

UNDERTAKING

Undertaking

TO PROVIDE FINAL COST ESTIMATE TO REBUILD SYSTEM

Response

The total estimated cost for all phases of the work to address the end-of-life condition of the distribution assets as well as increase system capacity is \$4.6 million.

Phase 1 of the work consisted of \$0.7 million spent during 2007. Phase 2 of the work will cost \$1.3 million in 2008 as detailed in Reference S16 provided in Exhibit D2, Tab 2, Schedule 3. The estimated cost for Phases 3 and 4 is \$2.6 million to be spent over 2009 to 2010.

The utility assets in the Town of Thessalon were acquired 7 years ago and there has been minimal capital investments since acquisition. The upgrade will bring the distribution network up to current Hydro One Distribution standards and will extend the life of the assets to over 30 years, well beyond the 2015 date assumed in the financial evaluation prepared at the time of the Thessalon acquisition.

In addition to mitigating reliability and safety risks, other benefits of this project include a more efficient electrical system that will reduce system losses in the order of 263,000 kW hours per year once the project is complete, which equates to savings in the order of \$15,800 per year considering displaced generation. The conversion of the line facilities in Thessalon to 14.4/25 kV will also eliminate the need for the two existing Thessalon stations (Thessalon Government DS and Peachy DS) which will eliminate future station maintenance costs, estimated at \$27,000 per year, once the two stations have been removed.

The voltage conversion and elimination of the two distribution stations that are operating at near capacity will increase the system capacity by about two fold, thereby eliminating any concerns around future growth. While load growth in these small communities typically occurs in a slow gradual fashion, stepped increases can occur when a new retail outlet or a new grocery store connects to the system, as did recently occurred in the area. These types of developments provide service both to the town and the surrounding areas.