

COST OF CAPITAL

1.0 INTRODUCTION

The purpose of this evidence is to summarize the method and cost of financing Hydro One Transmission's capital requirements for the 2013 and 2014 test years.

2.0 CAPITAL STRUCTURE

Hydro One Transmission's deemed capital structure for rate making purposes is 60% debt and 40% common equity. This capital structure was approved by the Board as part of its December 23, 2010 Decision on Hydro One's Transmission Rate Application (EB-2010-0002). This is consistent with the Board's report on the cost of capital: see the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009 (EB-2009-0084). The 60% debt component is comprised of 4% deemed short term debt and 56% long term debt.

3.0 RETURN ON COMMON EQUITY

Hydro One Transmission's evidence reflects a return of 9.16% for the test year 2013 and 9.44% for the test year 2014. This is based on the Board's formulaic approach in the Report of the Board (EB-2009-0084). For 2013 the return on equity calculation is based on the February 2012 Consensus Forecast (12 month out), as well as Bank of Canada data and the change in the spread of A-rated Utility Bond Yields during February. For 2014 the return on equity calculation is based on the February 2012 Global Insight Forecast, as well as Bank of Canada data and the change in the spread of A-rated Utility Bond Yields during February. Hydro One assumes that the return on equity for each test year will be updated in accordance with the December 11, 2009 Cost of Capital Report, upon the final

1 decision in this case. For rates effective January 1, 2013, the Board would determine the
2 ROE for Hydro One Transmission based on the September 2012 Consensus Forecasts
3 and Bank of Canada data which would be available in October 2012 and the change in
4 the spread of the A-rated Utility Bond Yield which would be available from Bloomberg
5 LP. For rates effective January 1, 2014, the Board would determine the ROE based upon
6 the September 2013 Consensus Forecasts and Bank of Canada data which would be
7 available in October 2013 and the change in the spread of the A-rated Utility Bond Yield
8 which would be available from Bloomberg LP.

10 **4.0 DEEMED SHORT-TERM DEBT**

11
12 The Board has determined that the deemed amount of short-term debt that should be
13 factored into rate setting be fixed at 4% of rate base. The Board has indicated in
14 Appendix D of the December 11, 2009 Cost of Capital Report that, once a year, in
15 January, Board staff will obtain real market quotes from major banks, for issuing spreads
16 over Bankers Acceptance rates to calculate an average spread. The short term rate will be
17 calculated as the average Bankers' Acceptance for the 3 months in advance of the
18 effective date for the rates, plus the average spread obtained as described above. Variable
19 rate debt which pays interest based on the bankers' acceptance rate, has been included as
20 part of the deemed short term debt amount of 4%. For Hydro One Transmission the
21 deemed short-term rate is 2.01% for 2013 using the February 2012 Global Insight
22 Forecast plus a spread of 91 bps, which is based on the spread contained in the Cost of
23 Capital Parameter Updates for 2012 Cost of Service Applications for Rates Effective
24 January 1, 2012, dated November 10, 2011. The deemed short term rate is 2.98% for
25 2014 using the February 2012 Global Insight forecast plus a spread of 91 bps.

26
27 Hydro One assumes that the deemed short term debt rate for each test year will be
28 updated in accordance with the December 11, 2009 Cost of Capital Report, upon the final

1 decision in this case. Specifically, for rates effective January 1, 2013, the Board would
2 determine the deemed short term debt rate for Hydro One Transmission based on the
3 September 2012 Bank of Canada data which would be available in October 2012 plus the
4 average spread obtained by Board Staff in 2012. For rates effective January 1, 2014, the
5 Board would determine the deemed short term debt rate based upon the September 2013
6 Bank of Canada data which would be available in October 2013 plus the average spread
7 obtained by Board staff in 2013.

8

9 **5.0 LONG-TERM DEBT**

10

11 The Board has determined that the deemed amount of long-term debt that should be
12 factored into rate setting be fixed at 56% of rate base. The long term debt rate is
13 calculated to be 4.95% for 2013 and 4.83% for 2014. The long term debt rate is
14 calculated as the weighted average rate on embedded debt, new debt and forecast debt
15 planned to be issued in 2012, 2013 and 2014 as discussed in Exhibit B1, Tab 2, Schedule
16 1. Details of Hydro One Transmission's long term debt rate calculation for the 2013 and
17 2014 test years are identified at Exhibit B2, Tab 1, Schedule 2, pages 5 and 6. A detailed
18 discussion of Hydro One Transmission's debt and forecast interest rate is provided at
19 Exhibit B1, Tab 2, Schedule 1. As discussed in this exhibit, forecast interest rates will be
20 updated consistent with the methodology used for the return on common equity and
21 deemed short term interest rate. In addition Hydro One assumes that long term debt rate
22 will be updated to reflect and take into account the actual issuances of debt since the time
23 of original application consistent with the OEB Decision EB-2010-0002/EB2011-0268
24 and changes in the interest rate forecast. Historical long-term debt cost information is
25 filed at Exhibit B2, Tab 1, Schedule 2, pages 1 to 3.

26

27 As Hydro One Transmission has a market determined cost of debt, the weighted average
28 long term debt rate is also applied to any notional debt that is required to match the actual

1 amount of long term debt to the deemed amount of long term debt. This is consistent
 2 with the treatment in Hydro One's Transmission Rate Application for 2011 and 2012
 3 (EB-2010-0002/EB-2011-0268).

