

REGULATORY ASSETS

1.0 INTRODUCTION

The purpose of this evidence is to provide a description of the Distribution Regulatory Assets and a detailed account of their balances.

All of the Regulatory Assets reported by Hydro One Distribution have been established consistent with the Board's requirements as set out in the Accounting Procedures Handbook, subsequent Board direction, or per specific requests initiated by Hydro One Distribution.

The Distribution Regulatory Asset balances are summarized in Table 1 below:

Table 1
Distribution
Summary of Regulatory Asset Balances for Approval
\$ million

Description	May 1, 2006	Dec 31, 2006	Dec 31, 2007	April 30, 2008
Total Regulatory Assets for Approval	8.4	(1.7)	(30.0)	(48.7)

Hydro One Distribution is forecasting Regulatory Asset values up to April 30, 2008. It is expected that new Distribution rates will be implemented at the start of May 2008. Details on the forecast basis will be described for each account.

Disposition of the following accounts is discussed in Exhibit F1, Tab 2, Schedule 1.

2.0 REGULATORY ASSETS REQUESTED FOR APPROVAL

The following table provides a summary of the Regulatory Asset requested for approval:

Table 2
Distribution
Regulatory Assets Requested for Approval
\$ million

Description	May 1, 2006	Dec 31, 2006	Dec 31, 2007	April 30, 2008
OEB Costs Account	(0.8)	(0.9)	(0.9)	(0.9)
Tax Changes Account	0.0	(2.8)	(4.7)	(5.0)
Smart Meter Minimum Functionality Under-recovery to May 31, 2007	0	3.6	5.8	6.9
Smart Meter Exceeding Minimum Functionality Under-recovery	0	0.6	3.4	5.7
Smart Meter Minimum Functionality Under-recovery between June 1, 2007 and April 30, 2008	0	0.0	3.7	9.4
Retail Settlement Variance Accounts	9.2	(2.2)	(37.3)	(64.8)
Total Regulatory Assets for Approval	8.4	(1.7)	(30.0)	(48.7)

In the Board's December 9, 2004 *Decision with Reasons* in the Review and Recovery of Regulatory Assets Phase 2 (RP-2004-0117/0118), Hydro One was directed to use a fixed rate of 7.71% for all Regulatory Asset accounts. Accordingly, simple interest at 7.71% was applied to the monthly opening principal balance in these accounts from May 1, 2006 to November 30, 2006.

In a letter dated November 28, 2006, the Board directed Electricity LDC's to implement a new prescribed interest rate. This new rate was to be effective May 1, 2006. On December 12, 2006 Hydro One wrote to the Board saying that Hydro One would be implementing this new interest rate effective December 1, 2006 since retroactive application of the interest rates could result in financial impacts different from those

1 included in Hydro One's previously published financial statements. Accordingly, the
2 interest rate for these accounts was changed to 4.59% (the OEB prescribed rate effective
3 at that time) effective December 1, 2006. Hydro One has applied the OEB prescribed rate
4 of 4.59% since December 1, 2006 for all Regulatory Asset accounts.

5 6 **2.1 Ontario Energy Board Costs Account**

7
8 In a letter dated December 20, 2004 the Board announced an amendment to the
9 Accounting Procedures Handbook and the Uniform System of Accounts to establish a
10 deferral account to record Ontario Energy Board Cost Assessments.

11
12 The intent of this account was to record Ontario Energy Board cost assessments
13 incremental to the 1999 base year for the Board's fiscal year 2004 and subsequent fiscal
14 year(s) determined in accordance with the following Board requirements.

15
16 In the Board's April 12, 2006 Decision with Reasons (RP-2005-0020 / EB-2005-0378)
17 regarding Hydro One's 2006 Distribution Rates, the Board approved Hydro One
18 Distributions OEB Costs Deferral Account amounts as submitted. Those amounts were
19 forecast to April 30, 2006 based on the 2005/2006 OEB Q2 Invoice to Hydro One
20 Distribution.

21
22 The 2005/2006 OEB Q3 and Q4 Invoices to Hydro One Distribution were lower than the
23 2005/2006 OEB Q2 Invoice, therefore the amount approved for recovery in the Board's
24 April 12, 2006 Decision with Reasons was higher than the actual value in the OEB Costs
25 Regulatory Asset account on May 1, 2006.

26
27 Hydro One Distribution transferred the approved value of the account into the Regulatory
28 Asset Recovery account on May 1, 2006 leaving the excess of the approved amount over

1 the actual amount as a credit in the OEB Costs Regulatory Asset account. No additional
2 principal amounts have been added to this account since May 1, 2006.

