

1 **PROJECT COSTS, ECONOMICS AND**
2 **OTHER PUBLIC INTEREST CONSIDERATIONS**
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5 This Exhibit describes the costs of the proposed facilities and the economics of the
6 project including the economic feasibility and rate impacts. It also includes other public
7 interest considerations.

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9 Under the *OEB Act, 1998*, “public interest” is defined to mean the interest of consumers
10 with respect to prices and the adequacy, reliability and quality of electricity service.
11 Consumers are defined as those who use electricity that was not self-generated for their
12 own consumption.
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PROJECT COSTS

The total estimated capital cost for the project, including overheads and an allowance for funds used during construction ("AFUDC"), is summarized as follows:

Table 1
Total Project Costs (Lines & Stations)

	<i>Estimated Costs</i> (\$'000's)
Preliminary Engineering & Studies	\$ 15,000
Station and Telecommunications Facilities	\$ 65,000
Transmission Line Facilities	\$555,000
Total Cost*	\$635,000

** Total Cost includes carrying costs which could be avoided if the costs were recognized as incurred, consistent with the company's proposal in its Transmission rates case (EB-2006-0501).*

STATION WORK

The estimated costs for station work are detailed in Table 2. These cost estimates include material, construction, engineering, commissioning, contingencies for unforeseen costs, allowance for funds used during construction (interest) and Hydro One overheads.

Table 2
Cost of Station Work

	<i>Estimated Cost</i> <i>(\$'000's)</i>
Material	33,300
Construction	11,200
Engineering & Project Management	4,900
Land	--
Commissioning	1,800
Contingencies	5,000
Cost before Overheads and AFUDC	\$ 56,200
Overheads	6,800
AFUDC	5,000
Total Station Cost*	\$ 68,000

1 * Total Station Cost includes cost of preliminary engineering and studies

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3 An alternative view of the station work, by major component, is provided in Table 3.

4

Table 3
Cost of Station Work

	<i>Estimated Cost</i> <i>(\$'000's)</i>
Breakers, Switches	\$39,000
Protection & Control Equipment and Telecom	\$8,000
Other *	\$15,000
Contingency	\$6,000
 *(includes engineering, civil, structures, mechanical, misc. materials, commissioning)	
Total Station Cost	\$ 68,000

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1 **LINE WORK**

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3 The estimated costs for line work are detailed in Table 4. These cost estimates include
4 material, construction, engineering, contingencies for unforeseen costs, allowance for
5 funds used during construction (interest) and Hydro One overheads.
6

**Table 4
Cost of Line Work**

	<i>Estimated Cost (\$'000')</i>
Material	\$ 218,000
Construction (including commissioning)	76,000
Engineering & Project Management	16,000
Land	125,000
Contingencies	28,000
Cost before Overheads and AFUDC	\$ 463,000
Overheads	54,000
AFUDC	50,000
Total Line Cost*	\$ 567,000

7 * *Total Line Cost includes cost of preliminary engineering and studies*
8

9 **RISKS AND CONTINGENCIES**

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11 As with most projects, there is some risk associated with estimating costs. Hydro One
12 has recognized these risks in the project cost estimates. The estimates include an
13 allowance for contingencies, the assessment of which is based on past experience and
14 addresses a number of risks such as:

- 15 • Land costs variability;
16 • Timely approvals;
17 • Material differences to the project arising from the EA or other approvals;
18 • Poor or contaminated soil conditions;
19 • Unexpected site drainage requirements;
20 • Adverse weather conditions;

- 1 • Construction equipment failures;
- 2 • Unavailability of some circuit outages when required;
- 3 • Design changes to accommodate the needs of other users on affected lands, where
- 4 appropriate;
- 5 • Conflicts with pipelines that parallel the proposed facilities; and,
- 6 • Aboriginal interests.

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8 **COSTING PROCESSES**

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10 The costs of the proposed facilities have been estimated using industry-standard
11 processes which ensure costs are appropriately estimated using current information.
12 These processes include benchmarking against similar projects, preparation of a
13 procurement plan that evaluates the risks of fluctuating commodity prices and the
14 application of escalation rates over the life cycle of the project in accordance with
15 accepted industry practices.