4

5 **6.0 COST OF CAPITAL SUMMARY**

6

7 Hydro One Transmission's 2013 rate base is \$9,460.0 million which results in an after-
 8 tax required return of 6.51%. The 2014 rate base is \$10,073.5 million, which results in an
 9 after-tax required return of 6.60%, as shown in Table 1, below:

10

11

12

Table 1
2013 and 2014 Cost of Capital

Amount of Deemed	2013				2014			
	(\$M)	%	Cost Rate (%)	Return (\$M)	(\$M)	%	Cost Rate (%)	Return (\$M)
Long-term debt	5,297.6	56.0%	4.95%	262.0	5,641.2	56.0%	4.83%	272.4
Short-term debt	378.4	4.0%	2.01%	7.6	402.9	4.0%	2.98%	12.0
Common equity	3,784.0	40.0%	9.16%	346.6	4,029.4	40.0%	9.44%	380.4
Total	9,460.0	100.0%	6.51%	616.2	10,073.5	100.0%	6.60%	664.8

13

14 Historical, bridge and test year debt and equity summary schedules have been provided at
 15 Exhibit B2, Tab 1, Schedule 1.

1 **COST OF THIRD PARTY LONG-TERM DEBT**

2
3 **1.0 HYDRO ONE TRANSMISSION LONG-TERM DEBT**

4
5 The debt portfolio for Hydro One Transmission, as set out in Exhibit B2, Tab 1, Schedule
6 2, is based on debt issued by Hydro One Networks Inc. to Hydro One Inc., of which the
7 Transmission business is mapped a portion. Hydro One Networks Inc. issues debt to
8 Hydro One Inc., reflecting debt issues by Hydro One Inc. to third party public debt
9 investors.

10
11 Third party public debt investors hold all of the long term debt issued by Hydro One Inc.
12 Hydro One Inc.'s debt financing strategy takes into consideration the objectives of cost
13 effectiveness, distributing debt maturities evenly over time, and ensuring the term of the
14 debt portfolio is compatible with the long life of the Company's assets.

15
16 Hydro One Inc. has a Medium Term Note ("MTN") Program that provides ready access
17 to issue debt with a term greater than one year into the Canadian debt capital markets.
18 The standard maturity terms in the area of five, ten and thirty years are preferred by
19 investors and represent the main financing which Hydro One Inc. utilizes to execute its
20 financing strategy and raise the required funds. The short form base shelf prospectus for
21 the current \$3.0 billion MTN Program is provided in Exhibit A, Tab 11, Schedule 2.
22 Hydro One Inc. also maintains \$1.5 billion in liquidity facilities which would be drawn in
23 the event it cannot access the long term debt markets for financing.

24
25 **2.0 CREDIT RATINGS**

26
27 As Hydro One Inc. issues medium term notes in the Canadian public debt markets, credit
28 ratings are a requirement. The credit ratings of Hydro One Inc.'s debt obligations by

1 Dominion Bond Rating Service, Moody's Investors Service and Standard & Poor's
2 Rating Services are as follows:

3

4

5

Table 1
Credit Ratings for Hydro One Inc.

Rating Agency	Short-term Debt	Debt
Standard & Poor's Rating Services (S&P)	A-1	A+
Dominion Bond Rating Service (DBRS)	R-1(middle)	A(high)
Moody's Investors Service (Moody's)	Prime-1	Aa3

6

7 The most recent rating agency reports are provided in Exhibit A, Tab 11, Schedule 1.

8

9 **3.0 COST OF LONG-TERM DEBT**

10

11 The long term debt rate is calculated as the weighted average rate on embedded debt, new
12 debt and forecast debt planned to be issued in 2012, 2013 and 2014. The weighted
13 average rate on long term debt rate is 4.95% for 2013 and 4.83% for 2014. Details of
14 Hydro One Transmission's long term debt rate calculation for the 2012 bridge year and
15 2013 and 2014 test years are identified at Exhibit B2, Tab 1, Schedule 2, pages 4 to 6.

16

17 The amount of each Hydro One Networks Inc. debt issue that is mapped to the
18 Transmission business is based on its most recent forecast of borrowing requirements.
19 Borrowing requirements are driven mainly by debt retirement, capital expenditures net of
20 internally generated funds, and the maintenance of its capital structure. For example, in
21 December 2011, Hydro One Inc. issued \$100 million of forty-year notes with a coupon
22 rate of 4.00%, of which \$70 million was mapped to Hydro One Transmission as shown
23 on line 30 of Exhibit B2, Tab 1, Schedule 2, page 3. The interest rates of debt issues
24 mapped to the Transmission business, as shown in Exhibit B2, Tab 1, Schedule 2, are

1 equal to the actual interest rates on debt issued by Hydro One Networks Inc. to Hydro
2 One Inc., and by Hydro One Inc. to third party public debt investors.

3
4 **3.1 Embedded Debt**

5
6 The Board has determined in its December 11, 2009 Cost of Capital Report that for
7 embedded debt, the rate approved in prior Board decisions shall be maintained for the life
8 of each active instrument, unless a new rate is negotiated, in which case it will be treated
9 as new debt. Hydro One Transmission's embedded long term debt, which was issued
10 during the period from 2000 to 2011, is shown on lines 1 to 27 of Exhibit B2, Tab 1,
11 Schedule 2, page 4. The rates on these embedded debt issues were approved by the
12 Board as part of the Board's Decision in EB-2011-0268.

13
14 **3.2 New Debt**

15
16 The Board has determined in its Cost of Capital Report that the rate for new debt that is
17 held by a third party will be the prudently negotiated contract rate. This would include
18 recognition of premiums and discounts. The following discusses new debt issued during
19 2011 and 2012, which are shown on lines 28 and 29 of Exhibit B2, Tab 1, Schedule 2,
20 page 4.

