

1 **COMPLIANCE WITH OEB FILING REQUIREMENTS FOR**
2 **ELECTRICITY DISTRIBUTORS**

3
4 **1.0 INTRODUCTION**

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

11
12 Hydro One Distribution’s Application follows the format used in the previous
13 Distribution Rates proceeding, which was well received by the Board and intervenors,
14 and incorporates improvements made to the filing format. Hydro One’s Application
15 substantially satisfies the Filing Requirements and Handbook requirements except where
16 it was not practical or appropriate to do so based on previous comments and direction
17 from the Board, or as a result of specific government regulation.

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19 **2.0 TEST YEAR AND HISTORICAL PERIOD**

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21 The Filing Requirements indicate that a forward test-year methodology is to be utilized
22 when a distributor is seeking the Board’s approval for rebasing its rates. Hydro One
23 Distribution’s Application has been filed using a forward test year and provides three
24 years of historical data, consistent with the approach used in prior main rate cases for
25 Distribution and Transmission rates. As such, this Application includes written evidence
26 and supporting schedules for the following:

- 1 • 2010 and 2011 test year;
- 2 • 2009 bridge year;
- 3 • 2006, 2007 and 2008 historical years;
- 4 • 2008 Board-approved historical year.

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6 **3.0 RATE BASE**

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8 The Filing Requirements, past direction from the Board, and a number of specific
9 government regulations influence the determination of Hydro One Distribution's rate
10 base and associated capital costs, as well as influencing the rate base information
11 provided in the Application.

12

13 **3.1 Sentinel Lighting**

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15 Hydro One Distribution includes sentinel lighting as a regulated activity by virtue of
16 Regulation 116/02 dated March 22, 2002, made under the *Electricity Act, 1998*. This
17 regulation allows Hydro One Distribution to include in its regulated rate base the assets
18 and OM&A directly related to the provision of sentinel light services. As such, all costs
19 and external revenues associated with sentinel lights have been included in the
20 determination of the 2010 and 2011 revenue requirement.

21

22 **3.2 Generation Assets**

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24 Assets necessary to provide back up generation on Pelee Island continue to be included in
25 the rate base. Hydro One is allowed to provide back-up generation on Pelee Island by
26 virtue of an exemption granted to it by Ontario Regulation 71/02, made under the
27 *Electricity Act, 1998*, and gazetted March 30, 2002, which amended Ontario Regulation
28 160/99.

1 **3.3 High Voltage Distribution Stations**

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3 Pursuant to the Board’s RP-1998-0001 Decision, Hydro One Distribution is allowed to
4 include the assets at its 88 High Voltage Distribution Stations (HVDSs) in the
5 Company’s distribution rate base.

6
7 The functionality of Hydro One Distribution’s HVDSs was subsequently reviewed at the
8 2002 OEB proceeding RP-2000-0023 and the OEB reaffirmed the designation of HVDSs
9 as distribution assets. This treatment of HVDS assets is also consistent with the
10 Company’s transmission rate base approved in EB-2008-0272, which excluded HVDS
11 assets.

12
13 **3.4 Depreciation Rates**

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15 Hydro One Distribution’s 2010 and 2011 Revenue Requirement reflects the adoption of
16 the depreciation rates approved by the Board in EB-2005-0378, based on the depreciation
17 study by Foster Associates accepted by the Board in that proceeding.

18
19 **3.5 Working Capital Allowance**

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21 Hydro One Distribution’s 2010 and 2011 Revenue Requirement reflects the cash working
22 capital requirements using the methodology from the new lead-lag study by Navigant
23 Consulting Inc. in Exhibit D1, Tab 1, Schedule 4. This study was updated based on a
24 review of current payments and receipts and business plan. The methodology is
25 consistent with the methodology accepted by the Board in EB-2005-0378.