3
4 Table 3 provides a summary of Ontario Energy Board Cost Assessments related deferral
5 balances for the Hydro One Distribution business:

6
7 **Table 3**
8 **Distribution**
9 **OEB Costs Deferral Account Balances**
10 **\$ million**
11

Description	USofA Account Ref	May 1, 2006	Dec 31, 2006	Dec 31, 2007	April 30, 2008
OEB Costs Account	1508	(0.8)	(0.9)	(0.9)	(0.9)

12
13 After approval by the Board, this account will be closed.

14 15 **2.2 Tax Changes Account**

16
17 In the Board communique of December 2005 (to LDC's), and the Board's April 12, 2006
18 Decision with Reasons (RP-2005-0020 / EB-2005-0378) regarding Hydro One's 2006
19 Distribution Rates, the Board authorized the creation of an account to capture the tax
20 impact of the following differences:

- 21
- 22 • differences that result from a legislative or regulatory change to the tax rates or rules,
23 and
 - 24 • differences that result from a change in, or a disclosure of, a new assessing or
25 administrative policy that is published in the public tax administration or
26 interpretation bulletins by relevant federal or provincial tax authorities
- 27

1 Hydro One Distribution has been charging the amount related to the reduction of the
2 Capital Tax rate to this account since May 1, 2007. The amount related to the elimination
3 of the Large Corporation Tax was charged to this account from May 1, 2006 to April 30,
4 2007.

5
6 The balance in Hydro One Distribution's Tax Rate Changes Account is summarized in
7 Table 4 below:

8
9 **Table 4**
10 **Distribution**
11 **Tax Rate Changes Account Balances**
12 **\$ million**
13

Description	USofA Account Ref	May 1, 2006	Dec 31, 2006	Dec 31, 2007	April 30, 2008
Tax Rate Changes	1592	0	(2.8)	(4.7)	(5.0)

14
15 **2.3 Smart Metering Minimum Functionality Expenditures incurred before**
16 **May 31, 2007**

17
18 As part of the RP-2005-0020/EB-2005-0378 Proceeding the OEB approved an
19 incremental fixed monthly charge of \$0.27 per metered customer, applicable as of May 1,
20 2006, to start collecting funds for the deployment of Smart Meters. Subsequently, as part
21 of the EB-2007-0542 Proceeding, the monthly amount was increased to \$0.93 per metered
22 customer as of May 1, 2007. The revenues collected per the above are recorded in a
23 variance account set up for Smart Meter revenue.

24
25 On May 2, 2007, the Board issued a notice of combined proceeding (EB-2007-0063) to
26 determine the prudence and recovery of costs associated with smart metering activities for
27 13 licensed distributors, including Hydro One Networks
28 .

1 The issues considered in the combined proceeding included:

2

- 3 1. Costs recovery relating to minimum functionality pursuant to Ontario Reg. 426/06.
- 4 2. Prudence of costs incurred.
- 5 3. The mechanism for re-setting rates for smart meter costs that are found to be prudent
- 6 through this proceeding.
- 7 4. Accounting Procedures.
- 8 5. Regulatory treatment of stranded meter costs and recovery through rates.
- 9 6. The mechanisms for re-setting rates for smart meter costs incurred on a go forward
- 10 basis.
- 11 7. Mechanism for dealing with costs not part of this proceeding.

12

13 The Board's Decision was released on August 8, 2007. The Board determined that the
14 purchasing decisions of the thirteen utilities involved in this proceeding were
15 implemented with the necessary due diligence and the terms of the contracts are prudent.
16 The Board agreed with the overall costs incurred to May 31, 2007 related to the minimum
17 functionality of all installed meters. These approved amounts were OM&A costs of
18 \$8.366 million, and Capital costs of \$21.799 million. The approved amounts include only
19 one half of the \$1.348 million of project management capital costs incurred to May 31,
20 2007, and the Board requested Hydro One to include the remainder, or \$0.674 million, in
21 this application with a further explanation of these costs. This is included in Section 2.5
22 below. The Board also requested that the \$70,000 of costs for repairing or replacing meter
23 bases incurred to date and in the future be tracked in a variance account. This is included
24 in Section 2.4 below.

25

26 Table 5 below details the revenue requirement (net of revenue received) related to smart
27 meter minimum functionality up to May 31, 2007 that Hydro One is requesting recovery

1 for in this proceeding. The revenue requirement was calculated based on the approach
2 illustrated in Appendix E of the decision for proceeding EB-2007-0063.

