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Report to
Hydro One Networks Inc.
Regarding
Review of Common Assets Allocation – 2009

June 29, 2009





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SECTION I. SUMMARY

A. Background and Purpose

Black & Veatch (“B&V” or “we”) is pleased to submit this Report on Hydro One’s Common Assets Allocation – 2009 to Hydro One Networks Inc. This Report describes the review that B&V performed, at the request of Hydro One, of Hydro One’s allocation of the costs of Common Assets in its 2010/2011 Distribution Rates filing before the Ontario Energy Board (“OEB”). In this Report, “cost” is as of December 31, 2008.

In 2005, B&V recommended, Hydro One adopted, and the OEB accepted a methodology for Hydro One to allocate the costs of Common Assets between its Transmission business and Distribution business, and issued our *Report on Shared Assets Methodology Review* dated June 15, 2005 (“2005 Assets Report”). B&V’s objective in allocating the Common Assets was to ensure that the allocation was reasonable and was consistent with the allocation of the costs of the common corporate functions and services, as discussed in our *Review of Common Corporate Costs Methodology – 2009* dated June 26, 2009 (“2009 Common Costs Report”).

In 2006, B&V applied the OEB-accepted methodology, updated for asset values as of December 31, 2005 and information from our *Report on Common Costs Methodology 2006* and issued our *Report on Common Assets Methodology 2006* dated May 31, 2006 (“2006 Assets Report”). In 2008, B&V applied the OEB-accepted methodology, updated for asset values as of December 31, 2007 and information from our *Report on Common Costs Methodology 2008* and issued our *Report on Common Assets Methodology 2008* dated September 10, 2008 (“2008 Assets Report”).

In its 2010/2011 Distribution Rates filing, Hydro One has allocated 59.9% of the costs of the Common Assets to the Distribution business, compared to 62.0% allocated in its 2008 Transmission Rates filing.

No Common Assets are allocated to the Telecom and Remotes businesses, because these amounts would be very small.

B. Types of Common Assets

Hydro One provided B&V with a list of the Common Assets, grouped by Asset Group and Component. The Asset Groups and Components are shown in Table 1.



TABLE 1 TYPES OF COMMON ASSETS	
Asset Group	Components
Major Assets	<ul style="list-style-type: none">• Software• Buildings and Telecommunications equipment
Minor Fixed Assets (“MFA”)	<ul style="list-style-type: none">• Aircraft• Computer Hardware• Office equipment• Service equipment- Miscellaneous• Service equipment- Measurement and Testing• Service equipment- Storage• Tools
Transportation Work Equipment (“TWE”)	<ul style="list-style-type: none">• Transportation Work Equipment• Transportation Work Equipment- Power equipment

C. Summary of Approach

Our approach was to allocating the costs of Common Assets was:

- For each asset, B&V discussed with Hydro One personnel if it was possible to estimate its relative usage by Distribution and Transmission.
- If it was possible to estimate the relative usage, the cost of the asset was allocated based on the estimated usage. B&V reviewed the usage estimates to ensure that similar assets were classified consistently. Assets estimated to be used at least 95% in either Distribution or Transmission, were 100% assigned to that business and removed from Common Assets.
- If it was not possible to estimate the relative usage of an asset, a cost driver was assigned based on discussions with Hydro One personnel, to ascertain what cost driver was most closely related to usage. The cost drivers used to allocate the Common Assets were selected from among, or derived from, the cost drivers used to allocate the costs of the common corporate functions and services.

The specific steps used for each Asset Group are discussed below. The results are summarized in Table 2.



SECTION II. DESCRIPTION OF EACH ASSET GROUP

A. Major Assets

Software

Most of the software included in Common Assets was for Hydro One's Cornerstone project, an enterprise-wide system that will eventually replace existing systems that support work management, asset management, human resources, financial and other functions. Cornerstone Phase 1, which was in use at Dec. 31, 2008, was allocated using a cost driver that reflects the activities it supports. Costs for PeopleSoft and related work management software were also allocated using the Cornerstone Phase 1 cost driver, because these systems will be replaced by Cornerstone by the end of 2009.

