

## **EXTERNAL REVENUE**

### **1.0 STRATEGY**

Hydro One Distribution's strategy is to focus on core work and continue to be responsive to external work requests and accommodate customer needs where Hydro One Distribution can provide value and have the resources and/or assets to do so.

External revenues are equivalent to 4% (or \$48.2M and \$48.1M respectively) of Hydro One Distribution's revenue requirement in 2010 and 2011. The increase in 2010 and 2011 from 2009 levels is primarily due to the additional revenues forecasted for contestable work activities relating to costs recoverable from the Ministry of Transport infrastructure work, in which Hydro One Distribution is expected to be involved.

This category of revenue is earned through the provision of services to third parties and through joint use of Hydro One Distribution's assets by third parties. These revenues are used to offset the revenue requirement from Hydro One Distribution's tariff and thereby reduce the required revenue to be collected from distribution ratepayers. External revenues are categorized as regulated and unregulated.

### **2.0 COSTING AND PRICING**

The costing of external work is determined on the basis of cost causality with estimates calculated in the same way as internal work estimates using the standard labour rates, equipment rates, material surcharge, and overhead rates (see Exhibit C1, Tab 4, Schedule 1 for a description of Costing of Work). The costs associated with this work are described in Cost of Sales - External Work (see Exhibit C1, Tab 2, Schedule 11).

1 For unregulated work an appropriate margin is added to cover, as a minimum, the risk of  
2 non-payment by third parties in order to ensure there is an overall benefit for the  
3 distribution ratepayers.

### 4 **3.0 DESCRIPTION**

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7 Regulated external revenues for test years 2010 and 2011 are \$30.6 million and \$30.4  
8 million respectively, and account for 63% of external revenues in both years. These  
9 revenues, shown in Table 1, cover a wide range of miscellaneous services (e.g. joint use  
10 of poles for attachment of Telecommunications, sentinel light services) based on rates  
11 and underlying costs per the 2006 Electricity Distribution Rate Handbook issued May  
12 2005.

13  
14 **Table 1**  
15 **Regulated Revenues**  
16 **(\$M)**  
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\$M	2006	2007	2008	2009	2010	2011
<b>Joint Use</b>	5.8	6.0	6.6	6.7	6.9	7.1
<b>Sentinel Lights</b>	3.6	3.3	3.3	3.3	3.3	3.3
<b>Retail Service Revenue</b>	0.0	0.9	0.6	0.6	0.6	0.6
<b>Other Regulated Misc. Services</b>	17.2	19.7	19.5	19.0	19.8	19.4
<b>Totals</b>	26.6	29.9	30.0	29.6	30.6	30.4

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19 Unregulated external revenues, such as contestable new connection and upgrade work  
20 and emergency support to other North American utilities, are shown in Table 2. The  
21 unregulated external revenues for test years 2010 and 2011 are \$17.6 million and \$17.7  
22 million respectively, and account for the remaining 37% of external revenues in both  
23 years.

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**Table 2**  
**Unregulated Revenues**  
**(\$M)**

\$M	2006	2007	2008	2009	2010	2011
<b>Joint Use</b>	3.2	3.3	3.5	3.5	3.5	3.5
<b>New Connects/Upgrades</b>	4.3	4.9	3.3	3.2	3.0	3.1
<b>Generation Studies</b>	0.7	1.5	1.4	3.7	3.2	3.2
<b>Other External Work</b>	2.4	3.1	5.1	5.0	6.2	6.2
<b>Non-Regulated Misc. Rev.</b>	0.9	0.8	0.0	1.4	1.7	1.7
<b>Totals</b>	11.6	13.5	13.3	16.8	17.6	17.7

A detailed summary of both regulated and unregulated revenues is provided in Exhibit E1, Tab 2, Schedule 1.

**3.1 Regulated Revenues**

**3.1.1 Joint Use Revenues**

Joint-use revenues are generated from third parties who jointly use Hydro One Distribution's poles by stringing various attachments to the poles, mostly wire cables, and in return Hydro One Distribution charges a per pole attachment fee. At the end of 2008, there were approximately 642,300 joint use poles being used by 547 customers including Bell Canada, Telecommunications companies, independent telephone companies, LDCs, fiber companies and municipalities. About 90% of the revenue in this segment comes from Bell Canada and Telecommunications companies. The Ontario Energy Board sets the rates for Joint-use service, for Telecommunications companies. Other Joint-use rates/contracts are negotiated and include other considerations such as reciprocal pole sharing arrangements and vegetation management services are unregulated and discussed in Section 3.2. Table 3 below is a summary of the volumes (# of pole attachments) for the regulated segment of Joint-use.