3 **Table 5**
4 **Distribution**
5 **Smart Meter Minimum Functionality Under-Recovery to May 31, 2007**
6 **\$ million**
7

Description	Dec 31, 2006	Dec 31, 2007	April 30, 2008
Revenue Requirement	6.1	10.6	11.7
Less: Revenue	(2.5)	(4.8)	(4.8)
Net Revenue Requirement to be Recovered	3.6	5.8	6.9

8
9 **2.4 Smart Metering Expenditures Exceeding Minimum Functionality**

10
11 The Smart Metering Expenditures Exceeding Minimum Functionality primarily includes
12 TOU capability as well as some costs for outage detection capability as described below:

13
14 **Meter Outage Detection Capability**

15 Super capacitors are being installed in the meters so they have the power to communicate
16 outage event information after loss of electrical supply. In cases where meters can notify
17 Hydro One of “nested” outages, this will enable Hydro One to become aware of outages
18 in our rural areas in a timely manner, resulting in increased customer satisfaction and
19 efficiency. Currently Hydro One has to rely on customer calls to be made aware of initial
20 and remaining power outages.

21
22 **Collector Outage Detections Capability**

23 Battery backup for the collectors is included to ensure the meter outage events can be
24 communicated through the collectors even when power supply to them has been
25 interrupted. This capability is important as it ensures that the outage capability in the
26 meter described above follows through to our central control offices.

1 **TOU (Time of Use) Capability and Integration**

2 The ultimate benefit of smart meters is to provide proper price signals to customers based
3 on when they use electricity. TOU functionality is therefore an imperative element of the
4 smart meter program. The TOU functionality will be provided through the
5 communication network work as discussed in Exhibit C1, Tab 2, Schedule 2 and Exhibit
6 D1, Tab 3, Schedule 2. This will integrate the meter information into the format needed
7 for the IESO to use in the meter data management and meter data repository (MDMR).

8
9 The review of these costs were not part of the Combined Smart Metering Hearing
10 (EB-2007-0063) since the proceeding only reviewed costs associated with minimum
11 functionality.

12
13 The \$70,000 of costs for repairing or replacing meter bases incurred to date were initially
14 included in minimum functionality. The Board in their decision for EB-2007-0063
15 directed that these costs be separated out and tracked in a variance account. These costs
16 and future repair costs through April 2008 are included in the table below and are being
17 split between OM&A and capital as requested in the decision in EB-2007-0063.

18
19 The Hydro One Smart Meter revenue requirement associated with these elements is
20 summarized in Table 6 below:

21 **Table 6**
22 **Distribution**
23 **Smart Meter Exceeding Minimum Functionality Under-Recovery**
24 **\$ million**

25

Description	Dec 31, 2006	Dec 31, 2007	April 30, 2008
Revenue Requirement	0.6	3.4	5.7

1 **2.5 Smart Metering Minimum Functionality Expenditures between June 1, 2007**
2 **and April 30, 2008**

3
4 The final area of Smart Meter expenditures include elements that were reviewed and
5 approved in the Combined Smart Meter Proceeding (EB-2007-0063) but are related to the
6 period June 1, 2007 to April 30, 2008 and therefore not part of the Decision delivered on
7 August 8, 2007. These expenditures include the cost of meters that were included in the
8 Smart Meter proceeding but were not yet installed. All of these meters will be installed by
9 April 30, 2008.

10
11 The total number of meters that will be installed during this period is 522,086 for a total
12 number of meters of 610,000. Using the Board's unit cost methodology, the unit cost in
13 this time period has decreased from \$479.47 to \$428.00.

14
15 The Project management costs of \$0.674 million that were not approved in the Smart
16 Meter proceeding, as discussed in Section 2.3 above, have also been included in the costs
17 below.

18
19 Due to the scope, complexity and specialized nature of this work, Hydro One selected
20 Capgemini as its systems integrator, which includes providing the project management
21 function. Capgemini was selected in 2005 as the systems integrator through a competitive
22 RFP process. Hydro One's smart meter program has established detailed requirements to
23 design, build, test, and commission the end to end solution to provide customers the tools
24 and systems needed to take advantage of a smart meter system. Much of this work
25 requires long lead times and is tied to external party timelines such as the IESO's
26 implementation of the MDMR.

1 The Program Management function provides full Project Management Office (PMO)
2 services and tools for a project that includes 12 work streams:

- 3
- 4 • Meter installation and field services
- 5 • Commissioning of head-end systems (advanced metering control computer, or
6 “AMCC”, for 1.2 million meter points)
- 7 • Network Engineering
- 8 • Integration of AMCC to MDMR to Hydro One’s customer information system
9 (CIS)
- 10 • Billing and customer care
- 11 • Settlements (retail and wholesale impact assessment)
- 12 • Customer Contact Centre (call centre to handle meter installation and TOU
13 customer enquiries)
- 14 • CIS upgrade for TOU rates
- 15 • New systems – data and synchronization gateway and exception management for
16 transactions exceeding 30 million per day upon full implementation
- 17 • Integrated business process design for moving from manual meter reading to an
18 advanced metering regional collector (AMRC), including all related service
19 orders, managing a network that encompasses over one million communication
20 nodes, TOU billing, etc.
- 21 • Infrastructure Management (managing the procurement and implementation of
22 computer hardware required for AMCCs, Integration, and TOU upgrades, this
23 includes all required environments, e.g. for development, testing and production)
- 24 • Project management and tracking, which includes the following activities;
 - 25 • tracking cost and schedule performance; management of issues, risks,
26 assumptions and change logs and associated action plans for all
27 workstreams;

1 **2.6 Retail Settlement Variance Accounts (RSVA)**

2
3 The RSVA accounts have been established pursuant to Article 490 which requires that all
4 distributors establish Retail Settlement Variance Accounts to record the differences
5 between the amount owed to the IESO / host distributors and the amount billed to
6 customers and retailers.