16

17 Approximately 72% of the total cost before overheads and AFUDC will be subject to
18 public tendering, competitive bidding processes or market valuation. This amount is
19 composed of materials (\$251M) and land (\$125M). The remaining 28% of the total cost
20 is accounted for largely by labour.

21

22 **COSTS OF COMPARABLE PROCESSES**

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24 Per the OEB EB-2006-0170 Filing Requirements the costs of comparable projects are
25 shown in Table 5 below. The main driver for the increase in cost of the Bruce to Milton
26 line relative to the comparable projects is inflation. The comparable projects were
27 constructed in the early to mid-1990's.

28

Table 5
Costs of Comparable Projects

Project	Bruce x Milton SS (estimated)	Cherrywood TS x Claireville TS (actual)	Lennox TS x Bowmanville TS (actual)	Bruce x Longwood TS (actual)
Type	2 x 500 kV V1 type towers 585 kmil	2 x 500 kV V1 type towers 585 kmil	2 x 500 kV V1 type towers 585 kmil	2 x 500 kV V1 type towers 585 kmil
Length (km)	179.0 km	46.0 km	178.0 km	186 km
In-Service Date	2011-09-30	1993-02-26	1994-11-01	1990-07-01
Total Cost*	\$420,000,000	\$81,400,000	\$202,000,000	\$218,000,000

* Does not include station work or property cost.

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PROJECT ECONOMICS

In the following sections, the economic impact of the project is assessed from a transmission system perspective. The project is not designed to generate additional transmission revenues but has as its principal purposes allowing network access for additional committed and potential wind generation in the Bruce area and restoring the transmission network load transfer capability out of the Bruce Power Complex. These purposes support the provincial off-coal and generation supply diversity objectives, respectively.

Under the OEB's IPSP Filing Guidelines (EB-2006-0207, p. 9), the economic prudence of specific generation projects that were the subject of governmental procurement or OPA procurement prescribed by Ministerial directive issued prior to the date of the approval of the IPSP, such as the Bruce nuclear refurbishment and Bruce area wind generation projects (see Exhibit B, Tab 6, Schedule 5, Appendices 8,9,10 and 12), will not be assessed as part of the IPSP review process. For that reason, the economic assessment of the Bruce to Milton transmission reinforcement project is focused on the transmission aspects of the plan and does not include in the analysis consideration of the relative impact on commodity costs (benefits or costs) as a result of locating additional generating capacity in the Bruce area.

2.0 ECONOMIC FEASIBILITY

The proposed line facilities will be included in the Network pool for rate-making purposes with no customer capital contribution required, consistent with the provisions of Section 6.3.5 of the Transmission System Code. A 25-year discounted cash flow analysis is provided in Exhibit B, Tab 4, Schedule 4, pages 1-2. The results show that based on the estimated costs of \$635M in initial capital plus assumed ongoing operating and maintenance costs, the reinforcement project will have a negative net present value of \$623M with a profitability index (PI) of nil. The analysis assumes zero incremental loads and network revenues

1 attributable to the project for purposes of the assessment. As noted above, the project is not
2 designed primarily to generate additional transmission revenues but instead supports
3 generation supply diversity and off-coal objectives. Based on the given assumptions and
4 results, the project will lead to an increase in the Network pool rate over the life of the project,
5 relative to the current rate level. The project's year-by-year rate impacts are discussed in the
6 following section.

7
8 Consistent with the requirements of sections 6.3.3 and 6.3.4 of the TSC, the costs of future
9 connection facilities required for new wind generation capacity enabled by the Bruce
10 reinforcement project will be the responsibility of the specific generator customers at the time
11 of connection, and any required capital contribution will be assessed under the TSC's
12 economic evaluation guidelines at that point. The costs of such connection facilities and any
13 capital contributions related thereto have not been included in the costs for the Bruce
14 reinforcement project shown at Exhibit B, Tab 4, Schedule 2.

