

1 **COST OF SERVICE SUMMARY**

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3 **1.0 INTRODUCTION**

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5 This evidence presents an overview of Hydro One Distribution's Cost of Service  
6 evidence. The Cost of Service submissions include the following components:

- 7  
8 • Operation, Maintenance and Administration ("OM&A") expenses  
9 • Resourcing  
10 • Costing of Work  
11 • Corporate Cost Allocation  
12 • Depreciation and Amortization Expense  
13 • Payments in Lieu of Corporate Income Taxes  
14 • Taxes Other Than Income Taxes  
15

16 Each of these components is separately addressed within the company's evidence.  
17 Exhibit reference numbers are provided below.

18  
19 Hydro One Distribution's forecast cost of service has been developed consistent with  
20 corporate objectives. The Company's planning process is described in detail at Exhibit A,  
21 Tab 14, Schedule 1.

22  
23 **1.1 Operation, Maintenance and Administration Expenses (OM&A)**

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25 Total OM&A expense for the 2010 and 2011 test years is \$560 million and \$575 million  
26 respectively.

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1 Hydro One Distribution plans and organizes its OM&A expenses on the basis of the  
2 various work programs and functions performed by the company. Exhibits in support of  
3 OM&A costs have been prepared by program area, and appear within the submitted  
4 evidence as follows:

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<b>Program Areas</b> <i>(\$ millions)</i>	<b>2010</b> <b>Total Cost</b>	<b>2011</b> <b>Total Cost</b>	<b>Reference</b>
Summary of OM&A Expenses	\$560.0	\$575.2	Exhibit C1, Tab 2, Sch 1
Sustaining	318.5	340.5	Exhibit C1, Tab 2, Sch 2
Development	21.7	21.9	Exhibit C1, Tab 2, Sch 3
Operations	16.7	17.6	Exhibit C1, Tab 2, Sch 4
Customer Care	106.3	102.4	Exhibit C1, Tab 2, Sch 5
Shared Services, and other Costs	92.1	88.1	Exhibit C1, Tab 2, Sch 6
Taxes other than Income Taxes	4.7	4.8	Exhibit C1, Tab 2, Sch 12

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7 In order to satisfy the requirements of the *2006 Electricity Distribution Rate Handbook*  
8 and the *Filing Requirements for Transmission and Distribution Applications* (November  
9 14, 2006), Exhibit C2, Tab 2, Schedule 2 identifies OM&A costs by grouped USofA  
10 accounts.

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## 12 **1.2 Resourcing**

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14 Labour costs are charged to OM&A and Capital work programs. The evidence contained  
15 at Exhibit C1, Tab 3 presents total staff levels and costs incurred by the company as  
16 follows:

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• Corporate Staff Levels Exhibit C1, Tab 3, Schedule 1

18

• Compensation, Wages, Benefits, Exhibit C1, Tab 3, Schedule 2

19

• Pension Costs (Appendix A) Exhibit C1, Tab 3, Schedule 2

1 **1.3 Costing of Work**

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3 OM&A and Capital work programs are comprised primarily of costs relating to labour,  
4 materials and equipment. Exhibit C1, Tab 4, Schedule 1 provides exhibits that explain  
5 how costs flow to work programs and also discusses cost efficiencies that have been  
6 achieved.

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8 Throughout its operations, Hydro One Distribution has been successful in containing  
9 costs and undertaking productivity initiatives, as described in Exhibit A, Tab 16,  
10 Schedule 1.

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12 **1.4 Corporate Cost Allocation**

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14 Hydro One Networks Inc. provides common services to Distribution and Transmission  
15 and other subsidiaries on a centralized basis. The costs of these services and assets are  
16 assigned to business units on the basis of cost causation. These costs and assets are  
17 directly assigned where it is possible to do so. All other costs are allocated based on cost  
18 drivers, direct benefits or other appropriate methods. The schedules in Exhibit C1, Tab 5  
19 describe these allocation methods, as well as the derivation of the overhead capitalization  
20 rate, which determines the assignment of overhead costs to capital expenditures.

21

22 In RP-2005-0020/EB-2005-0378, Hydro One Distribution commissioned R.J. Rudden  
23 Associates to establish a cost allocation approach for Common Costs, which would be in  
24 accordance with accepted industry standards. The Common Corporate Cost Allocation  
25 Study determined the appropriate allocation of these shared costs between the business  
26 units. The study and its methodologies were accepted by the OEB in its Decision with  
27 Reasons dated April 12, 2006. In 2009, Hydro One commissioned Black & Veatch  
28 (formerly R.J. Rudden Associates) to conduct reviews of the Common Cost allocation

1 methodology, Common Asset Allocation methodology and Overhead Capitalization rate  
2 methodology. The company's evidence on shared services uses this methodology and is  
3 shown in Exhibit C1, Tab 5, Schedule 1. Exhibit C1, Tab 5, Schedule 2 provides  
4 evidence regarding the derivation of Overhead Capitalization Rates. Exhibit C1, Tab 5,  
5 Schedule 3 provides evidence regarding shared assets and their allocation to business  
6 units.

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### 8 **1.5 Depreciation and Amortization Expense**

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10 In RP-2005-0020/EB-2005-0378, the Company filed the Foster Associates Inc.  
11 depreciation study which methodologies and associated costs flows were accepted by the  
12 OEB in its subsequent Decision with Reasons. The company is proposing to recover  
13 \$259.2 million in 2010 and \$291.3 million in 2011 in depreciation and amortization  
14 expenses. Hydro One Distribution's evidence on depreciation expense is filed at Exhibit  
15 C1, Tab 6, Schedule 1.

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### 17 **1.6 Payments in Lieu of Corporate Income Taxes**

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19 As a result of *the Electricity Act, 1998*, Hydro One Distribution has been required to pay  
20 proxy taxes since 1999. Evidence outlining the calculation of Payments in Lieu of  
21 Income Taxes of \$12.7 million for 2010 and \$39.5 million for 2011 appears at Exhibit  
22 C2, Tab 6, Schedule 1, Attachment A.

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### 24 **1.7 Taxes Other Than Income Taxes**

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26 This program consists of property and proxy taxes, and indemnity payments to the  
27 Province. Details of the expenditures under this program are filed at Exhibit C1, Tab 2,  
28 Schedule 12.