RATE BASE

1.0 INTRODUCTION

This Exhibit provides the forecast of Hydro One Transmission's rate base for the 2011 and 2012 test years and provides a detailed description of each of the rate base components. The composition of Hydro One Transmission's assets is described in Exhibit A, Tab 4, Schedule 1.

The rate base underlying the test year revenue requirement includes a forecast of net utility plant, calculated on a mid-year average basis, plus a working capital allowance. Net utility plant is gross plant in-service minus accumulated depreciation plus the accelerated cost recovery of the Bruce to Milton project. Working capital includes an allowance for cash working capital and materials and supplies inventory.

2.0 UTILITY RATE BASE

Hydro One Transmission's utility rate base for the transmission system for the test years is filed at Exhibit D2, Tab 1, Schedule 1. The calculation of average balances to derive net utility plant for the historical, bridge and test years is filed at Exhibit D2, Tab 3, Schedule 1 and Exhibit D2, Tab 3, Schedule 2.

Hydro One Transmission's forecast rate base for the 2011 test year is $8,378.5 million and for the 2012 test year is $9,134.6 million. Table 1 provides a summary of the calculation of the Transmission rate base for the 2011 and 2012 test years.

Table 1.
Transmission Rate Base ($ Millions)[1]

Description	Test 2011	Test 2012
Gross Plant	12,297.3	13,509.5
Accumulated Depreciation	(4,429.1)	(4,690.6)
Net Plant in Service	7,868.2	8,818.9
Construction work in progress	485.8	289.0
Net Utility Plant	**8,354.0**	**9,107.9**
Cash Working Capital	7.1	5.0
Materials and Supplies Inventory	17.4	21.7
Total Working Capital	**24.5**	**26.7**
Transmission Rate Base	**8,378.5**	**9,134.6**

2.1 Derivation of Net Utility Plant

The mid-year gross plant balance reflects the in-service additions resulting from the capital expenditure program forecast for the test years. These programs are described in detail in the Company's written evidence at Exhibits D1, Tab 3 and in the supporting schedules filed at Exhibit D2, Tab 2, Schedules 1 and 2. The justifications for individual capital projects in excess of $3 million are filed at Exhibit D2, Tab 2, Schedule 3.

The 2011 net plant in-service of $7,868.2 million is $279.6 million or 3.7% higher than 2010 Board-approved. The 2012 net plant in-service of $8,818.9 million is $950.7 million or 12% higher than 2011 Test Year. These increases reflect the Company's infrastructure investments to address asset replacement and refurbishment needs of our aging system,

[1] 2011 and 2012 gross plant and accumulated depreciation values are calculated using a mid-year approach. Capital contributions have been netted out. Contributed capital refers to amounts contributed by third parties to specific capital projects, such as, for example, Joint Use Assets.

and to expand the system for the purposes of load growth, accommodating a modified generation mix, and expanding access to interconnected electricity markets as described in Exhibit D1, Tab 1, Schedule 2.

Hydro One is proposing that project D1 "New 500 kV Bruce to Milton Double Circuit Line" ("BxM project") be subject to accelerated cost recovery. Specifically, as outlined in Exhibit A, Tab 11, Schedule 5, 100% of annual Construction Work In Progress (CWIP) expenditures for this project are to be treated as if they were added to rate base until the project is placed into service. The financial carrying costs (i.e. cost of capital) for annual CWIP expenditures are to be treated for cost recovery purposes as if the project was declared partially in-service annually ["Accelerated Cost Recovery of CWIP"]. However, consistent with OEB direction, depreciation expenses would not be recovered as part of this treatment. The above approach has been assumed for the BxM project in the determination of the revenue requirement for the 2011 and 2012 test years.

The accumulated depreciation balance for the test years incorporates the accepted Foster Associates' Inc. methodology. The depreciation expense is further discussed at Exhibit C1, Tab 6, Schedule 1. A continuity schedule for accumulated depreciation for the test, bridge and historical years is shown in Exhibit D2, Tab 3, Schedule 3.

