised design is needed to supply the subdivision. The cost to do this additional work  
8 is also covered by the developer.

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10 **Table 12**  
11 **Number of Subdivision Redesigns**  
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	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>volume</b>	<b>volume</b>	<b>volume</b>	<b>volume</b>	<b>volume</b>
<b>Subdivision Redesign</b>	37	40	44	45	45

13  
14 Other external work also includes, from time to time, emergency services provided by  
15 Hydro One Distribution crews to restore power to neighboring Canadian and U.S. utilities  
16 affected by natural disasters such as ice storms and hurricanes.

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18 **3.2.5 Non-Regulated Miscellaneous Revenues**

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20 **3.2.5.1 Under density Billing**

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22 Under density Billing revenues for Northwest part of the province are generated through  
23 annual fees levied upon five large companies that utilize dedicated under density  
24 distribution lines operated and maintained by Hydro One Distribution. The load on these  
25 under density lines does not cover the annual costs of maintenance and therefore an  
26 annual fee is charged and is designed to recover maintenance costs for servicing these

1 lines. The revenues collected by Networks represent the recovery of costs for  
2 maintenance and forestry work on the underdensity distribution lines.

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**Table 13**  
**Volume of Underdensity Billings**

	<b>2004</b> <b>volume</b>	<b>2005</b> <b>volume</b>	<b>2006</b> <b>volume</b>	<b>2007</b> <b>volume</b>	<b>2008</b> <b>volume</b>
<b>Underdensity Billings (# of customers)</b>	6	5	5	5	5

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8 **3.2.5.2 Inergi Royalties**

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10 As a result of the outsourcing agreement with Inergi LP royalty revenue is received by  
11 Hydro One Networks Inc. to compensate it for the use of Hydro One resources by Inergi  
12 LP to service other third party customers.

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14 Please refer to Exhibit C1, Tab 2, Schedule 6 for more information on Inergi agreement.

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