

1 **COST ALLOCATION OF REVENUE REQUIREMENT**

2
3 This exhibit presents an overview of the process to allocate Hydro One Distribution
4 related revenue requirement costs to Legacy, Acquired, and Sub-Transmission customer
5 groups.

6
7 **1.0 INTRODUCTION**

8
9 The 2010 revenue requirement of \$1,181 million for Hydro One Distribution was derived
10 in Exhibit E1, Tab 1, Schedule 1, and is attributed to the Retail, (Legacy and Acquired),
11 and Sub-Transmission customers.

12
13 This revenue requirement is allocated to the customer classes using the Cost Allocation
14 methodology issued by the Board on September 29, 2006 in the EB-2005-0317
15 proceeding. Hydro One Distribution modified the Board methodology to reflect its
16 unique circumstances related to the provision of a Sub-Transmission system and a larger
17 number of customer classes. The modifications are detailed in Exhibit G2, Tab 1,
18 Schedule 1, and are similar to the modifications applied in Hydro One Distribution's Cost
19 Allocation Study filed in Proceeding EB-2007-0681 and that were approved by the
20 Board.

21
22 **2.0 APPORTIONMENT OF REVENUE REQUIREMENT**

23
24 Hydro One Distribution used the OEB Cost Allocation Methodology to allocate the
25 proposed \$1,181 million revenue requirement to customer classes. The allocated revenue
26 requirement was compared to the revenues that would be collected from customers at
27 adjusted 2009 Distribution rates. The adjustment consisted of increasing the 2009
28 approved rates proportionally to recover the 2010 Revenue Requirement of \$1,181

1 million. Revenue to cost ratios were then calculated. Revenue to cost ratios above 1
2 mean that the customer class is over-contributing and revenue to cost ratios below 1 mean
3 that the customer class is under-contributing. The results of the cost allocation study are
4 summarized in Table 1. Table 1 also includes the revenue to cost ratios approved by the
5 Board in Proceeding EB-2007-0681 and the proposed shift in revenues for certain
6 customer classes.

7

Table 1
Hydro One Cost Allocation Study Results

	UR	R1	R2	Seasonal	UGSe	UGSd	GS e	GS d	ST	DG	Street Light	Sent. Light	Total
Revenue at adjusted current rates \$M	64.6	254.1	450.7	97.6	10.4	15.7	130.1	113.3	32.4	0.6	6.5	5.1	1,181.0
Shifted Rev \$M				(0.62)	(0.03)			0.28		(0.14)	0.20	0.30	0.00
Proposed Rev Req \$M	64.6	254.1	450.7	97.0	10.4	15.7	130.1	113.6	32.4	0.4	6.7	5.4	1,181.0
Allocated Costs \$M	59.3	277.1	440.5	84.0	8.6	12.6	121.2	128.3	31.9	0.4	9.4	7.6	1,181.0
Proposed Rev/cost ratio	1.09	0.92	1.02	1.15	1.20	1.25	1.07	0.89	1.01	1.00	0.70	0.70	1.00
Rev/cost ratio EB-2007-0681	1.0	0.88	1.04	1.0	1.2	1.0	1.08	1.02	1.15	1.00	0.7	0.7	1.0

More details on the results of the cost allocation study can be found in Exhibit G2, Tab 1, Schedule 1.

1 **3.0 TARGET REVENUE TO COST RATIO**

2
3 Hydro One Distribution is proposing to use the revenue to cost ratio ranges recommended
4 in the Board's report issued November 28, 2007 under proceeding EB-2007-0667,
5 "Application of Cost Allocation for Electricity Distributors". The Board recommended
6 revenue to cost ratios range from 0.7 for street lights to 1.8 for large commercial
7 customers. The proposed range of revenue to cost ratios will result in those customer
8 classes with a revenue to cost ratio above 1 continuing to cross-subsidize those customer
9 classes with a revenue to cost ratio below 1.

10
11 Hydro One Distribution is proposing the following revenue to cost ratios for the various
12 customer classes.

13
14 For the UR, R1, R2, General Service energy billed, Urban General Service demand billed
15 and Sub-Transmission classes, the revenue to cost ratio calculated in the cost allocation
16 model is proposed to be maintained.

17
18 For the Distributed Generation customer class, the revenue to cost ratio is proposed to be
19 set at 1.0 rather than the calculated 1.35 as it was done in Proceeding EB-2007-0681.

20
21 For Street Light and Sentinel Light classes it is proposed to increase the revenue to cost
22 ratio from about just under 0.7 to 0.7. This is the lower end of the revenue to cost ratio
23 proposed by the Board for this class of customers.

24
25 For the Seasonal and Urban General Service energy billed class it is proposed to reduce
26 the revenue to cost ratio from 1.16 to 1.15 and from 1.21 to 1.2 respectively. This is the
27 higher end of the revenue to cost ratio proposed by the Board for these customer classes.

- 1 In order to recover the 2010 Revenue Requirement based on the revenue to cost ratios
- 2 described above, the revenue to cost ratio for General Service demand billed customer
- 3 classes will have to increase from 0.88 to 0.89.