1 **3.6 Interest Rates for Construction Work in Progress**

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3 The interest rate used for construction work in progress (CWIP), also referred to as
4 Allowance for Funds Used During Construction (AFUDC), reflects the Board's decision
5 in EB-2006-0117, effective November 28, 2006. This decision prescribed that the
6 interest rate to use for CWIP would be the Scotia Capital All-Corporates Mid-Term
7 Yield, as published on the Bank of Canada website and updated quarterly. As a result,
8 2007 and 2008 and the 2009 bridge and 2010 and 2011 test years reflect the prescribed
9 CWIP rate on a forecast basis, while 2006 reflects CWIP at Hydro One Distribution's
10 previously approved embedded cost of debt.

11

12 **3.7 Capital Projects and Programs**

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14 Details for all capital projects and programs that exceed \$1 million in net capital costs are
15 provided in Investment Summary Documents (ISDs). The ISDs for these projects and
16 programs are filed at Exhibit D2, Tab 2, Schedule 3.

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18 **3.8 In-Service Additions**

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20 Hydro One Distribution continues to plan, manage and perform its internal and external
21 reporting on a work basis using its general ledger accounts, as these are reflective of the
22 way in which Hydro One Distribution manages its operations. The evidence has been
23 filed on the basis of Hydro One Distribution's accounting systems, and a schedule
24 showing distribution in-service additions by OEB-specified USofA accounts for the 2010
25 and 2011 test years and 2009 bridge year is filed at Exhibit D2, Tab 2, Schedule 4.

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1 **4.0 COST OF CAPITAL**

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3 Hydro One Distribution's filing reflects the direction provided in the Report of the Board
4 on Cost of Capital and Second Generation Incentive Regulation, issued December 20,
5 2006, with respect to the Company's deemed capital structure, forecast debt costs and a
6 common equity return.

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8 **5.0 COST OF SERVICE**

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10 **5.1 Operating (OM&A) Costs**

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12 Hydro One Distribution continues to plan, manage and perform its internal and external
13 reporting on a work basis using its general ledger accounts, as these are reflective of the
14 way in which Hydro One Distribution manages its operations. The evidence has been
15 filed on the basis of Hydro One Distribution's accounting systems and a schedule
16 showing distribution OM&A expenditures by OEB-specified USofA accounts for the
17 2006, 2007 and 2008 historical years is filed at Exhibit C2, Tab 2, Schedule 2.

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19 **5.2 Taxes / Payments-in-Lieu (PILs)**

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21 Hydro One Distribution will not be using the OEB Tax Model since it is filing on a
22 forward test year basis. However, the equivalent level of detail has been filed for the
23 2010 and 2011 test years at Exhibit C2, Tab 6, Schedule 1.

24
25 The Filing Requirements require an applicant to file the taxes it actually paid for the
26 historic years (in this case 2006, 2007 and 2008) with respect to the distribution business
27 of the applicant. Hydro One Distribution is not a legal entity and therefore does not file
28 income tax returns at the distribution level. Corporate tax returns are filed at the Hydro

1 One Networks Inc. legal entity level which includes transmission operations. Exhibit C2,
2 Tab 6, Schedule 1, Attachment C contains the utility tax distribution information for 2006
3 – 2008 historical years.

4

5 **6.0 OPERATING REVENUE AND REVENUE SUFFICIENCY/DEFICIENCY**

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7 The revenue sufficiency/deficiency for 2010 and 2011, including operating revenue, is
8 provided as Attachment A to Exhibit E1, Tab 1, Schedule 1. In addition, this Application
9 provides customers and the Board with the impact on current rates resulting from the
10 requested 2010 and 2011 Revenue Requirement and proposed rate design changes, as
11 detailed in Exhibit G1, Tab 4. Hydro One Distribution believes the detailed description
12 of revenue requirement, in a form consistent to what it has filed in its last two main rate
13 cases, combined with the assessment of rate impacts resulting from the proposals in this
14 Application, provides customers and the Board with the necessary information to fully
15 assess the merits of the Application.