

OVERHEAD CAPITALIZATION RATE

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3 This evidence will discuss the methodology used to allocate Common Corporate
4 Functions and Services ("CCF&S") and Asset Management costs to capital projects.

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6 Hydro One capitalizes costs that are directly attributable to capital projects and also
7 capitalizes overheads supporting capital projects. The overhead capitalization rate is a
8 calculated percentage representing the amount of overhead costs that are required to
9 support capital projects in a given year.

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11 In its August 16, 2007, Decision on the Company's 2007 and 2008 Transmission rates
12 (EB-2006-0501), the Board accepted the methodology, recommendations and the
13 allocation of costs from a study by RJ Rudden Associates (Rudden). This study had been
14 commissioned to derive an overhead capitalization rate for Hydro One Distribution's
15 CCF&S and Asset Management costs. The accepted methodology was used in the prior
16 Distribution rate filing EB-2007-0681 and Transmission rate filing EB-2008-0272 , the
17 methodology was also confirmed by Black & Veatch (B&V) formally RJ Rudden
18 Associates.

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20 In 2009 the Company commissioned B&V to review and update the capital overhead
21 methodology. The methodology was based on the previously accepted Rudden Study.
22 The 2010-2011 overhead capitalization rates have been calculated consistent with the
23 revised B&V study methodology. The consistency in the use of this approach for the
24 2010 and 2011 test years has been reviewed by B&V in 2009, and is provided as
25 Attachment 1 to this Exhibit.

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27 Hydro One Networks in 2007 began reviewing the overhead capitalization rate on a
28 quarterly basis to determine if the rate needed to be changed to reflect in-year changes in

1 capital spending and associated support costs. This results in a better alignment of
2 overhead costs with the capital projects that they support and removes the need for an e-
3 factor adjustment.

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5 Hydro One proposes that the resulting overhead capitalization rate as calculated in the
6 B&V study in 2009, continues to be a reasonable method of distributing CCF&S and
7 Asset Management costs to capital projects. Hydro One's submissions in this
8 Application reflect the overhead capitalization rate as developed.

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10 Table 1 summarizes the overhead capitalization rates as reviewed by B&V.

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Table 1
Overhead Capitalized
2010 and 2011 Test Years

Overhead Cost Category	2010		2011	
	Capitalization Rate (%)	Amount Capitalized (\$M)	Capitalization Rate (%)	Amount Capitalized (\$M)
Corporate Functions and Services	10%	\$62.2	9%	\$65.8
Asset Management and Operators	4%	23.2	3%	24.8
Total	14%	\$85.4	12%	\$90.7

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