REVENUE REQUIREMENT

1.0 SUMMARY OF REVENUE REQUIREMENT

Hydro One Transmission has followed standard regulatory practice in the calculation of revenue requirement as follows:

Table 1. Revenue Requirement
($ Millions)

Particulars	**2011**	**2012**	**Reference**
OM&A	436.3	450.0	C1, Tab 2, Schedule 1
Depreciation	302.9	334.8	C1, Tab 6, Schedule 1
Income Taxes	80.9	70.0	C1, Tab 7, Schedule 1
Cost of Capital[1]	625.3	692.6	B2, Tab 1, Schedule 1
Total Revenue Requirement	**1,445.5**	**1,547.4**	E2, Tab 1, Schedule 1

[1] Includes AFUDC recovery on the Niagara Reinforcement Project (2011 - $5.6 million and 2012 - $5.6 million).

The resultant revenue requirement of $1,445.5 million for 2011 and $1,547.4 million for 2012 are the amounts required by Hydro One Transmission to safely address customer service and system reliability needs at the lowest practical cost.

2.0 CALCULATION OF REVENUE REQUIREMENT

The details of the OM&A and Depreciation components of the revenue requirement are as follows:

2.1 OM&A Expense

	($ Millions)	
	2011	**2012**
Sustaining	233.0	243.1
Development	18.2	18.9
Operations	66.3	68.2
Customer Care	1.1	1.2
Shared Services and Other Costs	46.9	46.4
Taxes Other Than Income Tax	70.8	72.2
Total OM&A	**436.3**	**450.0**

2.2 Depreciation Expense

	($ Millions)	
	2011	**2012**
Depreciation	295.5	326.9
Amortization	7.4	7.9
Total Expense	**302.9**	**334.8**

3.0 RATES REVENUE REQUIREMENT - COMPARISON OF YEAR 2010 TO YEAR 2011

Table 2 compares, by element, the 2010 rates revenue requirement (as per EB-2008-0272) against the 2011 proposed rates revenue requirement.

Table 2.
Comparison of Rates Revenue Requirements: Board Approved 2010 vs. 2011
($Millions)

Line no.	Description	Year 2010	Year 2011	Difference
1	OM&A	426.2	436.3	10.1
2	Depreciation	281.3	302.9	21.6
3	Capital Taxes	6.0	0.0	(6.0)
4	Income Taxes	34.0	80.9	46.9
5	Cost of Capital[1]	509.8	625.3	115.5
	Total Revenue Requirement	**1,257.3**	**1,445.5**	**188.2**
6	Deduct External Revenues[2]	(18.0)	(31.3)	(13.3)
	Revenue Requirement less External Revenues	**1,239.3**	**1,414.2**	**174.9**
7	Deduct Export Revenue Credit	(12.0)	(10.1)	1.9
8	Deduct Other Cost Charges[3]	(20.3)	(10.0)	10.3
9	Add Low Voltage Switch Gear	10.8	11.8	1.0
	Rates Revenue Requirement	**1,217.7**	**1,405.8**	**188.1**

[1] Includes AFUDC on the Niagara Reinforcement Project.
[2] External revenues addressed in Exhibit E1, Tab 1, Schedule 2.
[3] Other Cost Charges includes regulatory assets for disposition. See Exhibit F1, Tab 2, Schedule 1 for further details.

There are a number of key operational and financial factors contributing to the increased rates revenue requirement that have an impact across the cost components in Table 2. The increase in total rates revenue requirement is largely attributable to the impact of rate base growth reflected in the increase in return and depreciation and the increase in OM&A work program requirements, partially offset by lower tax rates and increased external revenues.

Table 3 illustrates the value of the key impacts on the increase in the rates revenue requirement.

Table 3.
Components of Change to Rates Revenue Requirement
2010[1] vs. 2011

Description	**Amount ($M)**
Impact of increased rate base	115.3
Normal Rate Base Growth	*69.8*
Bruce X Milton	*45.5*
Increased return on equity	55.9
Increased cost of debt	6.9
Change in OM&A[2]	(1.1)
Impact of other changes	11.1
Export Credit	*1.9*
LVSG	*1.0*
Other Cost Charges	*10.3*
Miscellaneous	*(2.1)*
Total change	**188.1**

[1] 2010 Amounts as per Hydro One Transmission's 2010 Revenue Requirement and Charge Determinants for EB-2008-0272
[2] Net of External Revenue

4.0 RATES REVENUE REQUIREMENT - COMPARISON OF YEAR 2011 TO YEAR 2012

Table 4 compares, by element, the 2011 rates revenue requirement against the 2012 rates revenue requirement.