2.1.1 Continuity Schedule for Fixed Assets

Table 2
Continuity of Fixed Assets Summary ($ Million)

Description	Historic			Bridge	Test	
	2007	2008	2009	2010	2011	2012
Opening Gross Asset Balance	9,793	10,104	10,481	11,081	11,874	12,721
In-Service Additions	490	409	661	798	871	1,619
Retirements	(167)	(29)	(34)	(30)	(39)	(42)
Sales	(7)	(4)	0	0	0	0
Transfers	(5)	3	(27)	24	16	(0)
Closing Gross Asset Balance	10,104	10,481	11,081	11,874	12,721	14,298
Mid-Year Gross Asset Balance	9,949	10,293	10,781	11,478	12,297	13,510

A continuity schedule for fixed assets for the test, bridge and historical years is shown at Exhibit D2, Tab 3, Schedule 1. In-service additions in that exhibit reflect the placing in-service of some of Hydro One Transmission's capital programs, shown in Exhibit D1, Tab 1, Schedule 2 and described in detail at Exhibit D1, Tabs 3.

2.2 Cash Working Capital

In 2009 Hydro One Transmission retained Navigant Consulting Inc. to undertake a lead-lag study. The provision for working capital in 2011 and 2012 incorporates the results of this new study.

The cash working capital requirement for the transmission system is based on the following factors:

- the forecast of revenues,
- the forecast of OM&A, taxes and other cash expenditures and

- the net lead lag days determined.

Applying the lead lag study methodology results in a net cash working capital requirement of $7.1 million for the 2011 test year and $5.0 million for the 2012 test year.

2.3 Materials and Supplies Inventory

The other component of working capital is materials and supplies inventory. The average annual materials and supplies inventory balances are $17.4 million for 2011 and $21.7 million for 2012. Materials and supplies inventory is discussed in further detail in Exhibit D1, Tab 1, Schedule 4.

3.0 COMPARISON OF RATE BASE TO BOARD APPROVED

Table 3 compares 2009 costs to the 2009 Rate Base approved by the Board in their Decision on Hydro One Transmission's previous application in EB-2008-0272.

Table 3
2009 Board Approved versus 2009 Rate Base
($M)

Rate Base Component	2009	2009 Board Approved	Variance
Gross Plant	10,781.3	10,940.0	(158.7)
Accumulated Depreciation	(3,966.6)	(3,954.4)	12.2
Net Utility Plant	**6,814.7**	**6,985.6**	**(170.9)**
Cash Working Capital[1]	9.4	9.4	0.0
Materials & Supplies Inventory	11.7	36.7	(25.0)
Total Rate Base	**6,835.8**	**7,031.7**	**(195.9)**

[1] Hydro One Transmission does not calculate actual cash working capital, thus the 2009 approved amount was used for illustrative purposes.

Total rate base was $195.9 million below the Board approved amount, a variance of 2.8%.

Table 4 compares 2010 forecast costs to the 2010 Rate Base approved by the Board in their Decision on Hydro One Transmission's previous application EB-2008-0272.

Table 4
2010 Board Approved versus 2010 Bridge Year Rate Base
($M)

Rate Base Component	2010 Bridge Year (Forecast)	2010 Board Approved	Variance
Gross Plant	11,477.5	11,768.2	(290.7)
Accumulated Depreciation	(4,188.8)	(4,179.6)	8.4
Net Utility Plant	**7,288.7**	**7,588.6**	**(299.9)**
Cash Working Capital[1]	8.6	8.6	0.0
Materials & Supplies Inventory	12.7	38.7	(26.0)
Total Rate Base	**7,310.0**	**7,635.9**	**(325.9)**

[1] Hydro One Transmission does not calculate actual cash working capital, thus the 2010 approved amount was used for illustrative purposes.

Total rate base was $325.9 million below the Board approved amount, a variance of 4.3%.