

1 **REGULATORY ASSETS**

2
3 **1.0 INTRODUCTION**

4
5 The purpose of this evidence is to provide a description of the Distribution Regulatory
6 Assets and a detailed account of their balances.

7
8 All of the Regulatory Assets reported by Hydro One Distribution have been established
9 consistent with the Board's requirements as set out in the Accounting Procedures
10 Handbook, subsequent Board direction, or per specific requests initiated by Hydro One
11 Distribution.

12
13 The Distribution Regulatory Asset balances are summarized in Table 1 below:

14
15 **Table 1**
16 **Distribution**
17 **Summary of Regulatory Asset Balances for Approval**
18 **\$ million**

19

Description	Dec 31, 2008	Dec 31, 2009
Total Regulatory Assets for Approval	(39.3)	(25.8)

20
21 Hydro One Distribution is forecasting Regulatory Asset values up to December 31, 2009.
22 It is expected that new Distribution rates will be implemented at the start of January 2010.
23 Details on the forecast basis will be described for each account.

24

1 **2.0 REGULATORY ASSETS REQUESTED FOR APPROVAL**

2
3 The following table provides a summary of the Regulatory Asset requested for approval:

4
5 **Table 2**
6 **Distribution**
7 **Regulatory Assets Requested for Approval**
8 **\$ million**
9

Description	Dec 31, 2008	Dec 31, 2009
Retail Cost Variance Accounts	(1.7)	(1.9)
Smart Meter Minimum Functionality Under-recovery Jan 1 to Dec 31, 2008	0.9	0.9
Smart Meter Exceeding Min Functionality Under-recovery Jan 1 to Dec 31, 2008	1.1	1.1
Retail Settlement Variance Accounts	(20.9)	(2.9)
Regulatory Asset Recovery Phase I	(18.7)	(23.0)
Total Regulatory Assets for Approval	(39.3)	(25.8)

10
11 Interest is included in the above balances and has been calculated in accordance with the
12 Board's prescribed rate.

13
14 Disposition of these accounts is discussed in Exhibit F1, Tab 2, Schedule 1.

15
16 **2.1 Retail Cost Variance Accounts ("RCVA")**

17
18 Providing retail services to customers arising from the deregulated electricity market
19 gives rise to certain retail service costs, which have to be recovered by the distributor.
20 The rates and charges used in determining these costs are set by the Board, which
21 recognizes that the actual costs may be different in practice. In accordance with Chapter
22 11 of the Distribution Rate Handbook, distributors are required to establish variance
23 accounts to record the differences in costs and revenues for future disposition.

1
2 Hydro One Distribution has established Retail Cost Variance Accounts to capture the
3 differences between the revenues collected by the distributor, based on the Board
4 approved rates, and the actual incremental costs of providing the related services. The
5 methodology for the variance accounts is given in the Accounting Procedures Handbook
6 – Article 490.

7
8 Table 3 provides a summary of RCVA balance for Hydro One Distribution:

9
10 **Table 3**
11 **Distribution**
12 **Retail Cost Variance Accounts (RCVA)**
13 **\$ million**

Description	USofA Account Ref	Dec 31, 2008	Dec 31, 2009
RCVA Accounts	1580	(1.7)	(1.9)

14
15 **2.2 Smart Metering Minimum Functionality Expenditures incurred up to**
16 **December 31, 2008**

17
18 On May 2, 2007, the Board issued a notice of combined proceeding (EB-2007-0063) to
19 determine the prudence and recovery of costs associated with smart metering activities for
20 13 licensed distributors, including Hydro One Networks.

21
22 The issues considered in the combined proceeding included:

- 23
24 1. Costs recovery relating to minimum functionality pursuant to Ontario Reg. 426/06.
25 2. Prudence of costs incurred.
26 3. The mechanism for re-setting rates for smart meter costs that are found to be prudent
27 through that proceeding.
28 4. Accounting Procedures.

- 1 5. Regulatory treatment of stranded meter costs and recovery through rates.
- 2 6. The mechanisms for re-setting rates for smart meter costs incurred on a go forward
- 3 basis.
- 4 7. Mechanism for dealing with costs not part of that proceeding.

5

6 The Board's Decision was released on August 8, 2007. The Board determined that the
7 purchasing decisions of the thirteen utilities involved in the proceeding were implemented
8 with the necessary due diligence and the terms of the contracts were prudent. The Board
9 agreed with the overall costs incurred to May 31, 2007 related to the minimum
10 functionality of all installed meters.

11

12 As part of the EB-2007-0681 Proceeding, the Board reviewed and approved Hydro One
13 Distribution's actual Smart Meter Minimum Functionality spending up to December 31,
14 2007. The Board directed Hydro One Distribution to track subsequent Smart Meter
15 Minimum Functionality spending and file for approval and recovery in a subsequent
16 application. This application is requesting recovery of those costs to December 31, 2008.