15
16 **3.0 RATE IMPACT ASSESSMENT**

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18 The analysis of the Network pool rate impact has been carried out on the basis of Hydro
19 One's transmission revenue requirement for the year 2000 including its approved capital
20 structure, and the most recently approved Ontario Transmission Rate Schedules. The Line
21 Connection pool and Transformation Connection pool revenue requirements would be
22 unaffected by the new reinforcement, based on the criteria used to allocate transmission costs
23 to the three pools as approved by the Board in its RP-1999-0044 decision.

24
25 Based on the proposed reinforcement's incremental cash flows, a net increase in the Network
26 pool revenue requirement will result once this project is included in the transmission rate base
27 upon in-service. Except for a slightly lower revenue requirement of \$39M incurred in the first
28 year of in-service due to the half-year weighting of the added capital, annual revenue

1 requirements ranging from \$57M to \$63M will be experienced over the first 25 years of the
2 project's service life. The revenue requirements begin to decline over time in line with the
3 depreciating asset base beyond the 15th year of in-service.

4
5 These changes will lead to an increase in the Network pool rate of between 8.1% and 9.2%,
6 relative to the current rate (again with a slightly lower increase in the first year of 5.7% due to
7 half-year capital weighting). All else being equal, as a result of this project the provincial
8 Network pool rate will increase by between 23 and 26 cents per kW, from the current level of
9 \$2.83 per month, to between \$3.06 and \$3.09 per month over those years (and 16 cents in the
10 first year, to \$2.99 per month). After year 15 in 2025, as the revenue requirements fall, the
11 rate impact will similarly begin to decline (though with a lag given the 2 decimal point
12 rounding of the rate). The detailed analysis illustrating the calculation of the incremental
13 revenue requirement and rate impact over the first 25 years of the project's life is provided in
14 Exhibit B, Tab 2, Schedule 4, pages 3-4.

15
16 The rate impacts discussed above would be increased slightly (by approximately 10 basis
17 points on the Network pool rate) if the forecast 2008 provincial network pool rate based on
18 Hydro One Transmission's EB-2006-0501 rate application is used. The forecast rate and
19 charge determinants are contained in Interrogatory Response J-1-169 in that proceeding. The
20 rate impact analysis using the 2008 network rate also includes Hydro One Transmission's
21 requested Return on Equity of 10.5% and 40% equity base. The analysis is filed in Exhibit B,
22 Tab 4, Schedule 4, pages 5-6.

23
24 The above analyses (DCF and rate impact) include zero incremental network load based on a
25 Hydro One long-term forecast which assumes flat load growth in peak demand for the
26 network pool after mandated provincial CDM reductions over the 25-year evaluation period.
27 As noted above, the primary purpose and benefit of the project is to provide generation

1 diversity and support the government off-coal program, rather than to provide an overall
2 capacity increase to the provincial transmission network.

3
4 In order to assess the impact of the proposed facilities on end-use residential consumers of
5 electricity in Ontario, the transmission component of a typical residential customer bill has
6 been approximated. For a typical residential customer in Ontario, the transmission
7 component of the delivered cost of electricity is approximately 8% of the total energy bill and
8 the network portion is about 58% of the total transmission bill. Accordingly, as shown in the
9 table below, the impact of the proposed facilities on the delivered cost of electricity for the
10 typical Ontario residential customer consuming 1000 kWh per month would be approximately
11 0.41% or \$5.88 a year. This impact does not include any consideration of the effect on
12 commodity costs as a result of providing access to generation resources in the Bruce area.