**Table 3**  
**Volume of Joint Use permits by Customer Category**

	<b>2006 volume</b>	<b>2007 volume</b>	<b>2008 volume</b>	<b>2009 volume</b>	<b>2010 volume</b>	<b>2011 volume</b>
<b>Telecommunications</b>	265,399	272,415	284,116	288,591	297,539	306,488
<b>Street Lighting</b>	77,678	78,843	80,008	82,408	83,000	83,500

As can be seen from the table, the number of attachments is increasing over the 5-year period. The increase is due to new Telecommunications companies attaching to poles and existing companies expanding their service areas.

### 3.1.2 Sentinel Light Revenues

The sentinel light rental program is designed to provide rural customers with low-cost security lighting. The service is provided primarily to rural residential, farm, and cottage customers, for whom street lighting is not available.

Exhibit A, Tab 6, Schedule 1, section 3.1, provides reference to the legislation that allows the sentinel light program to continue for existing Hydro One Distribution customers.

Table 4 summarizes the historical volumes of sentinel lights and poles owned and maintained by Hydro One Distribution. The decrease over the five-year period 2007 to 2011 reflects the absence of new customers and a continuing decrease in the number of existing customers, as discussed in Exhibit C1, Tab2, Schedule 2.

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**Table 4**  
**Year-End Volume of Sentinel Lights in service**

	<b>2006 volume</b>	<b>2007 volume</b>	<b>2008 volume</b>	<b>2009 volume</b>	<b>2010 volume</b>	<b>2011 volume</b>
<b>Sentinel Lights</b>	38,754	38,194	37,605	37,005	36,755	36,695
<b>Sentinel Light Poles</b>	2,377	2,368	2,841	2,360	2,354	2,348
<b>Total</b>	41,131	40,562	40,446	39,365	39,109	39,043

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5 **3.1.3 Other Regulated Miscellaneous Services**

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7 Hydro One Distribution provides a number of other regulated miscellaneous services as  
 8 identified in Table 5 below. The rates for these services are approved and regulated by  
 9 the Ontario Energy Board. A description for items 1 through 7 can be found in the “2006  
 10 Electricity Distribution Rate Handbook, Chapter 11”. The associated volumes of items 1  
 11 through 7 (as identified in Table 5) are shown in Table 6 along with the information for  
 12 the historical, bridge and test years. A brief description for items 8 and 9 follows the  
 13 tables.

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**Table 5**

<b>Service Description</b>
1. Dispute Meter Test
2. Collection of Account, Disconnect/load Limiter/Reconnect Trips
3. Account Set-up Charge
4. Arrears Certificate
5. NSF Cheque Charge
6. Easement Charge for Unregistered Rights
7. Late Payment Charge
8. Tingle Voltage Test
9. Standby Rate

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**Table 6**  
**Other Regulated**  
**Miscellaneous Services**  
**2006 - 2011 Volumes**

	2006 volume	2007 volume	2008 volume	2009 volume	2010 volume	2011 volume	2010 Revenue (\$)	2011 Revenue (\$)
<b>Dispute Meter Test</b>	270	193	84	85	85	86	\$2,550	\$2,580
<b>Collection of Account</b>	2,300	1383	2490	1600	1600	1600	\$48,000	\$48,000
<b>Disconnect/load Limiter/Reconnect Trips</b>	10,511	11690	18191	17700	17700	17700	\$1,527,000	\$1,527,000
<b>Account Set-up Charge</b>	141,778	140,392	133,280	134,350	135,448	136,578	\$4,063,440	\$4,097,340
<b>In-Sufficient Funds (NSF) Cheque Charge</b>	9,240	6,448	5,606	5,276	5,319	5,364	\$80,430	\$81,105
<b>Easement Charge for Unregistered Rights (approx)</b>	N/A	762	810	900	900	900	\$13,500	\$13,500
<b>Late Payment Charge applied to number of distinct accounts</b>	N/A	N/A	N/A	N/A	N/A	N/A	\$14,113,449	\$13,678,077
<b>Revenue for 2010 and 2011</b>							<b>\$19,848,369</b>	<b>\$19,447,602</b>

3.1.3.1 Tingle Voltage Test

Tingle voltage (also known as high neutral voltage) is undesirable as it may have an adverse effect on dairy cattle, and in extreme cases may be noticeable by humans. Hydro One Distribution strives to limit neutral voltage to 10V. In cases where customers deem the voltage to be excessive, a voltage test is conducted to determine the cause of the abnormality. Usually, there is no charge to the customer for this type of analysis; however, should the customer request further testing, the additional costs are recovered from the customer. Historically, additional testing is requested approximately 30 times per year.

