



1 in schedules within Exhibit D1, Tab 3. The Company's OM&A expenditures are itemized  
2 in Exhibit C2, Tab 2, Schedule 1 and discussed in written direct evidence in Exhibit C1,  
3 Tab 2.

4  
5 Hydro One Distribution has assumed that capital costs associated with expansion and  
6 enabling improvements work that is part of the generation connection investments and  
7 CDM initiatives will be externally funded via the Global Adjustment Mechanism and  
8 therefore do not impact the 2010 or 2011 revenue requirement requested in this  
9 Application.

10  
11 This Application by Hydro One Distribution is substantially consistent with the  
12 requirements of the 2006 Electricity Distribution Rate Handbook ("the Handbook")  
13 issued by the Board on May 11, 2005 and with the Filing Requirements for Transmission  
14 and Distribution Applications (the "Filing Requirements") issued by the Board on  
15 November 14, 2006 and updated Chapter 2 issued by the Board on May 27, 2009.

16  
17 This Application addresses all outstanding Board directives with respect to its  
18 Distribution Business. A listing of all relevant directives and the corresponding exhibit  
19 or a statement of status is provided in Exhibit A, Tab 18, Schedule 1.

20  
21 Hydro One has applied the deemed capital structure of 60% debt and 40% common  
22 equity approved by the Board in their EB-2007-0681 Decision for Hydro One  
23 Distribution in determining its 2010 and 2011 revenue requirements. Hydro One  
24 Distribution is requesting an equity return of 8.11% for the 2010 test year and 9.09 % for  
25 2011, as per the Board's formulaic approach in Appendix B of the Cost of Capital  
26 Report, applied using the April 2009 Consensus Forecast. The Company expects that the  
27 return on equity ("ROE") and other Cost of Capital ("COC") parameters for 2010 will be  
28 updated to reflect the September 2009 Consensus Forecasts and Bank of Canada data

1 available in October 2009 for the September 2009 period as part of the Draft Rate Order  
2 for 2010 rates. Similarly, the 2011 ROE would be updated to reflect the September 2010  
3 Consensus Forecasts and Bank of Canada data available in October 2010 for the  
4 September 2010 period as part of the Draft Rate Order for 2011 rates similar to the  
5 methodology approved by the Board for Hydro One Transmission. Hydro One also  
6 assumes that the ROE and other COC parameters will be adjusted to reflect the results of  
7 any adjustments to the determination of the Cost of Capital from the Board's current EB-  
8 2009-0084 proceeding.

9  
10 Hydro One has incorporated the methodologies of the Lead Lag study, based on the  
11 methodology accepted by the Board in previous Hydro One Distribution and  
12 Transmission Applications and updated for this current filing. The calculation of working  
13 capital, filed at Exhibit D1, Tab 1, Schedule 4, incorporates the methodologies of the  
14 Lead Lag study filed as Attachment 1 to the same exhibit.

15  
16 Hydro One has used the Corporate Cost Allocation Methodology, based on the  
17 methodology accepted in previous Hydro One Distribution and Transmission  
18 Applications and updated for this current filing, to allocate the costs of shared services  
19 OM&A and Common Assets between Transmission and Distribution. The 2009 OM&A  
20 update is described in Exhibit C1, Tab 5, Schedule 1 and the updated study is filed as  
21 Attachment 1 to the same exhibit. The 2009 Common Asset Allocation Methodology is  
22 described at Exhibit C1, Tab 5, Schedule 3 and the updated report is filed as Attachment  
23 1 to the same exhibit.

24  
25 The 2010-2011 overhead capitalization rate has been calculated consistent with the  
26 methodology accepted in previous Hydro One Distribution and Transmission  
27 Applications and updated for this current filing. The updated Black & Veatch (formerly  
28 RJ Rudden Associates) study is filed at Exhibit C1, Tab 5, Schedule 2, Attachment 1.

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Hydro One assesses the condition of its Distribution assets on an ongoing basis, and the resulting Asset Condition Assessment, described in Exhibit D1, Tab 2, Schedule 1, has been used to shape the Sustainment OM&A and Capital plans set out in Exhibits C and D.

Hydro One also undertook a stakeholder consultation process to increase understanding of the issues in this Application and to provide a forum for early identification of stakeholder concerns, as documented in Exhibit A, Tab 17, Schedule 1.

## **2.0 APPROVALS REQUESTED**

### **2.1 Revenue Requirement**

Respecting Hydro One's revenue requirement in the years 2010 and 2011 for its Distribution Business, the Company is seeking approvals for:

1. A revenue requirement of \$1,150 million for the 2010 test year and \$1,264 million for the 2011 test year. The revenue requirement calculation for both test years appears in the evidence at Exhibit E2, Tab 1, Schedule 1. The resulting distribution rate increase for the average customer, relative to 2009 rates set by the Board under the 3<sup>rd</sup> Generation Incentive Regulation Mechanism, will be approximately 9.7% in 2010 and approximately 13.3% in 2011 on the distribution portion of the average customer total bill. This amounts to an average increase of approximately 3% on the average customer total bill in 2010 and approximately 4% in 2011.