21
22 In December of 2011, Hydro One Inc. issued \$100 million of notes, of which \$70 million
23 was mapped to Hydro One Transmission, as shown on line 28 of Exhibit B2, Tab 1,
24 Schedule 2, page 4.

25
26 In January of 2012, Hydro One Inc. issued \$300 million of notes, of which \$154 million
27 was mapped to Hydro One Transmission, as shown on line 29 of Exhibit B2, Tab 1,
28 Schedule 2, page 4.

3.3 Forecast Debt

Hydro One Transmission's forecast borrowing requirements are \$686 million remaining for 2012, \$927 million for 2013 and \$870 million for 2014. For planning purposes it is assumed that debt issuance will be evenly distributed over the standard terms in the area of five, ten and thirty years, which are preferred by investors, while limiting total annual maturities for Hydro One Inc. to \$600 million to avoid undue refinancing risk.

Table 2 lists the fixed rate MTN's which Hydro One Networks Inc. plans to issue in 2012, and will be mapped to the Transmission business, as shown on lines 30 to 32 of Exhibit B2, Tab 1, Schedule 2, page 4.

**Table 2
 Forecast Debt Issues for remainder of 2012**

2012		
Principal Amount (\$Millions)	Term (Years)	Coupon
225.0	5	2.29%
230.3	10	3.16%
230.3	30	4.04%

Table 3 lists the fixed rate MTN's which Hydro One Networks Inc. plans to issue in 2013, and 2014 will be mapped to the Transmission business, as shown on lines 30 to 35 of Exhibit B2, Tab 1, Schedule 2, page 6.

**Table 3
 Forecast Debt Issues for 2013 and 2014**

2013			2014		
Principal Amount (\$Millions)	Term (Years)	Coupon	Principal Amount (\$Millions)	Term (Years)	Coupon
150.0	5	2.69%	289.8	5	3.25%
388.4	10	3.56%	289.8	10	4.12%
388.4	30	4.44%	289.8	30	5.00%

3.4 Interest Rates for 2012, 2013 and 2014 Forecast Debt Issues

Transmission business borrowing will be financed at market rates applicable to Hydro One Inc. Table 4 summarizes the derivation of the forecast Hydro One Inc. yield for each of the planned issuance terms for 2012, 2013 and 2014.

**Table 4
 Forecast Yield for 2012-2014 Issuance Terms**

	2012		
	5-year	10-year	30-year
Government of Canada	1.48%	2.10%	2.69%
Hydro One Spread	0.81%	1.06%	1.35%
Forecast Hydro One Yield	2.29%	3.16%	4.04%
	2013		
	5-year	10-year	30-year
Government of Canada	1.88%	2.50%	3.09%
Hydro One Spread	0.81%	1.06%	1.35%
Forecast Hydro One Yield	2.69%	3.56%	4.44%
	2014		
	5-year	10-year	30-year
Government of Canada	2.44%	3.06%	3.65%
Hydro One Spread	0.81%	1.06%	1.35%
Forecast Hydro One Yield	3.25%	4.12%	5.00%

Each rate is comprised of the forecast Canada bond yield plus the Hydro One Inc. credit spread applicable to that term. The ten year Government of Canada bond yield forecast for 2012 is based on the three month out forecast from February 2012 Consensus Forecasts, and for 2013 is based on the twelve month out forecast from February 2012 Consensus Forecasts. The ten year Government of Canada bond yield forecast for 2014 is based on February 2012 Global Insight Forecast. The five and thirty year Government of Canada bond yield forecasts are derived by adding the February 2012 actual average spreads (five to ten year for the five year forecast and thirty to ten year for the thirty year

1 forecast) to the ten year Government of Canada bond yield forecast. Hydro One's credit
2 spreads over the Government of Canada bonds are based on the average of indicative new
3 issue spreads for February 2012 obtained from the Company's MTN dealer group for
4 each planned issuance term.

5
6 Hydro One assumes that forecast debt issuance interest rates for each test year will be
7 updated consistent with the ROE methodology, upon the final decision in this case. For
8 rates effective January 1, 2013, the forecast interest rate for Hydro One Transmission
9 debt issues will be based on the September 2012 Consensus Forecasts and the average of
10 indicative new issue spreads for September 2012 which will be obtained from the
11 Company's MTN dealer group for each planned issuance term. For rates effective
12 January 1, 2014, the forecast interest rate for Hydro One Transmission debt issues will be
13 based on the September 2013 Consensus Forecasts and the average of indicative new
14 issue spreads for September 2013 which will be obtained from the Company's MTN
15 dealer group for each planned issuance term. In addition Hydro One assumes that long
16 term debt rate will be updated to reflect and take into account the actual issuances of debt
17 since the time of original application consistent with the OEB's Decision in EB-2010-
18 0002 and changes in the interest rate forecast.

19 20 **3.5 Treasury OM&A Costs**

21
22 Treasury OM&A costs are incurred to:

- 23
- 24 • execute borrowing plans and issue commercial paper and long term debt;
 - 25 • ensure compliance with securities regulations, bank and debt covenants;
 - 26 • manage the company's daily liquidity position, control cash and manage the
27 company's bank accounts;
 - 28 • settle all transactions and manage the relationship with creditors; and

- 1 • communicate with debt investors, banks and credit rating agencies.

2
3 These costs are \$1.6 million for 2013 and \$1.7 million for 2014 as shown on line 36, page
4 5 and line 37, page 6 of Exhibit B2, Tab 1, Schedule 2.