3.1.3.2 Standby Charges

A standby charge is a monthly fee that is applied to a customer that has their own generation facilities and addresses those instances when the customer is dependent on Hydro One Distribution for their electricity supply whenever their own generation

1 facilities are out of service. The monthly charge marginally offsets the cost to Hydro One  
2 Distribution of having facilities available to ensure emergency supply whenever the  
3 customer's facilities are out of service. The charge is only applicable when electricity is  
4 not supplied by Hydro One Distribution. The 2006 Electricity Distribution Rate  
5 Handbook allows standby administration charge to cover the incremental cost of  
6 monitoring, billing and administration. The Board approved this charge on an Interim  
7 basis as part of the Generic Decision on 2006 EDR issues in proceeding RP-2005-  
8 0020/EB-2005-0529. In its decision in EB-2005-0378, the OEB directed Hydro One  
9 Distribution to establish such a variance account which it has done. Hydro One will place  
10 any revenues received from the application of this rate into this variance account and will  
11 be credited back to the customers of this province, as part of the next distribution rate  
12 hearing process. To-date there have been no such charges and it is expected that there  
13 will be none in 2009.

## 14 15 **3.2 Unregulated Revenue**

### 16 17 **3.2.1 Joint-Use Revenue**

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19 As noted in section 3.1.1 above, the rates for Bell Canada and Local Distribution  
20 Company ("LDC") attachments are based on a negotiated price rather than rates approved  
21 by the OEB due to other considerations such as reciprocal pole sharing arrangements and  
22 vegetation management services.

**Table 9**  
**Volume of Joint-Use permits – Unregulated**

	<b>2006 volume</b>	<b>2007 volume</b>	<b>2008 volume</b>	<b>2009 volume</b>	<b>2010 volume</b>	<b>2011 volume</b>
<b>Bell Canada</b>	479,232	479,232	482,400	483,000	483,500	484,000
<b>LDCs</b>	7,236	10,486	15,554	15,554	15,554	15,554

3.2.2 New Connections and Upgrades

Hydro One Distribution connects approximately 15,500 new customers to its distribution system each year consisting primarily of subdivision and rural residential customers along with farms, cottages, and industrial customers. Approximately 4,300 upgraded services are also completed each year that involves increasing a customer's existing supply capacity to meet their increased electricity requirements.

Both the new connection service and the upgrade service have elements of work that must be done by Hydro One Distribution under its Distribution License. This includes: working within Limits of Approach [working within pre-determined boundaries of live equipment which is voltage level dependent but nominally for distribution equipment is 3 metres or 10 feet] of the distribution equipment to install any required equipment; connect the customer to Hydro One's distribution system; and connect the meter at the customer site.

The remainder of the new connection and upgrade work may be performed by a qualified contractor of the customer's choice. As required by the Distribution System Code, Hydro One Distribution will carry out this work, if requested by the customer at Hydro One's fully burdened cost, since crews are usually on-site and set up. For an above ground new connection, this work would include the installation of poles, conductor, and related equipment to run from the distribution line to the meter at the customer site. Similarly, for an underground connection, this would include digging the trench and laying the

1 cable and related equipment. This type of project is known as contestable work and is  
2 what contributes to the external revenues for this segment.

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4 Table 10 represents the number of New Connections and Upgrades Hydro One  
5 Distribution provides to customers each year.

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7 **Table 10**  
8 **Volume of New Customer Connections & Upgrades**  
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	2006 volume	2007 volume	2008 volume	2009 volume	2010 volume	2011 volume
<b>New Connections &amp; Upgrades</b>	22,898	24,059	21,917	19,728	19,938	20,232

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11 The volume in 2009 is expected to be lower than 2008 due to the current economic  
12 downturn. Hydro One Distribution is anticipating a slight growth in new connections and  
13 upgrades in 2010 and 2011.

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15 **3.2.3 Distribution Generation Studies**  
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17 Hydro One Distribution recognizes revenues for undertaking Connection Impact  
18 Assessments in response to requests from generation proponents across the province of  
19 Ontario. Hydro One does assessments based on the customer request that includes the  
20 proposed size of the generator and where it will be located.

21  
22 Connection impact assessments are technical studies that determine the impact of new  
23 generation facilities on the Distribution System and ensure that the generator will comply  
24 with the technical requirements. The technical requirements that generators must meet to  
25 connect to Hydro One distribution system are outlined in “Technical Requirements for  
26 Generators Connecting to Hydro One's Distribution System”. These requirements exist to  
27 ensure public and employee safety, protect the integrity of Hydro One's Distribution

1 System and guarantee reliable and quality service to our customers. For more information  
2 on these studies, refer to Exhibit C1, Tab 2, and Schedule 3.