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14 **Impact on Typical Residential Customer**
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A. Typical monthly bill (12¢ per kWh x 1,000 kWh per month)	\$120 per month
B. Transmission component of monthly bill (A x 8%)	\$9.60 per month
C. Network Pool share of Transmission component (B x 58%)	\$5.60 per month
D. Average Impact on Network Pool Provincial Uniform Rate over 25 year period	8.8%
E. Increase in Network Pool share of Transmission component (C x D)	\$0.49 per month or \$5.88 per year
F. Net increase on typical residential customer bill (E / A)	0.41%

Date:	24-Jan-07
Project #	

SUMMARY OF DISCOUNTED CASH FLOW CALCULATIONS

Facility Name:		Bruce to Milton Reinforcement Project												
Scope:		500kV Line and related station modifications												
		In-Service Date	Project year ended - annualized from In-Service Date											
	Month	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31
	Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
			1	2	3	4	5	6	7	8	9	10	11	12
Revenue & Expense Forecast														
	Load Forecast (MW)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Rate Applied (\$/kW/Month)		2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83
Gross Revenue - \$M														
	OM&A Costs - \$M		(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)
	Ontario Capital Tax and Municipal Tax - \$M		(4.4)	(4.4)	(4.4)	(4.4)	(4.3)	(4.3)	(4.3)	(4.3)	(4.3)	(4.2)	(4.2)	(4.2)
Net Revenue/(Costs) before taxes - \$M														
	Income Taxes (incl. LCT)		(10.8)	(10.8)	(10.7)	(10.7)	(10.7)	(10.7)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)
Operating Cash Flow (after taxes) - \$M														
			0.2	6.8	5.7		4.8	3.8	3.0	2.2	1.5	0.9	0.3	(0.3)
	Cumulative PV @ 5.87%		9.3											
PV Operating Cash Flow (after taxes) - \$M	(A)		9.3	0.2	6.3	5.0	3.9	3.0	2.2	1.5	1.0	0.5	0.2	(0.2)
Capital Expenditures - \$M														
	Upfront - capital cost before overheads & AFUDC		(519.2)											
	- Overheads - AFUDC		(61.7)											
	Total upfront capital expenditures		(635.0)											
	On-going capital expenditures		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	PV On-going capital expenditures		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Total capital expenditures - \$M		(635.0)											
PV Proceeds on disposal of assets - \$M														
			0.0											
PV CCA Residual Tax Shield - \$M														
			3.2											
PV Working Capital - \$M														
			(0.2)											
PV Capital (after taxes) - \$M	(B)		(632.0)											
Cumulative PV Cash Flow (after taxes) - \$M (A) + (B)			(632.0)	(631.8)	(625.5)	(620.5)	(616.6)	(613.7)	(611.5)	(609.9)	(608.9)	(608.4)	(608.2)	(608.4)

Discounted Cash Flow Summary			
(Based on Economic Study Horizon - Years):			
			25.0
Discount Rate - %			
			5.87%
	Before Contribution	After Contribution	Impact of Contribution
	\$M	\$M	\$M
PV Incremental Revenue	0.0	0.0	
PV Incremental OM&A Costs	(84.5)	(84.5)	
PV Ontario Capital Tax and Municipal Tax	(56.8)	(56.8)	
PV Income Taxes and LCT	51.1	51.1	
PV CCA Tax Shield	102.8	102.8	
PV Capital - Upfront	(635.0)	(635.0)	
Add: PV Capital Contribution	0.0	(635.0)	
PV Capital - On-going	0.0	0.0	
PV Proceeds on disposal of assets	0.0	0.0	
PV Working Capital	(0.2)	(0.2)	
PV Surplus / (Shortfall)	(622.7)	(622.7)	N/A
Profitability Index*	0.0	0.0	

*PV of total cash flow, excluding net capital expenditure & on-going capital & proceeds on disposal / PV of net capital expenditure & on-going capital & proceeds on disposal

Start Date:	1-Jan-09
In-Service Date:	31-Dec-11
Payback Year:	N/A
No. of years required for payback:	N/A

