Hydro One Networks Inc.
8th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5700
Fax: (416) 345-5870
Cell: (416) 258-9383
Susan.E.Frank@HydroOne.com

Susan Frank
Vice President and Chief Regulatory Officer
Regulatory Affairs

BY COURIER

January 13, 2011

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Ms. Walli

EB-2010-0002 – Hydro One Networks' 2011-2012 Electricity Transmission Revenue Requirements – Response to Intervenor Comments on Draft Rate Order in Accordance with Decision

In its Decision with Reasons dated December 23, 2010, the Board directed Hydro One to file with the Board and all intervenors of record a draft exhibit showing the final revenue requirement to reflect the Board's findings in this Decision and an exhibit showing the calculation of the uniform transmission rates and revenue shares resulting from this Decision. This was provided by Hydro One in its letter to the Board secretary on January 5, 2011. Intervenors were directed by the Board that they could provide comment, if any, to the Board within 7 calendar days of this letter by Hydro One. To-date, only BOMA/LPMA has provided a letter of comment.

Attached please find Hydro One's full response to comments provided by BOMA/LPMA in the letter of Mr. R. Aiken dated January 9, 2011.

In the attached, Hydro One has confirmed that in its Draft Rate Order (DRO) it has reflected the items outlined in the Decision regarding HST and AFUDC adjustments as discussed by BOMA/LPMA in its letter. Hydro One has also provided the calculations which confirm these adjustments were made.

In its letter, BOMA/LPMA has also proposed that Hydro One apply a new methodology to calculate the impact upon cash working capital changes related to OM&A changes. Hydro One does not agree that BOMA/LPMA's proposal is appropriate. To precisely reflect the impact of the Board's Decision on working capital would require the working capital study provided in the pre-filed evidence in Exhibit D1, Tab 1, Schedule 3 to be redone. Making the change for one factor as BOMA/LPMA suggested would alter a Board approved approach and is inconsistent with previous practise for working capital calculation.

The increase in Hydro One Transmission's Rates Revenue Requirement is estimated to be 7.0% in 2011, which represents an estimated average increase on total customer bills of about 0.5%. For a residential customer consuming 800 kWh per month, the estimated increase on the customer's total monthly bill is about $0.62 in 2011.

If you have any questions regarding this submission please contact Anne-Marie Reilly at 416 345-6482.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

c. EB-2010-0002 Intervenors (electronic)

ATTACHMENT
EB-2010-0002 DRAFT RATE ORDER
HYDRO ONE NETWORKS RESPONSE TO BOMA/LPMA COMMENTS

1. HST Adjustments

The Draft Rate Order (DRO) reflects the impact of the Board's Decision on the calculation of the revenue requirement impact of PST savings documented in Hydro One's Reply Argument. This impact is calculated on a basis consistent with the methodology Hydro One developed to ensure that the revenue requirement impact of the estimated PST savings was captured. As noted in the oral hearing, we have taken Board Staff through the methodology we proposed and it was our understanding that they were accepting of this methodology (refer to page 75 of Volume 7 of the EB 2010-0002 Transcript).

Hydro One confirms that it has passed on the full PST savings to customers by reducing the test year revenue requirements for all rate base impacts, including those as a result of changes in OM&A on rate base through working capital. This includes the correction identified by BOMA regarding the reference on page 23 of the Board's Decision for the reduction of the working capital amounts for 2012. Hydro One, in its Final Reply Argument, submitted revenue requirement reductions of $7.2 million and $10.4 million in 2011 and 2012, respectively. As noted on page 17 of the Reply Argument, these adjustments took into account the impacts of OM&A, depreciation, return on rate base and income taxes.

The change in the revenue requirement impact provided on page 17 of Hydro One's Reply Argument and that provided in Exhibit 1.9 of the DRO is summarized in Table 1 below.

Table 1 - Revenue Requirement Impact of HST

	Final Written Argument		DRO Exhibit 1.9		Change		
	2011	2012	2011	2012	2011	2012	
OM&A	-$4.5	-$4.7	-$4.6	-$5.1	-$0.1	-$0.4	a
Depreciation	-$0.8	-$1.8	-$0.8	-$1.7	$0.0	$0.1	b
Return on rate base	-$2.0	-$4.2	-$2.0	-$4.0	$0.1	$0.2	c
Income tax	$0.1	$0.3	$0.1	$0.3	$0.0	$0.0	d
Total Impact	-$7.2	-$10.4	-$7.2	-$10.5	$0.0	-$0.1	

The factors behind the change in revenue requirement are explained as follows.

OM&A:

In 2011 the 3% reduction to OM&A results in a change which rounds to $0.1M.

