

1                   **DEPRECIATION AND AMORTIZATION EXPENSES**

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3           **1.0 INTRODUCTION**

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5           The purpose of this evidence is to summarize the method and amount of Hydro One  
6           Distribution's depreciation and amortization expense for the 2010 and 2011 test years.

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8           The depreciation expense for Hydro One's Distribution business in its 2006 test year  
9           submission in RP-2005-0020/EB-2005-0378 was supported by an independent  
10          depreciation study by Foster Associates Inc. which was completed in June 2005. The  
11          Ontario Energy Board ("the Board") accepted the costs flowing from the Depreciation  
12          Study for the purpose of supporting Distribution rates in 2006.

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14          The depreciation and amortization expense for 2010 is \$259.2 million and for 2011 is  
15          \$291.3 million.

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17          **2.0 DEPRECIATION EXPENSE**

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19          In accordance with the Board's Decision (EB-2007-0681), Hydro One Distribution used  
20          the Foster methodology for determining the depreciation rates currently in use.

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22          Detailed depreciation schedules are filed at Exhibits C2, Tab 5, Schedule 1.

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**Table 1**  
**Distribution Depreciation Expense**  
**\$ Million**

Description	Historic			Bridge	Test	
	2006	2007	2008	2009	2010	2011
Depreciation On Fixed Assets	159.1	65.1	186.0	209.7	245.2	279.8
Smart Meter Exclusion <sup>1</sup>	0.0	0.0	0.0	(11.9)	(16.5)	(24.2)
Less Capitalized Depreciation	(9.7)	(10.8)	(12.4)	(11.6)	(15.4)	(16.9)
Asset Removal Costs	30.4	27.5	31.8	30.4	33.0	35.7
Losses/(Gains) On Asset Disposition	(1.2)	(1.2)	(0.1)	0	0	0
Total	178.6	180.6	205.3	216.6	246.3	274.3

The increase in 2010 depreciation on fixed assets amount relative to the 2009 amount is due to the higher level of fixed assets in service in 2010 (Net Book fixed assets up 7.4%), and changes to the composition of the asset base, resulting in more assets in service with a higher depreciation rate. Major and minor fixed asset additions amounts for 2006 to 2010 are filed at Exhibit D2, Tab 3, Schedule 1.

Capitalized depreciation refers to depreciation on transport & work equipment and other minor fixed assets (e.g. tools) that is charged to capital work projects. For purposes of calculating the revenue requirement, capitalized depreciation is deducted from annual depreciation expense, as it is treated as a capital expenditure.

Fixed asset removal costs are grouped with depreciation expense and are recorded on an “as incurred” basis.

<sup>1</sup> This is used to exclude from Revenue Requirement the depreciation associated with the Smart Meter spend that is currently tracked in a deferral account.

1 Losses/gains on asset disposition relate to the sale of assets. Losses/gains on asset  
 2 disposition are based on historic actuals and are not separately forecast for the bridge or  
 3 test years.

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5 **3.0 AMORTIZATION EXPENSE**

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7 Amortization expense pertains to costs the Board has allowed Hydro One Distribution to  
 8 defer for recognition at a future date. The Board has, in past decisions, approved the  
 9 amount of the cost to be deferred for future recovery, the prescribed period or method of  
 10 amortization, and prescribed time period over which the costs in each account should be  
 11 amortized.

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13 Historical, bridge and test year amortization schedules are filed at Exhibit C2, Tab 5,  
 14 Schedule 1.

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**Table 2**  
**Distribution Amortization Expense<sup>1</sup>**  
**\$ Million**

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Description	Historic			Bridge	Test	
	2006	2007	2008	2009	2010	2011
Other Post Employment Benefits	23.7	23.7	23.7	0.0	0.0	0.0
Environmental Assets	11.6	6.3	9.1	6.3	12.8	16.9
Other Amortization	0.1	0.0	0.0	0.1	0.1	0.1
Total	35.4	30.0	32.8	6.4	12.9	17.0

20 <sup>1</sup> Other Regulatory Amortization has been excluded from Table 2

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1     **3.1     Other Post Employment Benefits (OPEB)**

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3     Employee future benefits other than pension are recorded in Hydro One Distribution's  
4     financial statements using the accrual method as required by Canadian GAAP. The Board  
5     previously allowed for the recovery of past service costs, which arose on the adoption of  
6     the accrual method, in the revenue requirement on a straight-line basis over a 10-year  
7     period per the Board's RP-1998-0001 Decision. This amount was fully recovered in  
8     2008.

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10    **3.2     Environmental Assets**

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12    Hydro One Distribution provides for the net present value of estimated future  
13    expenditures required to remediate legacy environmental contamination. Since these  
14    expenditures are expected to be recovered in future rates, Hydro One Distribution has  
15    recognized these amounts as a regulatory asset. This balance is amortized on a basis  
16    consistent with the pattern of actual expenditures expected to be incurred, currently  
17    estimated to continue until the year 2025. Hydro One Distribution received approval for  
18    this deferral account as part of the Board's RP-2000-0023 Decision. When work program  
19    costs are incurred, there is a corresponding credit to OM&A for the environmental  
20    expenditures to reflect the fact that the cost is reflected in revenue requirement as  
21    amortization expense. This is discussed further in Section 2.2 of Exhibit C1, Tab 2,  
22    Schedule 7.