Date:	24-Jan-07
Project #	

SUMMARY OF DISCOUNTED CASH FLOW CALCULATIONS

Facility Name:		Bruce to Milton Reinforcement Project													
Scope:		500KV Line and related station modifications													
	Month	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31
	Year	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>	<u>2036</u>	
		13	14	15	16	17	18	19	20	21	22	23	24	25	
Revenue & Expense Forecast															
	Load Forecast (MW)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Rate Applied (\$/kW/Month)	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83
	Gross Revenue - \$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	OM&A Costs - \$M	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)
	Ontario Capital Tax and Municipal Tax - \$M	(4.2)	(4.2)	(4.2)	(4.2)	(4.2)	(4.2)	(4.2)	(4.2)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
	Net Revenue/(Costs) before taxes - \$M	(10.6)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)
	Income Taxes (incl. LCT)	9.3	8.8	8.4	8.1	7.7	7.4	7.1	6.8	6.6	6.4	6.2	6.0	5.8	
	Operating Cash Flow (after taxes) - \$M	(1.3)	(1.7)	(2.1)	(2.5)	(2.8)	(3.1)	(3.4)	(3.7)	(3.9)	(4.1)	(4.3)	(4.5)	(4.7)	
	PV Operating Cash Flow (after taxes) - \$M	(A)	(0.6)	(0.8)	(0.9)	(1.0)	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
Capital Expenditures - \$M															
	Upfront - capital cost before overheads & AFUDC														
	- Overheads														
	- AFUDC														
	Total upfront capital expenditures														
	On-going capital expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	PV On-going capital expenditures														
	Total capital expenditures - \$M														
	PV Proceeds on disposal of assets - \$M														
	PV CCA Residual Tax Shield - \$M														
	PV Working Capital - \$M														
	PV Capital (after taxes) - \$M	(B)													
	Cumulative PV Cash Flow (after taxes) - \$M (A) + (B)	(609.4)	(610.2)	(611.2)	(612.2)	(613.3)	(614.4)	(615.6)	(616.8)	(618.0)	(619.2)	(620.4)	(621.6)	(622.7)	

Revenue Requirement and Network Pool Rate Impact using existing Network pool rate as the base year

Bruce to Milton Reinforcement Project		Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
		1	2	3	4	5	6	7	8	9	10	11	12
Calculation of Incremental Revenue Requirement (\$000)													
In-service date	31-Dec-11												
Capital Cost	635,000												
Less: Capital Contribution Requirec	(0)												
Net Capital	635,000												
Average Rate Base		314,164	624,992	618,319	611,647	604,975	598,302	591,630	584,958	578,285	571,613	564,941	558,269
Incremental OM&A Costs	1.0%	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350
Ontario Capital Tax	0.285%	461	433	407	383	361	340	321	304	288	274	260	248
Grants in Lieu of Municipal tax	0.63%	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970
Depreciation	1.4%	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672
Interest and Return on Rate Base	7.06%	22,176	44,117	43,646	43,175	42,704	42,233	41,762	41,291	40,820	40,349	39,878	39,407
Income Tax Provision	36.12%	(686)	(4,322)	(2,749)	(1,313)	(4)	1,189	2,276	3,264	4,161	4,976	5,714	6,381
Large Corporations Tax	0.000%	-	-	-	-	-	-	-	-	-	-	-	-
REVENUE REQUIREMENT PRE-TAX		38,944	57,220	58,296	59,237	60,053	60,755	61,351	61,851	62,262	62,591	62,844	63,028
Incremental Revenue		-	-	-	-	-	-	-	-	-	-	-	-
SUFFICIENCY/(DEFICIENCY)		(38,944)	(57,220)	(58,296)	(59,237)	(60,053)	(60,755)	(61,351)	(61,851)	(62,262)	(62,591)	(62,844)	(63,028)
Network Pool Revenue Requirement including sufficiency/(deficiency)	Base Year 705,224	744,169	762,445	763,520	764,461	765,277	765,979	766,576	767,075	767,486	767,815	768,068	768,252
Network MW	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775
Network Pool Rate (\$/kw/month)	2.83	2.99	3.06	3.07	3.07	3.08	3.08	3.08	3.08	3.09	3.09	3.09	3.09
Increase/(Decrease) in Network Pool Rate (\$/kw/month), relative to base yea		0.16	0.23	0.24	0.24	0.25	0.25	0.25	0.25	0.26	0.26	0.26	0.26
RATE IMPACT relative to base year		5.7%	8.1%	8.5%	8.5%	8.8%	8.8%	8.8%	8.8%	9.2%	9.2%	9.2%	9.2%

