

UNDERTAKING

Undertaking

TO PROVIDE COLA CALCULATION FOR 2008 AND EXPLAIN WHAT DRIVES THE DIFFERENCE BETWEEN 2008 AND PREVIOUS YEARS

Response

The Inergi contract contains a fixed price schedule for each of the 10 contract years expressed in 2002 dollars. The annual COLA adjustment for 2008 is determined by multiplying the annual COLA factor for 2008 by the sum of the fixed price schedule for 2008 plus changes in scope and volume of services effective in 2008. As such, the COLA adjustment in 2008 is expected to represent the cumulative increase since 2002, and would be expected to be a larger absolute value than that of the previous years, which it is.

As described in C1-2-6 Attachment A, and in accordance with the Inergi Agreement, the COLA factor is “based upon the Statistics Canada Indices of total wages, salaries, and supplementary labour income in Ontario (index V691664 in the table below), and total number of employees in Ontario (index V2464899 in the table below)”. Using 2001 as a base year, a COLA factor for each year is calculated by comparing the annual Statistics Canada Indices with the 2001 values. The 2007 Statistics Canada Indices are used for 2008.

At the time the material for EB-2007-0681 was developed, actual Statistics Canada Indices were not available for 2007 and Hydro One forecast these indices based on Conference Board of Canada February 2007 and Global Insights June 2007 as follows:

<u>Year</u>	<u>V691664</u>	<u>V2464899</u>	<u>P.I. = (X)/(Y)</u>	<u>COLA</u>
2000	230,626	5,817	39.6462	
2001	239,745	5,926	40.4551	
2002	248,278	6,031	41.1642	1.0175
2003	258,627	6,213	41.6254	1.0289
2004	270,425	6,317	42.8125	1.0583
2005	283,341	6,398	44.2879	1.0947
2006	292,784	6,493	45.0943	1.1147
2007 Forecast	303,662	6,552	46.3463	1.1456

* 2008 COLA Adjustment = 2008 COLA factor x (fixed price for 2008 – Settlements + changes in scope & volume – Other Scope & Volume Adjustments + Pension & Benefits)

2008 COLA Adjustment = 14.56% x (\$88.4M - \$3.0M + \$12.5M - \$1.4M + \$5.5M)

2008 COLA Adjustment = \$14.9M

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1 Note the COLA Factor increases each year and reflects Inergi's fixed fees are stated in
2 2002 dollars. On average, the COLA factor has grown at a rate of 2.3% per year
3 compounded annually in accordance with the Statistics Canada Indices over that period.
4 This can be compared with the original business case for outsourcing which estimated the
5 COLA factor to be 2.5% per annum.

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7 * Note that Settlements is excluded from the calculation as it is billed on the basis of cost
8 plus a margin.

9 * Note that some Scope and Volume Adjustments do not attract COLA.

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