

**UNDERTAKING**

**Undertaking**

TO ADVISE WHETHER HYDRO ONE CONSIDERED OTHER COST REDUCTIONS WHEN THE COST OF CAPITAL ROSE

**Response**

Hydro One has not considered any mitigation measures directly arising from the Cost of Capital Report alone. The Cost of Capital, in particular the return on equity, has typically changed during a cost of service review from the level originally proposed to the amount finally ordered by the Board. There has never been a direction to mitigate this impact. When the ROE was lowered we were not ordered to increase the OM&A to maintain the revenue requirement.

The OEB's December 11, 2009 report on the Cost of Capital (EB-2009-0084) established that the cost of capital applicable to LDCs (including Hydro One) must meet the 'Fair Return Standard'. Further it states that 'meeting the standard is not optional it is a legal requirement' (page i of the OEB's report). As a result of their deliberations the OEB have reset the 2010 ROE at 9.75% and outlined a new formula for adjusting the ROE on a going forward basis. The Board's decision has established the commercial expectation for ROE.

The Cost of Capital is a true cost for Hydro One. Application of the appropriate cost of capital is key to maintaining Hydro One's credit rating which allows it to access funds on a long – term basis at reasonable rates. As noted in the Memorandum of Understanding between the Government of Ontario and Hydro One (filed in response to Transcript Undertaking J4.5) Section E; Hydro One is "an OBCA (*Ontario Business Corporate Act*) corporation and a reporting issuer with a commercial mandate". Given this direction from our shareholder Hydro One feels it is not only appropriate but necessary for it to implement the OEB's direction on the appropriate return and cost of capital.

In addition, Hydro One submits that the work program that has been put forward is the appropriate level of work that has already been rigorously prioritized and has considered mitigation (such as deferral of work). There are no further changes to the work programs that Hydro One Recommends.