5
6 **3.6 Other Financing-Related Fees**

7
8 Column (e) of Exhibit B2, Tab 1, Schedule 2 ("Premium, Discount and Expenses")
9 represents the costs of issuing debt. These costs are specific to each debt issue and
10 include commissions, legal fees, debt discounts or premiums on issues or re-openings of
11 issues relative to par, and hedge gains or losses.

12
13 Other financing related fees, \$3.6 million in 2013 and \$3.3 million 2014, identified on
14 line 37 page 5 and line 38 page 6 of Exhibit B2, Tab 1, Schedule 2, include the
15 Transmission allocation of Hydro One Inc.'s standby credit facility, annual credit rating
16 agency, banking, custodial and trustee fees.

HYDRO ONE NETWORKS INC.
TRANSMISSION
Debt and Equity Summary
Historical Years (2009, 2010, 2011) and Bridge Year (2012)
As at December 31
(\$ Millions)

Line No.	Particulars	Amount Outstanding 2009	Amount Outstanding 2010	Amount Outstanding 2011	Amount Outstanding 2012
		Actual (a)	Actual (b)	Actual (c)	Projection (d)
1	Long-term debt *	4,031.5	4,228.1	4,179.1	4,742.7
2	Short-term debt	220.7	385.6	661.4	579.6
3	Preference shares	239.0	239.0	239.0	239.0
4	Common equity	3,033.0	3,343.3	3,583.8	3,737.9

* Includes debt payable within one year; excludes variable rate debt, unamortized debt premiums/discount, hedging gain market

HYDRO ONE NETWORKS INC.
TRANSMISSION
Debt and Equity Summary
Test Years (2013 and 2014)
Utility Capital Structure
Year Ending December 31

Line No.	Particulars	2013				2014			
		(\$M)	%	Cost Rate (%)	Return (\$M)	(\$M)	%	Cost Rate (%)	Return (\$M)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	Long-term debt	5,389.8	57.0%	4.95%	266.5	5,890.8	58.5%	4.83%	284.4
2	Short-term debt	378.4	4.0%	2.01%	7.6	402.9	4.0%	2.98%	12.0
3	Deemed long-term debt	(92.2)	(1.0%)	4.95%	(4.6)	(249.6)	(2.5%)	4.83%	(12.1)
4	Total debt	5,676.0	60.0%	4.75%	269.6	6,044.1	60.0%	4.71%	284.4
5	Common equity	3,784.0	40.0%	9.16%	346.6	4,029.4	40.0%	9.44%	380.4
6	Total rate base	<u>9,460.0</u>	<u>100.0%</u>	<u>6.51%</u>	<u>616.2</u>	<u>10,073.5</u>	<u>100.0%</u>	<u>6.60%</u>	<u>664.8</u>

HYDRO ONE NETWORKS INC.
TRANSMISSION
Cost of Long-Term Debt Capital
Historical Year (2009)
Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates
						Total Amount (\$Millions)	Per \$100 Principal Amount (Dollars)		at 12/31/08 (\$Millions)	at 12/31/09 (\$Millions)			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	
1	3-Jun-00	7.150%	3-Jun-10	278.4	3.6	274.8	98.70	7.34%	278.4	278.4	278.4	20.4	
2	3-Jun-00	7.350%	3-Jun-30	278.4	4.5	273.9	98.37	7.49%	278.4	278.4	278.4	20.8	
3	22-Jun-01	6.400%	1-Dec-11	174.0	(0.5)	174.5	100.28	6.36%	174.0	174.0	174.0	11.1	
4	22-Jun-01	6.930%	1-Jun-32	109.3	1.0	108.2	99.05	7.01%	109.3	109.3	109.3	7.7	
5	17-Sep-02	5.770%	15-Nov-12	87.0	0.4	86.6	99.55	5.83%	87.0	87.0	87.0	5.1	
6	17-Sep-02	6.930%	1-Jun-32	58.0	(2.2)	60.2	103.71	6.64%	58.0	58.0	58.0	3.9	
7	31-Jan-03	5.770%	15-Nov-12	189.0	(0.9)	189.9	100.48	5.70%	189.0	189.0	189.0	10.8	
8	31-Jan-03	6.350%	31-Jan-34	126.0	1.0	125.0	99.21	6.41%	126.0	126.0	126.0	8.1	
9	22-Apr-03	6.590%	22-Apr-43	145.0	1.1	143.9	99.26	6.64%	145.0	145.0	145.0	9.6	
10	24-Feb-04	3.950%	24-Feb-09	162.5	0.7	161.8	99.55	4.05%	162.5	0.0	25.0	1.0	
11	25-Jun-04	6.350%	31-Jan-34	72.0	(0.2)	72.2	100.22	6.33%	72.0	72.0	72.0	4.6	
12	20-Aug-04	6.590%	22-Apr-43	39.0	(3.1)	42.1	107.89	6.06%	39.0	39.0	39.0	2.4	
13	24-Aug-04	6.350%	31-Jan-34	39.0	(1.4)	40.4	103.48	6.09%	39.0	39.0	39.0	2.4	
14	19-May-05	5.360%	20-May-36	228.9	8.2	220.7	96.44	5.60%	228.9	228.9	228.9	12.8	
15	19-May-05	3.950%	24-Feb-09	105.0	(0.9)	105.9	100.90	3.69%	105.0	0.0	16.2	0.6	
16	3-Mar-06	4.640%	3-Mar-16	210.0	1.0	209.0	99.52	4.70%	210.0	210.0	210.0	9.9	
17	24-Apr-06	5.360%	20-May-36	187.5	2.5	185.0	98.68	5.45%	187.5	187.5	187.5	10.2	
18	22-Aug-06	4.640%	3-Mar-16	60.0	0.8	59.2	98.75	4.80%	60.0	60.0	60.0	2.9	
19	19-Oct-06	5.000%	19-Oct-46	30.0	0.2	29.8	99.29	5.04%	30.0	30.0	30.0	1.5	
20	13-Mar-07	4.890%	13-Mar-37	240.0	1.3	238.7	99.45	4.93%	240.0	240.0	240.0	11.8	
21	18-Oct-07	5.180%	18-Oct-17	225.0	0.8	224.2	99.66	5.22%	225.0	225.0	225.0	11.8	
22	3-Mar-08	5.180%	18-Oct-17	180.0	(3.1)	183.1	101.73	4.95%	180.0	180.0	138.5	6.9	
23	10-Nov-08	5.000%	12-Nov-13	240.0	1.1	238.9	99.53	5.11%	240.0	240.0	240.0	12.3	
24	19-Nov-08	3.890%	19-Nov-10	60.0	0.1	59.9	99.78	4.01%	60.0	60.0	60.0	2.4	
25	13-Jan-09	3.890%	19-Nov-10	65.0	(0.4)	65.4	100.67	3.51%	0.0	65.0	60.0	2.1	
30		Subtotal							<u>3524.0</u>	<u>4031.5</u>	<u>3709.9</u>	<u>213.4</u>	
31		Treasury OM&A costs										1.2	
32		Other financing-related fees										1.2	
33		Total							<u>3524.0</u>	<u>4031.5</u>	<u>3709.9</u>	<u>215.7</u>	<u>5.81%</u>