The reduction to revenue requirement of $0.4 million in 2012 related to PST savings is due mainly to the Board's direction that Hydro One should adopt IFRS accounting for overheads capitalized and include an additional $200 million in revenue requirement for 2012. The impact of this on the PST savings is minimal as approximately 40% of the $200 million expenditure relates to labour and material surcharge, neither of which have PST eligible expenditures; and, approximately 60% of the expenditures relate to CF&S and Asset Management overheads capitalized of which only 3% of these expenditures are determined to be PST eligible. This results in a reduction of approximately $0.3M and the 4% reduction to OM&A in 2012 results in the remaining amount for a total change of $0.4M.

Depreciation, Return on Rate Base and Income Tax:

The change in depreciation, return on rate base and income tax (noted on lines b, c and d in Table 1) are the result of changes in rate base.

The HST changes in rate base from the numbers provided in Reply Argument are $0.3M in 2011 and $1.8M in 2012 and are a result of the following Decision elements, which lower rate base:

- the reduction in approved capex of $10 million in 2011 and $29.8 million in 2012 for projects D43 and D44 as per page 43 of the Board's Decision
- the $200 million reduction in capex due to the Board's direction that Hydro One should adopt IFRS accounting for overheads capitalized and reduce capital expenditures by $200 million in 2012.
- the effect on cash working capital of the reduction in OM&A from PST savings in 2011 and 2012 is minimal.

The values provided in Exhibit I, Tab 4, Schedule 41 were a preliminary estimate which was subsequently refined and the methodology used was accepted by Board Staff as noted in the first paragraph above.

2. Cash Working Capital Changes Related to OM&A Changes

In the DRO, Hydro One has reflected the impact of the OM&A disallowances using working capital as a percentage of OM&A and applying that ratio to the OM&A reduction. Hydro One maintains that this methodology is an appropriate approach to reflect the impact of the Decision on the working capital allowance. This approach is also consistent with that taken by Hydro One in implementing previous Board Decisions and accepted by the Board.

A working capital study calculates a working capital amount using numerous inputs. From a theoretical basis, to accurately reflect the impact of the Board's Decision on working capital would require the working capital determination study provided in the pre-filed evidence in Exhibit D1, Tab 1, Schedule 3 to be completely redone using new inputs for all factors impacted by the Decision. This is not possible or practical in the time available and would have immaterial impact on revenue requirement.

BOMA/LPMA has proposed on an arbitrary basis to isolate only a change in a single input, while holding all other inputs constant, which from a theoretical basis would not be appropriate.

As outlined by BOMA/LPMA on page 5 of its comments, their proposed methodology "… results in a reduction to the 2011 rate base of $0.5 million instead of the $0.7 million calculated by Hydro One. Similarly … for 2012 [this] results in an increase in rate base of $7.7 million in place of the $10.8 million calculated by Hydro One." Specifically, the BOMA/LPMA proposed methodology would increase Hydro One 2011 approved rate base by $0.2 million, and reduce 2012 approved rate base by 3.1 million. Using the Hydro One WACC of about 7% (as derived using the cost of capital parameters and capital structure as provided in Exhibit 1.4 of the DRO), the methodology proposed by BOMA/LPMA has a small impact upon revenue requirement as compared to the methodology utilized by Hydro One in its DRO (an increase of about $20,000 in 2011 and a decrease in the range of $250,000 in 2012), which would have no impact upon Uniform Transmission Rates.

Hydro One does not believe it is appropriate to modify the working capital methodology without a study or Board review. As a result, Hydro One suggests that BOMA/LPMA's proposal be rejected.

3. AFUDC Adjustment

Hydro One has adjusted rate base in both of the test years to reflect the reduction of $6.4 million in AFUDC in the 2010 bridge year. This is detailed in the below noted calculation, where line k matches the rate base change related to the AFUDC adjustment in Exhibit 1.9 of the DRO.

Tx Rate Order Detail

AFUDC Calculation	2010	2011	2012	
Annual In-Service Adjustment	(6.4)	(3.2)	(2.1)	a
Cumulative Adjustment	(6.4)	(9.6)	(11.7)	b = cumulative a
Calculation				
Current Year In-Service (half year rule)	(6.4)	(3.2)	(2.1)	c = a
Previous In-Service (no half year rule)	0.0	(6.4)	(9.6)	d = b - c
50 Year Life (or 2% depreciation)				
Depreciation - Half	(0.1)	(0.0)	(0.0)	e = c / 2 (half year rule) * 2%
Depreciation - Full	0.0	(0.1)	(0.2)	f = d * 2%
	(0.1)	(0.2)	(0.2)	g = e + f
Gross Fixed Assets	(6.4)	(9.6)	(11.7)	h = b
Acc Dep	(0.1)	(0.2)	(0.4)	i = cumulative g
NBV	(6.3)	(9.4)	(11.3)	j = h - i
Rate Base (Average)		(7.9)	(10.3)	k = 2 year average of j