UNDERTAKING

Undertaking

To provide a written explanation of the treatment of CDM expenses in 2006 and 2007, how the MARR fit into that, and whether or not it was fair to compare the 2006, 2007 OM&A expenses with 2008; and give the detail just referred to in your audited distribution statements, i.e. the expenses relating to this aspect by the years.

Response

To access the 3rd tranche MARR rate increase suspended by Bill 210, Hydro One was required to expend the equivalent of one year's worth of its 3rd tranche MARR funding on qualifying CDM activities. For accounting purposes, qualifying capital CDM expenditures were capitalized based on standard accounting policies and business practices while CDM current period expenditures were charged to OM&A as incurred. As no incremental rate funding was provided for the OM&A expenditures, this spending was effectively funded by the shareholder. This accounting was in accordance with the methodology communicated in the OEB's December 2005 FAQ.

As such, CDM OM&A expenditures are included in Exhibit C1, Tab 2, Schedule 1, Table 1 (2005: $4.3M; 2006: $7.0M; 2007: $11.0M) and CDM Capital Expenditures are included in Exhibit D1, Table 3, Schedule 1, Table 2 (2005: $9.3M; 2006: $7.9M), as opposed to the treatment indicated by Mr. Innis on July 7, 2008 in Transcript Volume 1, pages 84 (line 29) and 85 (line 9).

In 2007, CDM expenditures were funded through a mix of operations (i.e. shareholder) and OPA funds. In our audited statements CDM OM&A spending in 2006 and 2007 is in the OM&A line item as noted in Exhibit A Tab 9 Schedule 1 Attachment 4 page 3. These shareholder-funded expenditures were accounted for in accordance with the FAQ as described above. OPA-funded programs did not impact Distribution's results of operations as the accounting for expenditures and revenues from OPA offset. The total of these transactions is described in the related party note of the Distribution audited financial statements.