HYDRO ONE NETWORKS INC.
TRANSMISSION
Cost of Long-Term Debt Capital
Historical Year (2010)
Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates
						Total Amount (\$Millions)	Per \$100 Principal Amount (Dollars)		at 12/31/09 (\$Millions)	at 12/31/10 (\$Millions)			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	
1	3-Jun-00	7.150%	3-Jun-10	278.4	3.6	274.8	98.70	7.34%	278.4	0.0	128.5	9.4	
2	3-Jun-00	7.350%	3-Jun-30	278.4	4.5	273.9	98.37	7.49%	278.4	278.4	278.4	20.8	
3	22-Jun-01	6.400%	1-Dec-11	174.0	(0.5)	174.5	100.28	6.36%	174.0	174.0	174.0	11.1	
4	22-Jun-01	6.930%	1-Jun-32	109.3	1.0	108.2	99.05	7.01%	109.3	109.3	109.3	7.7	
5	17-Sep-02	5.770%	15-Nov-12	87.0	0.4	86.6	99.55	5.83%	87.0	87.0	87.0	5.1	
6	17-Sep-02	6.930%	1-Jun-32	58.0	(2.2)	60.2	103.71	6.64%	58.0	58.0	58.0	3.9	
7	31-Jan-03	5.770%	15-Nov-12	189.0	(0.9)	189.9	100.48	5.70%	189.0	189.0	189.0	10.8	
8	31-Jan-03	6.350%	31-Jan-34	126.0	1.0	125.0	99.21	6.41%	126.0	126.0	126.0	8.1	
9	22-Apr-03	6.590%	22-Apr-43	145.0	1.1	143.9	99.26	6.64%	145.0	145.0	145.0	9.6	
10	25-Jun-04	6.350%	31-Jan-34	72.0	(0.2)	72.2	100.22	6.33%	72.0	72.0	72.0	4.6	
11	20-Aug-04	6.590%	22-Apr-43	39.0	(3.1)	42.1	107.89	6.06%	39.0	39.0	39.0	2.4	
12	24-Aug-04	6.350%	31-Jan-34	39.0	(1.4)	40.4	103.48	6.09%	39.0	39.0	39.0	2.4	
13	19-May-05	5.360%	20-May-36	228.9	8.2	220.7	96.44	5.60%	228.9	228.9	228.9	12.8	
14	3-Mar-06	4.640%	3-Mar-16	210.0	1.0	209.0	99.52	4.70%	210.0	210.0	210.0	9.9	
15	24-Apr-06	5.360%	20-May-36	187.5	2.5	185.0	98.68	5.45%	187.5	187.5	187.5	10.2	
16	22-Aug-06	4.640%	3-Mar-16	60.0	0.8	59.2	98.75	4.80%	60.0	60.0	60.0	2.9	
17	19-Oct-06	5.000%	19-Oct-46	30.0	0.2	29.8	99.29	5.04%	30.0	30.0	30.0	1.5	
18	13-Mar-07	4.890%	13-Mar-37	240.0	1.3	238.7	99.45	4.93%	240.0	240.0	240.0	11.8	
19	18-Oct-07	5.180%	18-Oct-17	225.0	0.8	224.2	99.66	5.22%	225.0	225.0	225.0	11.8	
20	3-Mar-08	5.180%	18-Oct-17	180.0	(3.1)	183.1	101.74	4.95%	180.0	180.0	138.5	6.9	
21	10-Nov-08	5.000%	12-Nov-13	240.0	1.1	238.9	99.53	5.11%	240.0	240.0	240.0	12.3	
22	19-Nov-08	3.890%	19-Nov-10	60.0	0.1	59.9	99.81	3.99%	60.0	0.0	50.8	2.0	
23	13-Jan-09	3.890%	19-Nov-10	65.0	(0.4)	65.4	100.67	3.51%	65.0	0.0	55.0	1.9	
24	14-Jan-09	5.000%	12-Nov-13	130.0	(3.7)	133.7	102.87	4.33%	130.0	130.0	130.0	5.6	
25	3-Mar-09	6.030%	3-Mar-39	195.0	1.1	193.9	99.43	6.07%	195.0	195.0	195.0	11.8	
30	13-Sep-10	2.950%	11-Sep-15	150.0	0.5	149.5	99.64	3.03%	0.0	150.0	46.2	1.4	
31	13-Sep-10	5.000%	19-Oct-46	150.0	(0.4)	150.4	100.27	4.98%	0.0	150.0	46.2	2.3	
32	Subtotal								4031.5	4228.1	4143.9	229.3	
33	Treasury OM&A costs											1.2	
34	Other financing-related fees											5.1	
35	Total								<u>4031.5</u>	<u>4228.1</u>	<u>4143.9</u>	<u>235.6</u>	<u>5.68%</u>

