

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	453.3	459.7	C1, Tab 3, Schedule 1
Depreciation	346.7	374.7	C1, Tab 8, Schedule 1
Income Taxes	46.4	55.2	C1, Tab 9, Schedule 1
Cost of Capital ¹	618.1	668.1	B1, Tab 1, Schedule 1
Total Revenue Requirement	1,464.5	1,557.7	E2, Tab 1, Schedule 1

¹ Includes Interest Capitalized recovery on the Niagara Reinforcement Project (2013 - \$4.9 million and 2014 - \$4.8 million).

The resultant revenue requirement of \$1,464.5 million for 2013 and \$1,557.7 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:

1 **2.1 OM&A Expense**

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	(\$ 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		69.5	67.6	
Taxes Other Than Income Tax		71.5	72.3	
Total OM&A		453.3	459.7	

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5 **2.2 Depreciation Expense**

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	(\$ Millions)	2013	2014	
Depreciation		340.4	367.7	
Amortization		6.3	7.0	
Total Expense		346.7	374.7	

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9 **3.0 RATES REVENUE REQUIREMENT - COMPARISON OF YEAR 2012 TO**
10 **YEAR 2013**

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12 Table 2 compares, by element, the 2012 rates revenue requirement (as per EB-2011-
13 0268) against the 2013 proposed rates revenue requirement.

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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	453.3	26.2
2	Depreciation	332.8	346.7	13.9
3	Capital Taxes	0.0	0.0	0.0
4	Income Taxes	51.5	46.4	(5.1)
5	Cost of Capital ¹	607.1	618.1	11.0
	Total Revenue Requirement	1,418.4	1,464.5	46.1
6	Deduct External Revenues ²	(28.7)	(31.6)	(2.9)
	Revenue Requirement less External Revenues	1,389.7	1,432.8	43.1
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	11.7	0.3
	Rates Revenue Requirement	1,385.1	1,398.5	13.3

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¹ Includes recovery of Interest Capitalized 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.

10 There are a number of key operational and financial factors contributing to the increased
 11 rates revenue requirement that have an impact across the cost components in Table 2.
 12 The increase in total rates revenue requirement is largely attributable to the impact of rate
 13 base growth reflected in the increase in depreciation, which is partially offset by the
 14 impact of lower depreciation rates. Also contributing to the difference is an increase in
 15 OM&A work program requirements, lower return due to decreased interest rates, higher
 16 export credit, and the disposition (refund) of Regulatory Accounts.
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 18 Table 3 illustrates the value of the key impacts on the increase in the rates revenue
 19 requirement.

Table 3
Components of Change to Rates Revenue Requirement
2012¹ vs. 2013

Description	Amount (\$M)
Core Rate Base	66.7
Bruce to Milton (Rate Base)	26.6
Impact of new Depreciation Study	(33.2)
Change in OM&A ²	23.3
Change in return on equity	(9.8)
Change in cost of debt	(23.0)
Tax rate change and timing differences	(7.5)
Impact of other changes	(29.8)
<i>Regulatory Accounts Disposition³</i>	<i>(15.1)</i>
<i>Export Credit</i>	<i>(14.9)</i>
<i>Miscellaneous</i>	<i>0.3</i>
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.

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

Line no.	Description	Year 2013	Year 2014	Difference
1	OM&A	453.3	459.7	6.3
2	Depreciation	346.7	374.7	28.0
3	Income Taxes	46.4	55.2	8.9
4	Cost of Capital ¹	618.1	668.1	50.0
	Total Revenue Requirement	1,464.5	1,557.7	93.2
5	Deduct External Revenues ²	(31.6)	(31.8)	(0.2)
	Revenue Requirement less External Revenues	1,432.8	1,525.9	93.0
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	11.7	12.5	0.7
	Rates Revenue Requirement	1,398.5	1,493.1	94.6

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- ¹ Includes recovery of Interest Capitalized 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.

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

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

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Table 5
Components of Change to Rates Revenue Requirement:
2013 vs. 2014

Description	Amount (\$M)
Core Rate Base	79.9
Bruce to Milton (Rate Base)	2.1
Change in OM&A ¹	6.1
Change in return on equity	11.3
Change in cost of debt	(2.8)
Miscellaneous	(2.0)
Total change	94.6

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.