17

18 Table 4 below details the revenue requirement (net of revenue received) related to smart
19 meter minimum functionality up to December 31, 2008 plus interest for 2009. The
20 revenue requirement was calculated based on the approach illustrated in Appendix E of
21 the decision for proceeding EB-2007-0063.

22

1
2
3
4
5
6
Table 4
Distribution
Smart Meter Minimum Functionality Under-Recovery
to December 31, 2008
\$ million

Description	Dec 31, 2008	Dec 31, 2009
Smart Meter Minimum Functionality Under-recovery up to Dec 31, 2008	0.9	0.9

7
8
9
10
2.3 Smart Metering Expenditures Exceeding Minimum Functionality up to December 31, 2008

11 Smart Metering Expenditures Exceeding Minimum Functionality primarily includes TOU
12 capability and integration as well as some costs for meter outage detection and collector
13 outage

14
15 A review of these costs was done in EB-2007-0681. The Board granted approval to
16 Hydro One Distribution for actual Smart Meter Exceeding Minimum Functionality
17 spending up to December 31, 2007. The Board directed Hydro One Distribution to track
18 subsequent Smart Meter Exceeding Minimum Functionality spending and file for
19 approval and recovery in a subsequent application. This application is requesting
20 recovery of those costs to December 31, 2008.

21
22 The Hydro One Smart Meter revenue requirements associated with these elements up to
23 December 31, 2008 plus interest for 2009 is summarized in Table 5 below:
24

Table 5
Distribution
Smart Meter Exceeding Minimum Functionality Under-Recovery
to December 31, 2008
\$ million

Description	Dec 31, 2008	Dec 31, 2009
Smart Meter Exceeding Min Functionality Under-recovery up to Dec 31, 2008	1.1	1.1

2.4 Retail Settlement Variance Accounts (“RSVA”)

The RSVA accounts have been established pursuant to Article 490 which requires that all distributors establish Retail Settlement Variance Accounts to record the differences between the amount owed to the IESO / host distributors and the amount billed to customers and retailers.

The RSVA accounts were previously reviewed and approved by the Board in RP-2004-0117/0118, RP-2005-0020 / EB-2005-0378 and EB-2007-0681. The balance of the RSVA account has been filed with the Board on a quarterly basis per the Electricity Reporting and Record Keeping Requirements.

The total Retail Settlement Variance Accounts balance is summarized in Table 6 below:

Table 6
Distribution
Retail Settlement Variance Account (RSVA)
\$ million

Description	USofA Account Ref	Dec 31, 2008	Dec 31, 2009
Retail Settlement Variance Account	1580	(20.9)	(2.9)

1 **2.5 Regulatory Asset Recovery Account – Phase I**

2
3 Ontario's local electricity distribution companies (LDCs or distributors) incurred costs in
4 preparation for the competitive market which opened in May 2002. In addition to these
5 transition costs, utilities incurred other costs associated with regulatory directives related
6 to market restructuring and the ongoing competitive market.

7
8 On January 10, 2005, the Board issued an *Order* (RP-2004-0117/0118) granting Hydro
9 One approval for its regulatory asset account balance of \$155 million as filed on
10 December 20, 2004. The recovery period ended April 30, 2008. Interim rates were
11 approved by the Board on April 11, 2008 to continue this rate rider until the decision in
12 EB-2007-0681 would be implemented. This was subsequently implemented on February
13 1, 2009.

14
15 The rate rider continued to be collected until February 2009 per the interim decision,
16 simple interest continues to be applied to the monthly opening principal (net of recovery)
17 balance in this account.

18
19 The Recovery of Regulatory Asset Balances – Phase I account (USofA 1590) is
20 monitored and reported on a quarterly basis to the Board per the Electricity Reporting and
21 Record Keeping Requirements.

22
23 Table 7 provides a summary of Regulatory Asset Recovery Phase I Account balance for
24 the Hydro One Distribution business:

25

Table 7
Distribution
Regulatory Asset Recovery Phase I Account Balance
\$ million

Description	USofA Account Ref	Dec 31, 2008	Dec 31, 2009
Regulatory Asset Recovery Phase I	1590	(18.7)	(23.0)

3.0 CURRENTLY APPROVED REGULATORY ASSET ACCOUNTS

Hydro One continues to use the following Regulatory Asset accounts:

- Rural or Remote Electricity Rate Protection (RRRP) account
- Deferred Pension Account
- Regulatory Rate Rider 2 (EB-2005-0378)
- Regulatory Rate Rider 3 (EB-2007-0681)
- Regulatory Rate Rider 4 (EB-2007-0681) Foregone revenue between May 1, 2008 and January 31, 2009
- Bill Impact Mitigation (Harmonization Mitigation Credit)

These accounts are reported to the Board on a quarterly basis per the Electricity Reporting and Record Keeping Requirements and are not being requested for disposition in this application.