

UNDERTAKING

Undertaking

TO PROVIDE UPDATE OF THE COMPARISON OF THE 0.6 PERCENT WITH 2 PERCENT SHOWN IN THE 2006 DISTRIBUTION DECISION WITH THE PROPOSAL.

Response

The referenced 2% and 0.06%* (2006) are now 2.4% and 0.07% for 2008.

* It should be noted that the original calculation of one of the percentages, provided by VECC in their closing argument and referred to in the Board's Decision, was in error. The correct percentage is 0.06% and not 0.6% (see following excerpt from VECC's closing argument).

"Secondly, VECC is of the view that a methodology understates the costs that should be attributed to Hydro One Inc., the holding company. Other than charitable donations, the methodology only allocates \$144,011 to the holding company for the shareholder.

This represents only 0.6 percent of the total costs being allocated and only 2 percent of the total corporate office budget. Both of these percentages are exceedingly small." [RP-2005-0020/EB-2005-0378, Vol.11, pg.130, Feb.6, 2006]

The \$144,011 divided by \$235.4M (Total Common Corporate Cost as per RP-2005-0020/EB-2005-0378 Exhibit C1, Tab 6, Schedule 1, Attachment A, page F1) is 0.06%.

The following is the relevant excerpt from the previous 2006 distribution decision dated April 12, 2006:

3.6.4 VECC noted that the costs allocated to Hydro One Inc., the holding company, appear to be understated as they only represent **0.6%** of the total common costs and only **2%** of the total corporate costs. The proposed methodology does not assign any Board costs to the holding company or any of the costs associated with the President and CEO's office, even though the Board oversees Hydro One Inc., as well as the subsidiaries, and the President and CEO holds that position for both Hydro One Inc. and Hydro One Networks.

3.6.5 VECC acknowledges that its concerns regarding costs allocated to the parent company are influenced by VECC's experience with Ontario's gas utilities. Hydro One notes that, Hydro One Inc. only has regulated subsidiaries and there is no reason to assign more costs to it. The Board accepts Hydro One's explanation as reasonable at this time and will not make any adjustments to the Rudden methodology in this regard.