1 **3.0 DESCRIPTION**

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 3 **Table 1**
 4 **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

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 6 **3.1 Secondary Land Use**

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

19
 20 Under Bill 58 provisions and subsequently negotiated arrangements, all expiring corridor PSLUP
 21 agreements as of December 31, 2002, were transferred to the Province. Remaining unexpired
 22 corridor agreements and associated revenue streams are retained by Hydro One until such time as

1 these agreements expire. Upon expiration, the previously retained agreements and revenue
2 streams by Hydro One are then also transferred to the province under PSLUP.

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4 Notwithstanding this transfer, Hydro One Transmission has provided front-line delivery services
5 for the PSLUP on behalf of the Province since 2002 and, under arrangements made on April 1,
6 2005, was granted the right under agreement to continue delivery of the program through March
7 31, 2010. As of April 1, 2010, the agreement was extended a further five (5) years until March
8 31, 2015. The arrangements set out in the agreement include Hydro One Transmission's
9 retention of PSLUP revenues for unexpired agreements until their expiry, as well as a results-
10 based compensation model involving the sharing of revenues between Hydro One Transmission
11 and the Province for new PSLUP agreements and for renewals of expired agreements which
12 were previously transferred to the Province. Hydro One also manages a small portion of
13 secondary land use revenue that does not fall under current PSLUP arrangements.

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15 As a result, responsibility for the management and re-negotiation (as required) of all existing
16 secondary land use agreements (including those previously transferred to the Province under the
17 corridor land transfer arrangements) now rests with Hydro One Transmission. Hydro One
18 Transmission will continue promotion and negotiation of all new secondary land use business
19 opportunities, where these are consistent with Hydro One Transmission's short and longer-term
20 operational requirements.

21
22 The Secondary Land Use Revenue levels are forecasted in 2013 and 2014 at approximately
23 \$13.2 M each year. The 2011 revenue level was unusually elevated due to one-time events, such
24 as the granting of easement rights to the Region of York and the City of Toronto, for trunk sewer
25 lines, resulting in one-off lump sum payments during this timeframe.

1 **3.2 Station Maintenance**

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

12
13 Hydro One Transmission provides support to the external market place in areas which are related
14 to the Company's transmission business. This work is primarily tied to support Ontario's key
15 generation suppliers: Bruce Power LLP, Ontario Power Generation Inc. and Siemens
16 Westinghouse Inc. (in support of OPGI).

17
18 As can be seen in Table 1, this segment of external revenue is expected to decrease in 2012
19 through to 2014, primarily due to the expected shift in resources to Hydro One Transmission's
20 growing work programs.

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22 **3.3 Engineering and Project Delivery**

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24 Hydro One Transmission's Engineering & Project Delivery activities continue to focus on
25 internal work supporting the growing transmission work program, while striving to reduce
26 external work to a minimal level. This segment of external revenue is derived from the
27 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.

1 3.4.2 Other Miscellaneous Revenues

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3 Other Miscellaneous Revenues of \$6.9 million in 2013 and \$7.1 million in 2014 represents those
4 arising from telecommunications services to Ontario Hydro successor companies such as lease of
5 fiber, revenues from special transmission planning studies, customer shortfall payments (e.g.
6 true-ups, temporary bypass), and other miscellaneous external revenues. This includes a transfer
7 price charge to Telecom and Remotes, see Exhibit C1, Tab 7, Schedule 3, page 3. In 2013 and
8 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	\$ 453.3	\$ 459.7
2	Depreciation & amortization	346.7	374.7
3	Capital taxes	0.0	0.0
4	Income taxes	46.4	55.2
5	Cost of service excluding return (Note 1)	<u>\$ 846.4</u>	<u>\$ 889.6</u>
6	Return on capital	613.2	663.3
7	Interest Capitalized recovery on Niagara Reinforcement Project	4.9	4.8
8	Total revenue requirement	<u><u>\$ 1,464.5</u></u>	<u><u>\$ 1,557.7</u></u>

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