Table 4.
Comparison of Rates Revenue Requirements 2011 vs. 2012 ($ Millions)

Line no.	Description	Year 2011	Year 2012	Difference
1	OM&A	436.3	450.0	13.6
2	Depreciation	302.9	334.8	31.9
3	Income Taxes	80.9	70.0	(10.9)
4	Cost of Capital[1]	625.3	692.6	67.3
	Total Revenue Requirement	**1,445.4**	**1,547.4**	**102.0**
5	Deduct External Revenues[2]	(31.3)	(24.7)	6.6
	Revenue Requirement less External Revenues	**1,414.1**	**1,522.7**	**108.6**
6	Deduct Export Revenue Credit	(10.1)	(10.2)	(0.1)
7	Deduct Other Cost Charges[3]	(10.0)	2.6	12.6
8	Add Low Voltage Switch Gear	11.8	12.5	0.7
	Rates Revenue Requirement	**1,405.8**	**1,527.5**	**121.7**

[1] Includes AFUDC on the Niagara Reinforcement Project.
[2] External revenues addressed in Exhibit E1, Tab 1, Schedule 2.
[3] Other Cost Charges includes regulatory assets for disposition. See Exhibit F1, Tab 2, Schedule 1 for further details.

The increase in 2012 rates revenue requirement is primarily due to the increase in rate base as reflected in the increase in return and depreciation. The increase in rate base is primarily the result of asset expansion and replacement needs as described in Exhibit D1, Tab 3, Schedule 1. Other Cost Charges increase from 2011 to 2012 due to the disposition of regulatory credits over 12 months in 2011 for rate mitigation purposes and recovery of regulatory debits over 24 months. Exhibit G1, Tab 1, Schedule 1 provides information on how the rates revenue requirements will be recovered through rates.

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

Table 5.
Components of Change to Rates Revenue Requirement:
2011 vs. 2012

Description	Amount ($M)
Impact of increased rate base	91.3
Normal Rate Base Growth	*78.5*
Bruce X Milton	*12.8*
Increased OM&A[1]	20.0
Increased return on equity	9.1
Increased cost of debt	2.2
Impact of lower tax rates	(14.4)
Impact of other changes	13.5
Export Credit	*(0.1)*
LVSG	*0.7*
Other Cost Charges	*12.6*
Miscellaneous	*0.2*
Total change	**121.7**

[1] Net of External Revenue

EXTERNAL REVENUES

1.0 STRATEGY

Hydro One Transmission's strategy is to focus on core work, while continuing to be responsive to external customer work requests where Hydro One Transmission has available resources and/or assets to accommodate the request.

External revenues earned through the provision of services to third parties are forecast to be $31.4 million in 2011 and $24.7 million in 2012 and account for approximately 2% of Hydro One Transmission revenues. These external revenues are used to offset the revenue requirement from Hydro One Transmission tariffs and thereby reduce the required revenue to be collected from transmission ratepayers.

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 for work). An appropriate margin is added to cover, at a minimum, the risk of non-payment by third parties in order to ensure there is an overall benefit for the transmission ratepayers.

This exhibit identifies the revenues for external work. The associated costs for this work are described in Exhibit C1, Tab 2, Schedule 11.

3.0 DESCRIPTION

Table 1
External Revenues ($ Millions)

$M	2007 Historic	2008 Historic	2009 Historic	2010 Bridge	2011 Test	2012 Test
Secondary Land Use	15.4	22.0	14.2	11.3	12.6	12.5
Station Maintenance	13.2	12.5	14.6	2.9	4.6	3.0
Engineering & Construction	5.0	9.4	3.2	1.5	11.0	6.0
Other External Revenues	3.1	2.1	3.2	2.3	3.2	3.2
Totals	**36.6**	**46.0**	**35.2**	**18.0**	**31.3**	**24.7**

3.1 Secondary Land Use

Hydro One Transmission manages the Provincial Secondary Land Use Program (PSLUP) on behalf of the Province, to whom Hydro One Transmission's transmission corridor lands were transferred under Bill 58 on December 31, 2002. The program focuses on licensing and leasing the transmission corridor lands to external parties for "secondary" land use purposes that are compatible with Hydro One Transmission's primary transmission business operations. Typical uses include parking lots, municipal roadways, parks and trails, agricultural areas, water mains and other municipal infrastructure occupations, as well as public transit parking lots and station operations. The PSLUP revenue stream is generated by charging land rentals to external parties for new license and lease occupations and subsequent agreement renewals, as well as lump sum consideration for easements granted (e.g., water mains) and operational land sales completed (e.g., roadway).