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4 As shown in Table 11, the volume of Connection Impact Assessment studies in 2010 and  
5 2011 is expected to decrease as Hydro One has already completed many of the studies for  
6 preferred Distributed Generation locations, with only those locations deemed less  
7 economically-desirable remaining for future years.

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9 **Table 11**  
10 **Volume of Generation Studies Completed**

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	2006 volume	2007 volume	2008 volume	2009 volume	2010 volume	2011 volume
Distribution Generation Studies	70	300	291	280	180	180

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13 3.2.4 Other External Work

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15 Hydro One Distribution performs a number of additional services that generate external  
16 revenues. These services include contestable work such as costs recoverable from MTO  
17 related work, as well as minor amounts from forestry and brush control work, HS&E  
18 training, streetlight maintenance, subdivision redesign and emergency services.

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20 For test years 2010 and 2011, revenues relating to costs recoverable from the MTO work  
21 relating to increased incentives for transportation infrastructure spending are expected to  
22 total \$5 million in each of 2010 and 2011.

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24 External training covers a wide range of practical and classroom delivered courses. These  
25 include courses like Electrical Safety Awareness, a mandatory course for anyone working

1 in the proximity of live electrical apparatus regardless of trade or occupation. Packaged  
2 delivery of technical courses for numerous trade and professional types are delivered for  
3 Lines, Forestry, Power Electricians, Metering technicians, Protection engineers and  
4 technicians. Customers include large (Toronto Hydro) and small utilities (Peninsula West  
5 Utilities Limited), large (INCO) and small (Wardrop Engineering) companies including  
6 Non Utility Generators (Trans Alta, Brighton Beach) that send trainees to a cross section  
7 of courses in various trades/disciplines.

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9 Hydro One Distribution will provide an initial subdivision design and will recover this  
10 cost through the staking fee charged to the developer. When the developer revises the  
11 subdivision plan, a redesign of the subdivision is needed. The cost of the redesign is  
12 borne by the developer.

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14 If a subdivision design has been completed but construction has not commenced for a  
15 period of 12 months or more, a review of the subdivision design is necessary. This review  
16 includes a field visit and is necessary to determine if the original design is still viable or if  
17 a revised design is needed to supply the subdivision. The cost to do this additional work  
18 is also covered by the developer.

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20 **Table 12**  
21 **Number of Subdivision Redesigns**  
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	<b>2006 volume</b>	<b>2007 volume</b>	<b>2008 volume</b>	<b>2009 volume</b>	<b>2010 volume</b>	<b>2011 volume</b>
<b>Subdivision Redesign</b>	21	15	27	14	14	14

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24 Other external work also includes, from time to time, emergency services provided by  
25 Hydro One Distribution crews to restore power to neighboring Canadian and U.S. utilities  
26 affected by natural disasters such as ice storms and hurricanes.

1 3.2.5 Un-Regulated Miscellaneous Revenues

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3 3.2.5.1 Under-density Billing

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5 Under-density Billing revenues for northwestern Ontario are generated through annual  
6 fees levied upon five large companies that utilize dedicated under density distribution  
7 lines operated and maintained by Hydro One Distribution. The load on these under-  
8 density lines does not cover the annual costs of maintenance and therefore an annual fee  
9 is charged and is designed to recover maintenance costs for servicing these lines. The  
10 revenues collected by Networks represent the recovery of costs for maintenance and  
11 forestry work on the under-density distribution lines.

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13 **Table 13**  
14 **Volume of Under-density Billings**

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	2006 volume	2007 volume	2008 volume	2009 volume	2010 volume	2011 volume
<b>Under-density Billings (# of customers)</b>	5	5	5	5	5	5

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17 3.2.5.2 Inergi Royalties

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19 As a result of the outsourcing agreement with Inergi LP royalty revenue is received by  
20 Hydro One Networks Inc. to compensate it for the use of Hydro One resources by Inergi  
21 LP to service other third party customers.

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24 3.2.5.3 Unregulated Miscellaneous Revenues

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26 Unregulated Miscellaneous Revenues includes \$1.5 million in 2010 and 2011 for work  
27 related to other Hydro One entities as follows: \$1.0 million is forecasted for work related

- 1 to Hydro One Remotes Inc; \$0.5 million is forecasted for work related to other Hydro
- 2 One entities; and, \$0.2 million for other third party work. For work related to other Hydro
- 3 One entities, see the Affiliate Service Agreements in Exhibit A, Tab 8, Schedule 3.