HYDRO ONE NETWORKS INC.
TRANSMISSION
Cost of Long-Term Debt Capital
Historical Year (2011)
Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates	
						Total Amount (\$Millions)	Per \$100 Principal Amount (Dollars)		at 12/31/10 (\$Millions)	at 12/31/11 (\$Millions)				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)		
1	3-Jun-00	7.150%	3-Jun-30	278.4	4.5	273.9	98.37	7.49%	278.4	278.4	278.4	20.8		
2	22-Jun-01	6.400%	1-Dec-11	174.0	(0.5)	174.5	100.28	6.36%	174.0	160.6	148.3	9.4		
3	22-Jun-01	6.930%	1-Jun-32	109.3	1.0	108.2	99.05	7.01%	109.3	109.3	109.3	7.7		
4	17-Sep-02	5.770%	15-Nov-12	87.0	0.4	86.6	99.55	5.83%	87.0	87.0	87.0	5.1		
5	17-Sep-02	6.930%	1-Jun-32	58.0	(2.2)	60.2	103.71	6.64%	58.0	58.0	58.0	3.9		
6	31-Jan-03	5.770%	15-Nov-12	189.0	(0.9)	189.9	100.48	5.70%	189.0	189.0	189.0	10.8		
7	31-Jan-03	6.350%	31-Jan-34	126.0	1.0	125.0	99.21	6.41%	126.0	126.0	126.0	8.1		
8	22-Apr-03	6.590%	22-Apr-43	145.0	1.1	143.9	99.26	6.64%	145.0	145.0	145.0	9.6		
9	25-Jun-04	6.350%	31-Jan-34	72.0	(0.2)	72.2	100.22	6.33%	72.0	72.0	72.0	4.6		
10	20-Aug-04	6.590%	22-Apr-43	39.0	(3.1)	42.1	107.89	6.06%	39.0	39.0	39.0	2.4		
11	24-Aug-04	6.350%	31-Jan-34	39.0	(1.4)	40.4	103.48	6.09%	39.0	39.0	39.0	2.4		
12	19-May-05	5.360%	20-May-36	228.9	8.2	220.7	96.44	5.60%	228.9	228.9	228.9	12.8		
13	3-Mar-06	4.640%	3-Mar-16	210.0	1.0	209.0	99.52	4.70%	210.0	210.0	210.0	9.9		
14	24-Apr-06	5.360%	20-May-36	187.5	2.5	185.0	98.68	5.45%	187.5	187.5	187.5	10.2		
15	22-Aug-06	4.640%	3-Mar-16	60.0	0.8	59.2	98.75	4.80%	60.0	60.0	60.0	2.9		
16	19-Oct-06	5.000%	19-Oct-46	30.0	0.2	29.8	99.29	5.04%	30.0	30.0	30.0	1.5		
17	13-Mar-07	4.890%	13-Mar-37	240.0	1.3	238.7	99.45	4.93%	240.0	240.0	240.0	11.8		
18	18-Oct-07	5.180%	18-Oct-17	225.0	0.8	224.2	99.66	5.22%	225.0	225.0	225.0	11.8		
19	3-Mar-08	5.180%	18-Oct-17	180.0	(3.1)	183.1	101.73	4.95%	180.0	180.0	138.5	6.9		
20	10-Nov-08	5.000%	12-Nov-13	240.0	1.1	238.9	99.53	5.11%	240.0	240.0	240.0	12.3		
21	14-Jan-09	5.000%	12-Nov-13	130.0	(3.7)	133.7	102.87	4.33%	130.0	130.0	130.0	5.6		
22	3-Mar-09	6.030%	3-Mar-39	195.0	1.1	193.9	99.43	6.07%	195.0	195.0	195.0	11.8		
23	16-Jul-09	5.490%	16-Jul-40	210.0	1.3	208.7	99.37	5.53%	210.0	210.0	210.0	11.6		
24	19-Nov-09	3.130%	19-Nov-14	175.0	0.6	174.4	99.64	3.21%	175.0	175.0	175.0	5.6		
25	15-Mar-10	5.490%	16-Jul-40	120.0	(0.7)	120.7	100.59	5.45%	120.0	120.0	120.0	6.5		
30	22-Dec-11	4.000%	22-Dec-51	70.0	0.4	69.6	99.48	4.03%	0.0	70.0	5.4	0.2		
31	Subtotal									4228.1	4489.7	4229.3	228.9	
32	Treasury OM&A costs												1.2	
33	Other financing-related fees												5.4	
34	Total									4228.1	4489.7	4229.3	235.5	5.57%

