

1 **FINANCIAL SUMMARY**

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3 **1.0 INTRODUCTION**

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5 Hydro One Distribution is making this application in accordance with the requirements of
6 the Ontario Energy Board *Filing Requirements for Transmission and Distribution*
7 *Applications* issued November 14, 2006 and the update to Chapter 2 of the Filing
8 Requirements issued May 27, 2009. The proposed revenue requirement and rates
9 included in this application have been prepared on the basis of forward-looking 2010 and
10 2011 test years. This submission also includes information for the 2009 bridge year,
11 historical information for 2006, 2007 and 2008, and historic Board approved 2008 year.

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13 Hydro One is proposing to recover a revenue requirement of \$1,150 million from its
14 customers for the 2010 test year and \$1,264 million for the 2011 test year. The revenue
15 requirement calculation for both test years appears in the evidence at Exhibit E2, Tab 1,
16 Schedule 1.

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18 Hydro One has not conducted a Cost of Capital or Rate of Return study in support of its
19 current submission. Hydro One's submission is based on the capital structure, debt rates
20 and return on equity formulas prescribed in the 'Report of the Board on Cost of Capital
21 and 2nd Generation Incentive Regulation' (December 20, 2006). The requested return on
22 common equity is 8.11% for 2010 and 9.09% for 2011, as specified by the formula in the
23 report above. Hydro One Distribution's evidence in support of its Cost of Capital and
24 Cost of Third Party Long Term Debt appears at Exhibit B1, Tab 1, Schedule 1 and
25 Exhibit B1, Tab 2, Schedule 1, respectively.

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27 Hydro One Distribution's OM&A expenditures have been determined on the basis of an
28 examination of required work programs to ensure the most appropriate, cost-effective

1 solutions to respond to corporate objectives. A description of Hydro One's planning
2 process is provided at Exhibit A, Tab 14, Schedule 1. The proposed OM&A expenditures
3 for 2010 and 2011 are \$560 million and \$575 million respectively, driven by such factors
4 as the need to meet customer, regulatory and statutory requirements regarding service and
5 reliability. These expenditures are itemized at Exhibit C2, Tab 2, Schedule 1 and
6 discussed in written direct evidence at Exhibit C1, Tabs 1 and 2. Hydro One has used the
7 Corporate Cost Allocation Methodology, based on the methodology accepted in RP-
8 2005-0020/EB-2005-0378 and updated for this current filing, to allocate the costs of
9 shared services OM&A between Transmission and Distribution. The 2009 update is
10 described in Exhibit C1, Tab 5, Schedule 1.

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12 Depreciation and amortization expense of \$259 million for 2010 and \$291 million for
13 2011 have been determined based on the results of the accepted Foster's methodology.
14 These costs are described in written evidence at Exhibit C1, Tab 6, Schedule 1 and shown
15 in detail in C2, Tab 5, Schedule 1.

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17 Hydro One has incorporated the methodologies of the Lead Lag study, based on the
18 methodology accepted by the Board in RP-2005-0020/EB2005-0378 and updated for this
19 current filing. The calculation of working capital, filed at Exhibit D1, Tab 1, Schedule 4,
20 incorporates the methodologies of the Lead Lag study.

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22 Hydro One Distribution's proposed Rate Base of \$4,836 million for 2010 and \$5,146
23 million for 2011 are discussed at Exhibit D1, Tab 1, Schedule 1.

24
25 This submission reflects Hydro One Distribution's plan to invest in distribution assets to
26 meet its objectives regarding public and employee safety; regulatory and legislative
27 compliance; service quality and reliability; and meeting system growth requirements. The
28 capital project and program approval and control policy is presented at Exhibit A, Tab 14,

1 Schedule 7. Hydro One is forecasting total capital expenditures of \$565 million in 2010
2 and \$577 million in 2011. Details of Hydro One Distribution's capital budget are
3 illustrated in schedules filed at Exhibit D2, Tab 2 and discussed in detail at Exhibit D1,
4 Tab 3.

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6 Hydro One Distribution earns approximately 4% of its revenues from sources other than
7 its distribution tariff. As the costs incurred to generate these revenues are included in
8 Hydro One's cost of service, the external revenues of \$48 million in each of 2010 and
9 2011 are recorded as an offset to the revenue requirement. External revenues are
10 discussed at Exhibit E1, Tab 1, Schedule 2.

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12 In accordance with standard regulatory practice, Hydro One Distribution has incurred
13 prior costs for which it is requesting approval in this submission. A total of \$(26) million
14 will be recorded as at December 31, 2009 in a series of regulatory assets. Hydro One is
15 proposing to refund to ratepayers the \$(26) million over two years, \$(13) million per year
16 starting in the 2010 test year. Hydro One's submissions regarding this account balance
17 and proposed disposition appears at Exhibit F1, Tab 2, Schedule 1.

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19 Table 1 summarizes the financial highlights for the 2010 and 2011 Test Years.