7
8 The vast majority of the balance in the RSVA accounts is related to Wholesale Market
9 Services (WMS). The purpose of the WMS account is to capture the net of the amounts
10 charged by the IESO, host distributors, and embedded generators (based on the settlement
11 invoices for the operation of the IESO administered markets and the IESO – controlled
12 grid) and the revenue accrued for customers using the Board approved Wholesale Market
13 Service Rate.

14
15 The RSVA accounts were previously reviewed and approved by the Board in RP-2004-
16 0117/0118 and RP-2005-0020 / EB-2005-0378. The balance of the RSVA account has
17 been filed with the Board on a quarterly basis per the Electricity Reporting and Record
18 Keeping Requirements and is included in the Board's annual review of deferral account
19 balances.

20
21 Pursuant to the Board's October 29, 2007 letter to Electricity Distributors re: "Ontario
22 Uniform Transmission Rate Order, EB-2007-0759: Effect on Distributor Retail
23 Transmission Rates", which directs Distributors to incorporate the disposition of variance
24 account balances relating to retail transmission rates in their 2008 Cost of Service
25 application, Hydro One is requesting disposition of RSVA balances in this submission.

26
27 The total Retail Settlement Variance Accounts balance is summarized in Table 8 below:

Table 8
Distribution
Retail Settlement Variance Accounts
\$ million

Description	May 1, 2006	Dec 31, 2006	Dec 31, 2007	April 30, 2008
RSVA Wholesale Market Services	0.6	(23.8)	(60.3)	(72.6)
RSVA Tx Network & Tx Network Aggregation	1.4	7.6	12.5	1.4
RSVA Tx Connection & Tx Connection Aggregation	1.6	5.4	7.5	2.5
RSVA Provincial Benefit	5.6	7.8	0.0	0.0
RSVA Low Voltage	0.0	0.8	3.0	3.8
Total RSVA	9.2	(2.2)	(37.3)	(64.8)

2.7 Accounts Not Being Requested For Recovery

2.7.1 RCVA and RRRP Accounts

RCVA and RRRP deferral accounts are currently being tracked by Hydro One Distribution but are not being requested for recovery as part of this proceeding. Balances in these accounts will continue to be filed with the Board on a quarterly basis per the Electricity Reporting and Record Keeping Requirements and included in the Board's annual review of deferral account balances.

2.7.2 Regulatory Asset Recovery Account – Phase I

Ontario's local electricity distribution companies (LDCs or distributors) incurred costs in preparation for the competitive market which opened in May 2002. In addition to these transition costs, utilities incurred other costs associated with regulatory directives related to market restructuring and the ongoing competitive market.

1 On January 10, 2005, the Board issued an *Order* (RP-2004-0117/0118) granting Hydro
2 One approval for its regulatory asset account balance of \$155 million as filed on
3 December 20, 2004.

4

5 Simple interest is applied to the monthly opening principal balance in this account.

6

7 The Recovery of Regulatory Asset Balances – Phase I account (USofA 1590) is
8 monitored and reported on a quarterly basis to the Board per the Electricity Reporting and
9 Record Keeping Requirements. A final reconciliation (and true up adjustment) will be
10 done at the end of the three year duration of the rate rider (April 30, 2008 for Distribution
11 customers with volumetric rate riders, and March 31, 2008 for Embedded LDCs and
12 Directs with fixed dollar amount rate riders).

13

14 2.7.3 Regulatory Asset Recovery Account – Phase II

15

16 On August 17, 2005, Hydro One Distribution filed an application with the Board for an
17 order approving or fixing just and reasonable rates for the distribution of electricity
18 effective May 1, 2006. On April 12, 2006, the Board issued a *Decision with Reasons* (RP-
19 2005-0020 / EB-2005-0378) granting Hydro One approval for its regulatory asset account
20 balances of \$100 million as approved for Rate Rider recovery under that application.

21

22 Simple interest is applied to the monthly opening principal balance in this account.

23

24 The Recovery of Regulatory Asset Balances – Phase II account (USofA 1590) is
25 monitored and reported on a quarterly basis to the Board per the Electricity Reporting and
26 Record Keeping Requirements. A final reconciliation (and true up adjustment) will be
27 done at the end of the four year duration of the rate rider (April 30, 2010).

28