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	**2013**	**2014**	**Reference**
OM&A	451.8	459.7	C1, Tab 3, Schedule 1
Depreciation	348.6	376.5	C1, Tab 8, Schedule 1
Income Taxes	42.7	50.9	C1, Tab 9, Schedule 1
Cost of Capital[1]	621.1	669.6	B1, Tab 1, Schedule 1
Total Revenue Requirement	**1,464.3**	**1,556.6**	E2, Tab 1, Schedule 1

[1] Includes AFUDC recovery on the Niagara Reinforcement Project (2013 - $4.9 million and 2014 - $4.8 million).

The resultant revenue requirement of $1,464.3 million for 2013 and $1,556.6 million for 2014 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)

	2013	**2014**
Sustaining	233.5	237.6
Development	13.4	14.4
Operations	64.3	66.4
Customer Care	1.3	1.4
Shared Services and Other Costs	68.0	67.6
Taxes Other Than Income Tax	71.5	72.3
Total OM&A	**451.8**	**459.7**

2.2 Depreciation Expense

($ Millions)

	2013	**2014**
Depreciation	342.3	369.5
Amortization	6.3	7.0
Total Expense	**348.6**	**376.5**

3.0 RATES REVENUE REQUIREMENT - COMPARISON OF YEAR 2012 TO YEAR 2013

Table 2 compares, by element, the 2012 rates revenue requirement (as per EB-2011-0268) against the 2013 proposed rates revenue requirement.

Table 2
Comparison of Rates Revenue Requirements: Board Approved 2012 vs. 2013
($Millions)

Line no.	Description	Year 2012	Year 2013	Difference
1	OM&A	427.1	451.8	24.7
2	Depreciation	332.8	348.6	15.8
3	Capital Taxes	0.0	0.0	0.0
4	Income Taxes	51.5	42.7	(8.7)
5	Cost of Capital[1]	607.1	621.1	14.0
	Total Revenue Requirement	**1,418.4**	**1,464.3**	**45.9**
6	Deduct External Revenues[2]	(28.7)	(31.6)	(2.9)
	Revenue Requirement less External Revenues	**1,389.7**	**1,432.6**	**43.0**
7	Deduct Export Revenue Credit[3]	(16.0)	(31.0)	(14.9)
8	Deduct Regulatory Accounts Disposition[4]	0.0	(15.1)	(15.1)
9	Add Low Voltage Switch Gear[5]	11.5	11.8	0.3
	Rates Revenue Requirement	**1,385.1**	**1,398.5**	**13.3**

[1] Includes AFUDC on the Niagara Reinforcement Project.
[2] External revenues addressed in Exhibit E1, Tab 2, Schedule 1.
[3] Export revenue is addressed in Exhibit H1, Tab 5, Schedule 1.
[4] See Exhibit F1, Tab 1, Schedule 3 for further details.
[5] Low Voltage Switch Gear is addressed in Exhibit G2, Tab 5, Schedule 1.

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 depreciation, which is partially offset by the impact of lower depreciation rates. Also contributing to the difference is an increase in OM&A work program requirements, offset by lower tax rates, lower return due to decreased interest rates, higher export credit, and the disposition (refund) of Regulatory Accounts.

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
2012[1] vs. 2013

Description	Amount ($M)
Core Rate Base	70.6
Bruce to Milton (Rate Base)	27.3
Impact of new Depreciation Study	(33.1)
Change in OM&A[2]	24.7
Change in return on equity	(9.8)
Change in cost of debt	(23.1)
Tax rate change and timing differences	(10.6)
Impact of other changes	(32.5)
Regulatory Accounts Disposition [3]	*(15.1)*
Export Credit	*(14.9)*
Miscellaneous	*(2.6)*
Total change	**13.3**

4.0 RATES REVENUE REQUIREMENT - COMPARISON OF YEAR 2013 TO YEAR 2014

Table 4 compares, by element, the 2013 rates revenue requirement against the 2014 rates revenue requirement.

[1] 2012 Amounts as per Hydro One Transmission's 2012 Revenue Requirement and Charge Determinants for EB-2010-0002 and EB-2011-0268.
[2] Net of External Revenue
[3] See Exhibit F1, Tab 1, Schedule 3 for further details.

Table 4
Comparison of Rates Revenue Requirements 2013 vs. 2014 ($ Millions)

Line no.	Description	Year 2013	Year 2014	Difference
1	OM&A	451.8	459.7	7.9
2	Depreciation	348.6	376.5	27.9
3	Income Taxes	42.7	50.9	8.2
4	Cost of Capital[1]	621.1	669.6	48.5
	Total Revenue Requirement	**1,464.3**	**1,556.6**	**92.4**
5	Deduct External Revenues[2]	(31.6)	(31.8)	(0.2)
	Revenue Requirement less External Revenues	**1,432.6**	**1,524.8**	**92.2**
6	Deduct Export Revenue Credit[3]	(31.0)	(30.1)	0.9
7	Deduct Regulatory Accounts Disposition[4]	(15.1)	(15.1)	0.0
8	Add Low Voltage Switch Gear[5]	11.8	12.5	0.8
	Rates Revenue Requirement	**1,398.5**	**1,492.3**	**93.9**

[1] Includes AFUDC on the Niagara Reinforcement Project.
[2] External revenues addressed in Exhibit E1, Tab 2, Schedule 1.
[3] Export revenue is addressed in Exhibit H1, Tab 5, Schedule 1.
[4] See Exhibit F1, Tab 1, Schedule 3 for further details.
[5] Low Voltage Switch Gear is addressed in Exhibit G2, Tab 5, Schedule 1.