Under Bill 58 provisions and subsequently negotiated arrangements, all expiring corridor PSLUP agreements as of December 31, 2002, were transferred to the Province. Remaining unexpired corridor agreements and associated revenue streams are retained by Hydro One until such time as these agreements expire. Upon expiration, the previously retained agreements and revenue streams by Hydro One are then also transferred to the province under PSLUP.

Notwithstanding this transfer, Hydro One Transmission has provided front-line delivery services for the PSLUP on behalf of the Province since 2002 and, under arrangements made on April 1, 2005, will continue to manage the program through March 31, 2010. The new arrangements include Hydro One Transmission's retention of PSLUP revenues for unexpired agreements until their expiry, as well as a results-based compensation model involving the sharing of revenues between Hydro One Transmission and the Province for new PSLUP agreements and for renewals of expired agreements which were previously transferred to the Province. Hydro One also manages a small portion of secondary land use revenue that does not fall under current PSLUP arrangements.

As a result, responsibility for the management and re-negotiation (as required) of all existing secondary land use agreements (including those previously transferred to the Province under the corridor land transfer arrangements) now rests with Hydro One Transmission. Hydro One Transmission will continue promotion and negotiation of all new secondary land use business opportunities, where these are consistent with Hydro One Transmission's short and longer-term operational requirements. Hydro One is currently in the process of finalizing new five year term PSLUP agreement with the Province that will likely see the current program arrangements continue.

The Secondary Land Use Revenue levels are forecasted in test years 2011 and 2012 approximately at $12.6M and $12.5M respectively. The 2008 revenue level was unusually elevated due to one-time events, such the as granting of easement rights to Enbridge and the City of Toronto, and one-time sales of land, resulting in one-off lump sum payments during this timeframe.

3.2 Station Maintenance

Revenues from external work in the Station Services segment include specialized activities similar to those performed internally for Hydro One Transmission. These activities include such items as repair of electrical equipment (such as transformers, breakers and switches), specialty machining (spindles), protective relay installation, maintenance and calibration, as well as provision of meter services and emergency services. Customers seek out station services skills, resident within Hydro One Transmission requiring highly specialized staff able to perform work on a variety of high voltage equipment in a variety of work settings (such as nuclear environments). Work is performed according to commercially negotiated contracts which reflect market level pricing.

Hydro One Transmission provides support to the external market place in areas which are related to the Company's transmission business. This work is primarily tied to support Ontario's key generation suppliers: Bruce Power LLP, OPGI and Siemens Westinghouse Inc. (in support of OPGI).

As can be seen in Table 1, this segment of external revenue is expected to decrease in 2010 through to 2012, primarily due to the expected shift in resources to Hydro One Transmission's growing work programs.

3.3 Engineering and Construction

Hydro One Transmission's Engineering & Construction activities continue to focus on internal work supporting the growing transmission work program, while working to reduce external work to a minimal level. This segment of external revenue is derived from the upgrading of revenue meters at various sites per IESO requirements.

The focus of Hydro One Transmission's continuing external program is the provision support to OPGI through the installation and removal of major power equipment, control cabling, maintenance of dams and other associated work in generator switchyards. This program also supports some line design and construction for other transmission companies such as Great Lakes Power and TransAlta, and some antenna installations on transmission towers.

In 2009 revenue of $3.2 million was realized, the forecast for 2011 is $11 million, and $6 million in 2012. The increases is as a result of the activities related to revenue metering projects per the IESO requirements, and traditional work performed for OPGI.

3.4 Other External Revenues

Revenues from external work in this segment include items shown in Table 2 below.

Table 2

Other External Revenues

	2007 Historic	2008 Historic	2009 Historic	2010 Bridge	2011 Test	2012 Test
Inergi Royalties	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
Other Miscellaneous Revenues	**2.1**	**1.1**	**2.2**	**2.2**	**2.2**	**2.2**
Total	**3.1**	**2.1**	**3.2**	**3.2**	**3.2**	**3.2**

3.4.1 Inergi Royalties

As a result of the outsourcing agreement with Inergi LP, Hydro One Transmission receives royalty revenue to compensate it for the use of its resources by Inergi LP to service other third party customers.

3.4.2 Other Miscellaneous Revenues

Hydro One Transmission has been responsible for the monitoring, management, and control of the integrated telecommunications and tele-protection systems for Ontario Hydro's successor companies. In 2011 and 2012 $0.5 million is forecasted for work related to other Hydro One entities. See the Affiliate Service Agreements in Exhibit A, Tab 7, Schedule 3.

Other Miscellaneous Revenues of $1.7 million in both 2011 and 2012 represents those arising from such telecommunications services to Ontario Hydro successor companies such as lease of fiber, revenues from special transmission planning studies and customer shortfall payments (e.g. true-ups, temporary bypass). This revenue is forecasted to remain constant between 2009 and 2012.