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Table 1
Cost of Capital

<i>Line No.</i>	<i>Total Rate Base Percent</i>	<i>2010 Deemed* Capital Structure (\$ millions)</i>	<i>2010 Cost Rate (%)</i>	<i>2011 Deemed* Capital Structure (\$ millions)</i>	<i>2011 Cost Rate (%)</i>	<i>Exhibit</i>
	(a)	(a)	(c)			(d)
1	Total Debt 60.0%	2,901.4	5.42%	3,087.4	5.52%	B2-1-1
2	Common Equity 40.0%	1,934.2	8.11%	2,058.3	9.09%	B2-1-1
3	Total Rate Base 100.0%	4,835.6	6.49%	5,145.7	6.95%	B2-1-1

* As per Board direction, Preferred Shares deemed to be \$0 for regulatory purposes. Deemed long-term debt has been calculated at the long-term debt rate.

Financial Highlights

<i>Line No.</i>	<i>\$ millions</i>	<i>2010</i>	<i>2011</i>	<i>Exhibit</i>
1	Total OM&A Expense	560	575	C2-1-1
2	Capital Expenditures	565	577	D2-2-1
3	Rate Base	4,836	5,146	D2-1-1
4	Revenue Requirement	1,150	1,264	E2-1-1
5	External Revenues	48	48	E1-2-1
6	Return on Capital	314	357	E2-1-1
7	Regulatory Assets Recovery	(13)	(13)	F2-1-2

2.0 2008 BOARD APPROVED VS. 2008 ACTUALS VARIANCE

EXPLANATIONS

2.1 Operations, Maintenance & Administration

Table 2 compares 2008 actual costs versus 2008 Board approved costs for OM&A.

Table 2

OM&A Cost Categories (\$ million)	2008 Actuals (\$ million)	2008 Board Approved (\$ million)	Variance (\$ million)
Sustaining	\$284.5	\$270.3	\$14.2
Development	8.0	9.1	(1.1)
Operations	12.4	13.4	(1.0)
Customer Care	99.3	103.8	(4.5)
Shared Services & Other Costs	62.9	65.2	(2.3)
Taxes other than Income Taxes	4.3	4.5	(0.2)
Total OM&A	\$471.3	\$466.3	\$5.0

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2 Hydro One Distribution's 2008 OM&A costs were \$471 million compared to \$466
 3 million approved by the Board in the EB-2007-0681 Decision with Reasons, an increase
 4 of \$5 million. The higher spending on Sustaining OM&A is primarily attributed to the
 5 increased number of trouble calls in response to greater storm activity in 2008. The
 6 lower spending on Development OM&A is largely attributed to a reduction in the amount
 7 of work required to execute the Long Term Load Transfers that were planned. Spending
 8 on Operations OM&A was lower due to delays in resourcing the required support for a
 9 number of systems and tools used to manage the distribution system. The lower
 10 spending on Customer Care is in part due to lower call handling costs resulting from
 11 improvements in first call resolution and automation initiatives, as well as changes in the
 12 scope and timing of some customer care projects. Spending in Shared Services and Other
 13 Costs is lower due to delays in Asset Management engaging required work program
 14 resources partially offset by an increased Cost of Sales due to higher than anticipated
 15 amounts for new connects and upgrades and the Ohio Storm Assistance provided under a
 16 North American Assistance Agreement.

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1 **2.2 Capital Expenditures**

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Table 3

Capital Expenditures (\$ million)	2008 Actuals (\$ million)	2008 Board Approved (\$ million)	Variance (\$ million)
Sustaining	\$170.7	\$152.3	\$18.4
Development	153.2	167.7	(14.5)
Operations	0.9	3.6	(2.7)
Shared Services	110.6	77.8	32.8
Total	\$435.3	\$401.4	\$33.9

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Hydro One Distribution's capital expenditures in 2008 were \$435 million compared to \$401 million approved by the Board in the EB-2007-0681 Distribution Decision, an increase of \$34 million. As with OM&A, the increase in Sustaining capital expenditures is primarily related to higher spending on Trouble Calls and Storm damage asset replacements due to the high level of storm activity in 2008 as well as increases in Line Relocation work due to a number of larger projects driven by road expansion work. Development Capital was \$14.5 million under spent as a result of delays in the need for some of the planned system capability reinforcement work and distribution generation connections. Operations capital spending was below the approved levels due to delays in procuring the required hardware for the end-of-life hardware refresh and phone system upgrade work. The increase in Shared Services Capital costs in 2008 compared to the Board approved amount is driven primarily by Cornerstone capital spending.

1 **2.3 Rate Base**

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Table 4

Rate Base Component (\$M)	2008 Actuals ¹	2008 Board Approved	Variance
Gross Plant	\$6,298.8	\$6,308.9	\$(10.1)
Accumulated Depreciation	(2,375.7)	(2,358.0)	(17.7)
Net Plant	3,923.1	3,950.9	(27.8)
Cash Working Capital	273.2	273.2	-
Materials & Supplies Inventory ²	7.0	23.3	(16.3)
Total Rate Base	\$4,203.3	\$4,247.4	\$(44.1)

5 ¹ Hydro One Distribution does not calculate rate base using historical amounts, however, the use of 2008
 6 amounts are for illustrative purposes. Gross Plant and Accumulated Depreciation amounts are calculated on
 7 a mid-year average excluding Smart Meters.

8 ² 2008 Actual Inventory amounts reflects reclassification of strategic spares to gross plant for financial
 9 statement presentation purposes.

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11 Total rate base was \$44.1 million or approximately 1% less than Board approved levels.