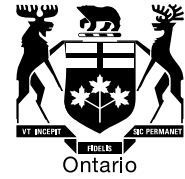


Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

November 5, 2009

Ms Anne-Marie Reilly
Regulatory Co-ordinator
Hydro One Networks Inc.
8th Floor, South Tower
483 Bay Street
Toronto ON M5G 2P5

Dear Ms. Reilly,

**RE: Hydro One Networks Inc. Transmission Revenue Requirement
Supplemental Evidence EB-2008-0272**

**Cost of Capital Parameter Updates for Hydro One Networks' 2010
Transmission Revenue Requirement Application**

The Ontario Energy Board (the "Board") has determined the values for the Return on Equity ("ROE") and the deemed Short-Term debt rate for use in the Hydro One Network Inc.'s 2010 Transmission Revenue Requirement application.

On December 20, 2006, following the consultative process conducted under Board Files EB-2006-0087/0088, the Board issued the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report"). The Board Report documents the methodologies and formulae used to determine the Cost of Capital parameters: the Return on Equity ("ROE") and the deemed Long-Term and Short-Term debt rates (collectively, the "Cost of Capital parameters").

The methodologies documented in the Board Report stated that the updated parameters will be derived from *Consensus Forecasts* and Bank of Canada/Statistics Canada three (3) months ahead of the implementation date for the proposed rates. Therefore, the September 2009 data will be used to establish the Cost of Capital parameters used for setting new distribution rates to be effective January 1, 2010.

The Board has applied the methodologies as documented in the Board Report to update the Cost of Capital parameters, in accordance with the Board's Decision in Hydro One Network's 2009 Transmission Cost of Service application (EB-2008-0272). In that Decision, the Board panel stated, at page 52:

For 2010, the Board agrees with Hydro One that September 2009 data should be used to update the cost of capital parameters. The 2010 year is a separate test year in Hydro One's application; it is not part of an IRM period. It is therefore appropriate to update the cost of short-term debt and return on equity. The Board will issue a letter to Hydro One setting out Hydro One's 2010 cost of capital parameters in due course. The Board expects that this will be treated as a mechanistic update.

In view of the fact that Hydro One Network's weighted average cost of debt relies on its embedded or actual cost of debt, the deemed long-term debt rate is not being updated at this time.

The Board has determined the values for the updated Cost of Capital parameters, shown in the following table:

Parameter	Value for 2010 Hydro One Networks Inc. Transmission Revenue Requirement Application (assuming January 1, 2010 implementation date for rate changes)
Return on Equity	8.39%
Long-Term Debt Rate	N/A
Short-Term Debt Rate	0.55%

These values will be used in the Board decisions regarding approval of rates for Hydro One Networks Inc.'s transmission rate application, assuming a January 1, 2010 effective date. A summary of the calculation of the ROE is provided in Appendix A.

All queries on the cost of capital parameters should be directed to the Board's Market Operations hotline, at 416-440-7604 or market.operations@oeb.gov.on.ca.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Attachment

- c. Mr. D.H. Rogers, counsel,
Intervenors on Record

Appendix A

Summary of Return on Equity Calculation For Hydro One Network's 2010 Transmission Revenue Requirement Application, assuming rates are effective January 1, 2010

Step		
1	Ten Year Government of Canada Bond Yield – end of December 2009 (<i>Consensus Forecasts</i> , September 14, 2009)	3.5%
	Ten Year Government of Canada Bond Yield – end of September 2010 (<i>Consensus Forecasts</i> , September 14, 2009)	3.9%
	Average of three- and twelve-month forecasts	3.7%
2	Add the average spread between 30-year and 10-year Government of Canada bonds for all business days in September 2009 as posted by the Bank of Canada	0.524%
3	Equals the forecasted yield on Long-term Government of Canada Bonds	4.224%

Per the mathematical formula documented in Appendix B of the Board Report:

4.	Updated ROE calculated as: $9.35\% + (0.75 \times (4.224\% - 5.50\%))$	8.393%
5.	Maximum allowed ROE (rounded to two decimal places)	8.39%