

## REVENUE REQUIREMENT

### 1.0 SUMMARY OF REVENUE REQUIREMENT

Hydro One Distribution follows standard regulatory practice and has calculated revenue requirement consistent with the principles of the 2006 Electricity Distribution Rate Handbook as follows:

Sum of:

**Table 1**  
**(\$ Millions)**

	<b>2010</b>	<b>2011</b>	
OM&A	560	575	Exhibit C1, Tab 2, Schedule 1
Depreciation and Amortization	259	291	Exhibit C1, Tab 6, Schedule 1
Capital Taxes	4	0	Exhibit C2, Tab 4, Schedule 1
Income Taxes	13	40	Exhibit C2, Tab 6, Schedule 1, Att A
Return on Capital	314	357	Exhibit B1, Tab 1, Schedule 1
<b>Total Revenue Requirement</b>	<b>\$1,150</b>	<b>\$1,264</b>	<b>Exhibit E2, Tab 1, Schedule 1</b>

The resultant Revenue Requirement of \$1,150 million for 2010 and \$1,264 million for 2011 is the amount required by Hydro One Distribution to ensure the most appropriate, cost-effective solution to respond to corporate objectives mainly related to public and employee safety, electricity market and regulatory requirements.

### 2.0 CALCULATION OF REVENUE REQUIREMENT

The details of the Revenue Requirement components are as follows:

1	<b>2.1</b>	<b>OM&amp;A Expense</b>			
			<b>2010</b>	<b>2011</b>	
		Sustaining	318.5	340.5	
		Development	21.7	21.9	
		Operations	16.7	17.6	
		Customer Care	106.3	102.4	
		Shared Services and Other Costs	92.1	88.1	
		Taxes Other Than Income Tax	4.7	4.8	
		<b>Total OM&amp;A</b>	<b>560.0</b>	<b>575.2</b>	
2					
3	<b>2.2</b>	<b>Depreciation and Amortization Expense</b>			
		Depreciation	246.4	274.3	
		Amortization	12.9	17.0	
		<b>Total Expense</b>	<b>259.3</b>	<b>291.3</b>	
4					
5	<b>2.3</b>	<b>Capital Taxes</b>			
		Capital Tax	3.7	0.0	
		<b>Total Capital Tax</b>	<b>3.7</b>	<b>0.0</b>	
6					
7	<b>2.4</b>	<b>Payments in Lieu of Corporate Income Taxes</b>			
8		Income before PILs	45.3	144.8	
		Tax Rate	31.00%	28.25%	
		<b>Total PILs<sup>1</sup></b>	<b>12.7</b>	<b>39.5</b>	
9					
10	<b>2.5</b>	<b>Return on Capital</b>			
11					
12		<b>Return on Capital</b>	<b>314.0</b>	<b>357.4</b>	
13					

<sup>1</sup> Adjusted for R&D ITC and Ontario Education Credit see Exhibit C2, Tab 6, Schedule 1, Attachment A for detailed calculation

1 **3.0 REVENUE REQUIREMENT – COMPARISON OF YEAR 2008 TO YEAR**  
 2 **2010**

3  
 4 Table 2 below compares, by element, the Year 2008 approved Revenue Requirement (as  
 5 per EB-2007-0681) against the Year 2010 proposed Revenue Requirement.

6  
 7 **Table 2**  
 8 **Comparison of Revenue Requirements: 2008 vs. 2010 (\$ Millions)**  
 9

Line No	Description	Year 2008 OEB Approved	Year 2010	Difference
1	OM&A	466	560	94
2	Depreciation	230	259	29
3	Capital Taxes	8	4	(4)
4	Income Taxes	35	13	(22)
5	Return	289	314	25
	<b>Total Revenue Requirement</b>	<b>1,028</b>	<b>1,150</b>	<b>122</b>
6	Deduct External Revenues <sup>2</sup>	(42)	(48)	(6)
	<b>Revenue Requirement less External Revenues</b>	<b>986</b>	1,102	116

10 <sup>2</sup> External Revenues are discussed in Exhibit E1, Tab 1, Schedule 2

11  
 12 There are a number of key operational and financial factors contributing to the increased  
 13 revenue requirement that have an impact across the cost components in Table 2. The  
 14 increase in Total Revenue Requirement is largely attributable to the \$94 million increase  
 15 in OM&A costs, and the \$83 million impact of rate base growth offset by increased  
 16 external revenues of \$(6) million, the \$(19) million tax timing difference related to CCA  
 17 amounts in excess of depreciation, lower cost of capital of \$(16) million and lower capital  
 18 and income tax rates of \$(9) million.

19  
 20 Table 3 illustrates the value of the key impacts of the increase in the Revenue  
 21 Requirement.

**Table 3**  
**Components of Change to Revenue Requirement**

<b>Previously OEB-Approved (2008) vs. Proposed (2010) Description</b>	<b>Amount (\$ millions)</b>
Increase in OM&A	94
Impact of increased rate base	83
Increase in asset removal costs	10
Increased external revenue	(6)
Tax timing differences and other	(19)
Lower ROE	(9)
Impact of lower capital tax rate	(8)
Lower cost of debt	(7)
Impact of lower income tax rate	(1)
Other (includes OPEB)	(22)
<b>Total Change</b>	<b>116</b>

**4.0 RATES REVENUE REQUIREMENT - COMPARISON OF YEAR 2010 TO YEAR 2011**

Table 4 compares, by element, the 2010 rates revenue requirement against the 2011 rates revenue requirement.

**Table 4**  
**Comparison of Rates Revenue Requirements 2010 vs. 2011 (\$ Millions)**

<b>Line no.</b>	<b>Description</b>	<b>Year 2010</b>	<b>Year 2011</b>	<b>Difference</b>
1	OM&A	560	575	15
2	Depreciation	259	291	32
3	Capital Taxes	4	0	(4)
4	Income Taxes	13	40	27
5	Return	314	357	43
	<b>Total Revenue Requirement</b>	<b>1,150</b>	<b>1,264</b>	<b>114</b>
6	Deduct External Revenues <sup>2</sup>	(48)	(48)	0
	<b>Revenue Requirement less External Revenues</b>	<b>1,102</b>	<b>1,216</b>	<b>114</b>

<sup>2</sup> External revenues, addressed in Exhibit E1, Tab 1, Schedule 2.

1  
2 The increase in 2011 revenue requirement is primarily due to the increase in rate base as  
3 reflected in the higher return on capital and depreciation amounts, and an increase in  
4 Sustaining OM&A driven primarily by increased vegetation management spending  
5 relating to an increase in Forestry work. The increase in rate base over the time period is  
6 primarily the net result of asset replacement and expansion needs as described in Exhibit  
7 D1, Tab 3, Schedule 1.

8  
9 Table 5 illustrates the value of the key impacts on the movement in the rates revenue  
10 requirement.

11  
12  
13  
14  
15

**Table 5**  
**Components of Change to Rates Revenue Requirement:**  
**Proposed 2010 vs. Proposed 2011**

<b>Description</b>	<b>Amount (\$millions)</b>
Impact of increased rate base	47
Tax timing differences and other	31
Higher ROE	20
Increased OM&A	15
Higher cost of debt	3
Impact of lower income tax rates	(4)
Impact of lower capital tax rates	(4)
Other	6
<b>Total change</b>	<b>114</b>

16