HYDRO ONE NETWORKS INC.
 TRANSMISSION
 Cost of Long-Term Debt Capital
 Bridge Year (2012)
 Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates
						Total Amount (\$Millions)	Per \$100 Principal Amount (Dollars)		at 12/31/11 (\$Millions)	at 12/31/12 (\$Millions)			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	
1	3-Jun-00	7.150%	3-Jun-30	278.4	4.5	273.9	98.37	7.49%	278.4	278.4	278.4	20.8	
2	22-Jun-01	6.930%	1-Jun-32	109.3	1.0	108.2	99.05	7.01%	109.3	109.3	109.3	7.7	
3	17-Sep-02	5.770%	15-Nov-12	87.0	0.4	86.6	99.55	5.83%	87.0	0.0	73.6	4.3	
4	17-Sep-02	6.930%	1-Jun-32	58.0	(2.2)	60.2	103.71	6.64%	58.0	58.0	58.0	3.9	
5	31-Jan-03	6.350%	31-Jan-34	126.0	1.0	125.0	99.21	6.41%	126.0	126.0	126.0	8.1	
6	22-Apr-03	6.590%	22-Apr-43	145.0	1.1	143.9	99.26	6.64%	145.0	145.0	145.0	9.6	
7	25-Jun-04	6.350%	31-Jan-34	72.0	(0.2)	72.2	100.22	6.33%	72.0	72.0	72.0	4.6	
8	20-Aug-04	6.590%	22-Apr-43	39.0	(3.1)	42.1	107.89	6.06%	39.0	39.0	39.0	2.4	
9	24-Aug-04	6.350%	31-Jan-34	39.0	(1.4)	40.4	103.48	6.09%	39.0	39.0	39.0	2.4	
10	19-May-05	5.360%	20-May-36	228.9	8.7	220.2	96.19	5.62%	228.9	228.9	228.9	12.9	
11	3-Mar-06	4.640%	3-Mar-16	210.0	1.0	209.0	99.52	4.70%	210.0	210.0	210.0	9.9	
12	24-Apr-06	5.360%	20-May-36	187.5	2.5	185.0	98.68	5.45%	187.5	187.5	187.5	10.2	
13	22-Aug-06	4.640%	3-Mar-16	60.0	0.8	59.2	98.75	4.80%	60.0	60.0	60.0	2.9	
14	19-Oct-06	5.000%	19-Oct-46	30.0	0.2	29.8	99.29	5.04%	30.0	30.0	30.0	1.5	
15	13-Mar-07	4.890%	13-Mar-37	240.0	1.3	238.7	99.45	4.93%	240.0	240.0	240.0	11.8	
16	18-Oct-07	5.180%	18-Oct-17	225.0	0.8	224.2	99.63	5.23%	225.0	225.0	225.0	11.8	
17	3-Mar-08	5.180%	18-Oct-17	180.0	(3.1)	183.1	101.73	4.95%	180.0	180.0	180.0	8.9	
20	3-Mar-09	6.030%	3-Mar-39	195.0	1.2	193.8	99.41	6.07%	195.0	195.0	195.0	11.8	
21	16-Jul-09	5.490%	16-Jul-40	210.0	1.4	208.6	99.36	5.53%	210.0	210.0	210.0	11.6	
22	19-Nov-09	3.130%	19-Nov-14	175.0	0.7	174.3	99.63	3.21%	175.0	175.0	175.0	5.6	
23	15-Mar-10	5.490%	24-Jul-40	120.0	(0.7)	120.7	100.58	5.45%	120.0	120.0	120.0	6.5	
24	15-Mar-10	4.400%	4-Jun-20	180.0	0.8	179.2	99.55	4.46%	180.0	180.0	180.0	8.0	
25	13-Sep-10	2.950%	11-Sep-15	150.0	0.6	149.4	99.62	3.03%	150.0	150.0	150.0	4.5	
26	13-Sep-10	5.000%	19-Oct-46	150.0	(0.4)	150.4	100.25	4.98%	150.0	150.0	150.0	7.5	
27	26-Sep-11	4.390%	26-Sep-41	205.0	1.3	203.7	99.36	4.43%	205.0	205.0	205.0	9.1	
28	22-Dec-11	4.000%	22-Dec-51	70.0	0.4	69.6	99.48	4.03%	70.0	70.0	70.0	2.8	
29	13-Jan-12	3.200%	13-Jan-22	154.0	0.8	153.2	99.49	3.26%	0.0	154.0	142.2	4.6	
30	15-Mar-12	4.041%	15-Mar-42	230.3	1.2	229.2	99.50	4.07%	0.0	230.3	177.2	7.2	
31	15-Jun-12	3.164%	15-Jun-22	230.3	1.2	229.2	99.50	3.22%	0.0	230.3	124.0	4.0	
32	15-Sep-12	2.291%	16-Mar-18	225.0	1.1	223.9	99.50	2.39%	0.0	225.0	69.2	1.7	
33		Subtotal							<u>4329.1</u>	<u>4892.7</u>	<u>4799.2</u>	<u>245.6</u>	
34		Treasury OM&A costs										1.6	
35		Other financing-related fees										3.9	
36		Total							<u>4329.1</u>	<u>4892.7</u>	<u>4799.2</u>	<u>251.0</u>	<u>5.23%</u>