Software used to manage real properties was allocated using the costs of the Real Estate department that was developed in the Common Corporate Costs study.

Buildings and Telecommunications equipment

Each asset included in Buildings and Telecommunications Common Assets was discussed with Hydro One personnel, and allocated using one of the following methods:

- Specific estimation for a building. For example, Sudbury Service Centre has estimated usage of Distribution-80% / Transmission-20%.
- Allocation based on type of usage. For example, Hydro One performed an analysis of Fleet time charges for the years 2006 2008 and determine that Fleet usage is: Distribution- 76%, Transmission- 23% and Remotes- 1%, therefore the costs for buildings used for Fleet were allocated using these percentages. Buildings used for Training were allocated based on FTEs (full-time equivalent employees).
- Cost drivers based on usage. For example, Buildings used to manage both Distribution and Transmission projects were allocated using the *ProgramProjectCosts* cost driver developed in the Common Corporate Costs study.

B. Minor Fixed Assets

Each component of Minor Fixed Assets Common Assets includes many individual items. B&V reviewed the lists of individual items and determined the following allocations to be appropriate:



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Aircraft – Helicopter components. Usage was based on an analysis of activity for the years 2006 to 2008.

Computer Hardware – Includes Laptops, Desktops, Network equipment, Printers, etc. Allocated using cost driver based on number of *Workstations* (50% weight) and number of *FTEs* (50% weight).

Office equipment – Includes office furniture and other office equipment. Allocated using cost *FTEs*.

Service equipment - Miscellaneous – Includes miscellaneous equipment. Allocated using the *Total CCFS* cost driver developed in the Common Corporate Costs study.

Service equipment- Measurement and Testing – Includes Meters, Splicers etc. used for Distribution. Directly assigned to *Distribution*.

Service equipment- Storage – Includes Waste Storage and Other Storage equipment. Allocated using cost driver based on spending for *Operating and Maintenance costs and Capital spending*.

Tools – Includes Rental tools. Allocated Distribution-20% / Transmission-80% based on estimated usage.

The results are summarized in Table 2.

C. Transportation & Work Equipment

Approximately 94% of Transportation & Work Equipment Common Assets were allocated using the cost driver Fleet, and was allocated based on the analysis performed by Hydro One discussed above. The balance were directly assigned to Distribution or Transmission based on usage. The results are summarized in Table 2.

**SECTION III. SUMMARY OF RESULTS**

The results for of the Common Assets allocation are summarized in Table 2.

TABLE 2 SUMMARY OF COMMON ASSETS ALLOCATION (YEAR - END 2008 - \$ MILLIONS COST)					
(C\$000)	Total	Distrib- ution	Trans- mission	Distrib- ution %	Trans- mission %
Major Assets					
Software	\$245.1	\$108.0	\$137.1	44.1%	55.9%
Building / Telecom	70.7	32.2	38.5	45.6%	55.4%
Total	315.8	140.2	175.6	44.4%	55.6%
Minor Fixed Assets					
Aircraft	17.8	5.8	12.0	32.4%	67.6%
Computer Hardware	70.4	33.1	37.3	47.0%	53.0%
Office Equipment	6.2	2.9	3.3	47.0%	53.0%
Service- Misc.	5.6	3.2	2.4	57.2%	42.8%
Service- Measure/Test	5.9	5.9	-	100.0%	-
Service- Storage	8.0	3.5	4.5	43.4%	56.6%
Tools	5.7	1.1	4.6	20.0%	80.0%
Total	119.6	55.5	64.1	46.4%	53.6%
Transportation Work Equipment					
Total	377.9	291.7	86.2	77.2%	22.8%
Total - All Common Assets	\$813.3	\$487.4	\$325.9	59.9%	40.1%