The increase in 2014 rates revenue requirement is primarily due to the increase in core rate base as reflected in the increase in return and depreciation. Other contributing factors include an increase in OM&A work program requirements, and higher ROE due to an increasing consensus forecast on Government of Canada ten year bonds. These are partially offset by lower debt costs and tax 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:
2013 vs. 2014

Description	Amount ($M)
Core Rate Base	76.6
Bruce to Milton (Rate Base)	2.4
Change in OM&A[1]	7.8
Change in return on equity	11.3
Change in cost of debt	(2.8)
Miscellaneous	(1.4)
Total change	**93.9**

[1] Net of External Revenue

Exhibit G1, Tab 1, Schedule 1 provides information on how the rates revenue requirements will be recovered through rates.

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 $31.6 million in 2013 and $31.8 million in 2014 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 6, Schedule 1 for a description of costing of work). An appropriate margin is added to cover, at a minimum, market level pricing 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 4, Schedule 6.

3.0 DESCRIPTION

Table 1
External Revenues ($ Millions)

$M	2009 Historic	2010 Historic	2011 Historic	2012 Bridge	2013 Test	2014 Test
Secondary Land Use	14.2	17.4	20.6	13.3	13.2	13.2
Station Maintenance	14.6	14.7	11.3	10.2	8.1	8.1
Engineering & Project Delivery	3.2	6.5	3.6	11.8	3.0	3.0
Other External Revenues	3.2	3.8	6.1	3.3	7.3	7.5
Totals	**35.2**	**42.4**	**41.6**	**38.6**	**31.6**	**31.8**

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, was granted the right under agreement to continue delivery of the program through March 31, 2010. As of April 1, 2010, the agreement was extended a further five (5) years until March 31, 2015. The arrangements set out in the agreement 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.

The Secondary Land Use Revenue levels are forecasted in 2013 and 2014 at approximately \$13.2 M each year. The 2011 revenue level was unusually elevated due to one-time events, such as the granting of easement rights to the Region of York and the City of Toronto, for trunk sewer lines, 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, Ontario Power Generation Inc. 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 2012 through to 2014, primarily due to the expected shift in resources to Hydro One Transmission's growing work programs.

3.3 Engineering and Project Delivery

Hydro One Transmission's Engineering & Project Delivery activities continue to focus on internal work supporting the growing transmission work program, while striving 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 of support to OPGI through the installation and removal of major power equipment, control cabling, maintenance of stations 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 2011 revenue of $3.6 million was realized. In 2012 the forecast of $11.8 million reflects the revenue metering project planned for Toronto Hydro. The forecast for 2013 is $3 million, and $3 million in 2014. The decreases are as a result of the lower activities related to revenue metering projects per the IESO requirements.

3.4 Other External Revenues

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

Table 2
Other External Revenues

	2009 Historic	2010 Historic	2011 Historic	2012 Bridge	2013 Test	2014 Test
Inergi Royalties	**1.0**	**.5**	**.4**	**.4**	**.4**	**.4**
Other Miscellaneous Revenues	**2.2**	**3.0**	**6.5**	**2.9**	**6.9**	**7.1**
Total	**3.2**	**3.5**	**6.9**	**3.3**	**7.3**	**7.5**

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

Other Miscellaneous Revenues of $6.9 million in 2013 and $7.1 million in 2014 represents those arising from telecommunications services to Ontario Hydro successor companies such as lease of fiber, revenues from special transmission planning studies, customer shortfall payments (e.g. true-ups, temporary bypass), and other miscellaneous external revenues. This includes a transfer price charge to Telecom and Remotes, see Exhibit C1, Tab 7, Schedule 3, page 3. In 2013 and 2014 forecasted revenues include $4 million each year for the lease of idle transmission lines.

HYDRO ONE NETWORKS INC.
TRANSMISSION
Calculation of Revenue Requirement
Year Ending December 31
($ Millions)

Line No.	Particulars	2013 (a)	2014 (b)
	Cost of Service		
1	Operating, maintenance & administrative	$ 451.8	$ 459.7
2	Depreciation & amortization	348.6	376.5
3	Capital taxes	0.0	0.0
4	Income taxes	42.7	50.9
5	Cost of service excluding return (Note 1)	$ 843.2	$ 887.1
6	Return on capital	616.2	664.8
7	AFUDC recovery on Niagara Reinforcement Project	4.9	4.8
8	Total revenue requirement	$ 1,464.3	$ 1,556.6

Note 1: Per Exhibit C2, Tab 1, Schedule 1