HYDRO ONE NETWORKS INC.
TRANSMISSION
Cost of Long-Term Debt Capital
Test Year (2014)
Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates
						Total Amount (\$Millions)	Per \$100 Principal Amount (Dollars)		at 12/31/13 (\$Millions)	at 12/31/14 (\$Millions)			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	
1	3-Jun-00	7.150%	3-Jun-30	278.4	4.5	273.9	98.37	7.49%	278.4	278.4	278.4	20.8	
2	22-Jun-01	6.930%	1-Jun-32	109.3	1.0	108.2	99.05	7.01%	109.3	109.3	109.3	7.7	
3	17-Sep-02	6.930%	1-Jun-32	58.0	(2.2)	60.2	103.71	6.64%	58.0	58.0	58.0	3.9	
4	31-Jan-03	6.350%	31-Jan-34	126.0	1.0	125.0	99.21	6.41%	126.0	126.0	126.0	8.1	
5	22-Apr-03	6.590%	22-Apr-43	145.0	1.1	143.9	99.26	6.64%	145.0	145.0	145.0	9.6	
6	25-Jun-04	6.350%	31-Jan-34	72.0	(0.2)	72.2	100.22	6.33%	72.0	72.0	72.0	4.6	
7	20-Aug-04	6.590%	22-Apr-43	39.0	(3.1)	42.1	107.89	6.06%	39.0	39.0	39.0	2.4	
8	24-Aug-04	6.350%	31-Jan-34	39.0	(1.4)	40.4	103.48	6.09%	39.0	39.0	39.0	2.4	
9	19-May-05	5.360%	20-May-36	228.9	8.7	220.2	96.19	5.62%	228.9	228.9	228.9	12.9	
10	3-Mar-06	4.640%	3-Mar-16	210.0	1.0	209.0	99.52	4.70%	210.0	210.0	210.0	9.9	
11	24-Apr-06	5.360%	20-May-36	187.5	2.5	185.0	98.68	5.45%	187.5	187.5	187.5	10.2	
12	22-Aug-06	4.640%	3-Mar-16	60.0	0.8	59.2	98.75	4.80%	60.0	60.0	60.0	2.9	
13	19-Oct-06	5.000%	19-Oct-46	30.0	0.2	29.8	99.29	5.04%	30.0	30.0	30.0	1.5	
14	13-Mar-07	4.890%	13-Mar-37	240.0	1.3	238.7	99.45	4.93%	240.0	240.0	240.0	11.8	
15	18-Oct-07	5.180%	18-Oct-17	225.0	0.8	224.2	99.63	5.23%	225.0	225.0	225.0	11.8	
16	3-Mar-08	5.180%	18-Oct-17	180.0	(3.1)	183.1	101.73	4.95%	180.0	180.0	180.0	8.9	
17	3-Mar-09	6.030%	3-Mar-39	195.0	1.2	193.8	99.41	6.07%	195.0	195.0	195.0	11.8	
18	16-Jul-09	5.490%	16-Jul-40	210.0	1.4	208.6	99.36	5.53%	210.0	210.0	210.0	11.6	
19	19-Nov-09	3.130%	19-Nov-14	175.0	0.7	174.3	99.63	3.21%	175.0	0.0	148.1	4.8	
20	15-Mar-10	5.490%	24-Jul-40	120.0	(0.7)	120.7	100.58	5.45%	120.0	120.0	120.0	6.5	
21	15-Mar-10	4.400%	4-Jun-20	180.0	0.8	179.2	99.55	4.46%	180.0	180.0	180.0	8.0	
22	13-Sep-10	2.950%	11-Sep-15	150.0	0.6	149.4	99.62	3.03%	150.0	150.0	150.0	4.5	
23	13-Sep-10	5.000%	19-Oct-46	150.0	(0.4)	150.4	100.25	4.98%	150.0	150.0	150.0	7.5	
24	26-Sep-11	4.390%	26-Sep-41	205.0	1.3	203.7	99.36	4.43%	205.0	205.0	205.0	9.1	
25	22-Dec-11	4.000%	22-Dec-51	70.0	0.4	69.6	99.48	4.03%	70.0	70.0	70.0	2.8	
26	13-Jan-12	3.200%	13-Jan-22	154.0	0.8	153.2	99.49	3.26%	154.0	154.0	154.0	5.0	
27	15-Mar-12	4.041%	15-Mar-42	230.3	1.2	229.2	99.50	4.07%	230.3	230.3	230.3	9.4	
28	15-Jun-12	3.164%	15-Jun-22	230.3	1.2	229.2	99.50	3.22%	230.3	230.3	230.3	7.4	
29	15-Sep-12	2.291%	16-Mar-18	225.0	1.1	223.9	99.50	2.39%	225.0	225.0	225.0	5.4	
30	15-Mar-13	4.441%	15-Mar-43	388.4	1.9	386.4	99.50	4.47%	388.4	388.4	388.4	17.4	
31	15-Jun-13	3.564%	15-Jun-23	388.4	1.9	386.4	99.50	3.62%	388.4	388.4	388.4	14.1	
32	15-Sep-13	2.691%	15-Sep-18	150.0	0.8	149.3	99.50	2.80%	150.0	150.0	150.0	4.2	
33	15-Mar-14	5.001%	15-Mar-44	289.8	1.4	288.4	99.50	5.03%	0.0	289.8	223.0	11.2	
34	15-Jun-14	4.124%	15-Jun-24	289.8	1.4	288.4	99.50	4.19%	0.0	289.8	156.1	6.5	
35	15-Sep-14	3.251%	15-Sep-19	289.8	1.4	288.4	99.50	3.36%	0.0	289.8	89.2	3.0	
36		Subtotal							<u>5449.5</u>	<u>6144.0</u>	<u>5890.8</u>	<u>279.5</u>	
37		Treasury OM&A costs										1.7	
38		Other financing-related fees										3.3	
39		Total							<u>5449.5</u>	<u>6144.0</u>	<u>5890.8</u>	<u>284.4</u>	<u>4.83%</u>

38	Other financing-related fees					3.3
39	Total	5449.5	6144.0	5890.8	284.4	4.83%