- 1        2. The proposed OM&A expenditures for 2010 and 2011 of \$560 million and \$575  
2            million respectively. These expenditures are itemized at Exhibit C2, Tab 2,  
3            Schedule 1 and discussed in written direct evidence at Exhibit C1, Tab 2.  
4
- 5        3. Hydro One's forecast of total capital expenditures of \$565 million in 2010 and  
6            \$577 million in 2011. Details of Hydro One Distribution's capital budget are  
7            illustrated in schedules filed at Exhibit D2, Tab 2 and discussed in detail at  
8            Exhibit D1, Tab 3.  
9
- 10       4. The regulatory assets with a total balance of total of \$(26) million will be  
11           recorded as at December 31, 2009. Hydro One is proposing to refund to  
12           ratepayers the \$(26) million over two years, \$(13) million per year starting in the  
13           2010 test year.  
14
- 15       5. A Distribution business rate base of \$4,836 million for 2010 and \$5,146 million  
16           for 2011 as described at Exhibit D1, Tab 1, Schedule 1.  
17
- 18       6. Depreciation and amortization expense of \$259 million for 2010 and \$291 million  
19           for 2011 which have been determined by applying the accepted Foster's  
20           methodology. These costs are described in written evidence at Exhibit C1, Tab 6,  
21           Schedule 1 and shown in detail in C2, Tab 5, Schedule 1.  
22

## 23       **2.2       Cost Allocation and Rates**

24

25       With respect to cost allocation and rates, Hydro One is seeking approvals of:

26

- 27       1. The 2010 rate schedules including terms and conditions of service as set out in  
28           Schedule 1 of Exhibit G2, Tab 4 to Exhibit G2, Tab 92. These schedules reflect the

- 1 Company's proposed Retail Transmission Service Rates and loss factors.  
2
- 3 2. The charges for the provision of miscellaneous services as set out in Exhibit G2, Tab  
4 93, Schedule 1.  
5
- 6 3. Hydro One Distribution's proposed cost allocation and rate design methodology, as  
7 described in Exhibit G1, Tab 1, Schedule 1 and supported by the remainder of the G  
8 Exhibit.  
9
- 10 4. Hydro One Distribution's proposal for the 3<sup>rd</sup> year of harmonizing acquired LDC and  
11 legacy customers' distribution rates as described in Exhibits G1, Tab 2, Schedule 4  
12 and Exhibit G2, Tab 2, Schedule 1.  
13
- 14 5. The modifications to the Board's cost allocation model as discussed in Exhibit G2,  
15 Tab 1, Schedule 1.  
16
- 17 6. The disposition of the balances accumulated in Regulatory Accounts as shown in  
18 Exhibit F1, Tab 2, Schedule 1.  
19
- 20 7. An increase in the smart meter funding adder to \$2.17 in 2010 and \$4.45 in 2011 per  
21 month per metered customer to provide advanced funding for the 2010 and 2011  
22 forecast smart meter in-service additions and associated OM&A expenditures.  
23

24 Other  
25

- 26 1. Hydro One Networks seeks approval of the Company's Green Energy Plan filed as  
27 part of this Application in accordance with the Deemed Conditions of Licence:  
28 Distribution System Planning Guidelines G-2009-0087 issued June 16, 2009.

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2. Hydro One Networks seeks approval for variance accounts related to impacts of IFRS standard changes, fixed charges applied to micro-generators, variances in actual pension costs, bill impact mitigation and incremental OEB costs.

**3.0 CAUSES OF THE INCREASE IN REVENUE REQUIREMENT**

The main contributions to the increase in revenue requirement in 2010 and 2011 are:

- Rate base growth as reflected in the increase in return and depreciation amounts since last approved by the Board for the 2008 test year. This expansion is required to meet growth in customer demand, replace assets damaged by storms, replace end-of-life assets, meet the requirements of the GEGEA and to include smart meters installed as of December 31, 2008.
- Increases in OM&A requirements, largely precipitated by a planned increase in vegetation management, increases in trouble call spending, costs associated with meeting new PCB regulations, support of smart meters installed as of December 31, 2008, and the effects of escalation in replacement parts, materials and labour rates.
- An increase to the Hydro One Distribution Business common equity return from 8.11% in 2010 to 9.09% in 2011.

These increases are partially offset by lower statutory tax rates and the elimination of capital taxes in 2011.

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EB-2009-0096

Exhibit A

Tab 3

Schedule 1

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- 1 The increases identified within the Application will ensure that customers within the
- 2 Province will continue to be supplied in a secure and reliable manner, thereby
- 3 contributing to the health and competitiveness of the Province's economy.