Assumptions		
Ontario Capital Tax	0.285%	2007 Ontario capital tax rate
Grants in Lieu of Municipal tax	0.63%	Transmission system average
Depreciation	1.4%	Reflects 74 year weighted average service life for towers, conductors and station equipment, excluding lan
Interest and Return on Rate Base	7.06%	Includes OEB-approved ROE of 9.88% on common equity and 4% on preferred equity, 5.47% forecast cost of debt and 36/4/60
Income Tax Provision	36.12%	common/preferred/debt split
Large Corporations Tax	0.000%	2007 federal and provincial corporate income tax rate including surta:
Capital Cost Allowance	8%	2007 large corporations tax rate
Incremental OM&A	1%	100% Class 47 assets (formerly Class 1)
		1% of Initial Capital per year

Revenue Requirement and Network Pool Rate Impact using existing Network pool rate as the base year

		Project YE	Project YE	Project YE	Project YE	Project YE	Project YE	Project YE	Project YE	Project YE	Project YE	Project YE	Project YE	Project YE
		31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Bruce to Milton Reinforcement Project														
Calculation of Incremental Revenue Requirement (\$000)		13	14	15	16	17	18	19	20	21	22	23	24	25
In-service date	31-Dec-11													
Capital Cost	635,000													
Less: Capital Contribution Required	(0)													
Net Capital	635,000													
Average Rate Base		551,596	544,924	538,252	531,579	524,907	518,235	511,562	504,890	498,218	491,546	484,873	478,201	471,529
Incremental OM&A Costs	1.0%	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350
Ontario Capital Tax	0.285%	237	226	217	208	200	192	185	179	173	168	163	158	154
Grants in Lieu of Municipal tax	0.63%	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970
Depreciation	1.4%	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672
Interest and Return on Rate Base	7.06%	38,936	38,465	37,994	37,523	37,052	36,581	36,110	35,639	35,168	34,697	34,226	33,755	33,284
Income Tax Provision	36.12%	6,984	7,527	8,015	8,452	8,844	9,192	9,502	9,775	10,015	10,224	10,405	10,561	10,692
Large Corporations Tax	0.000%	-	-	-	-	-	-	-	-	-	-	-	-	-
REVENUE REQUIREMENT PRE-TAX		63,148	63,210	63,218	63,175	63,088	62,958	62,789	62,585	62,348	62,081	61,786	61,466	61,122
Incremental Revenue		-	-	-	-	-	-	-	-	-	-	-	-	-
SUFFICIENCY/(DEFICIENCY)		(63,148)	(63,210)	(63,218)	(63,175)	(63,088)	(62,958)	(62,789)	(62,585)	(62,348)	(62,081)	(61,786)	(61,466)	(61,122)
Network Pool Revenue Requirement including sufficiency/(deficiency)	Base Year 705,224	768,373	768,434	768,442	768,400	768,312	768,182	768,013	767,809	767,572	767,305	767,011	766,690	766,347
Network MW	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775	248,775
Network Pool Rate (\$/kw/month)	2.83	3.09	3.09	3.09	3.09	3.09	3.09	3.09	3.09	3.09	3.08	3.08	3.08	3.08
Increase/(Decrease) in Network Pool Rate (\$/kw/month), relative to base year		0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.25	0.25	0.25	0.25
RATE IMPACT relative to base year		9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	8.8%	8.8%	8.8%	8.8%

REVENUE REQUIREMENT AND NETWORK POOL RATE IMPACT

REVENUE REQUIREMENT AND NETWORK POOL RATE IMPACT USING FORECAST 2008 NETWORK POOL RATE AS THE BASE YEAR

Bruce to Milton Reinforcement Project		Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec	Project YE 31-Dec
Calculation of Incremental Revenue Requirement (\$000)		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
		1	2	3	4	5	6	7	8	9	10	11	12
In-service date	31-Dec-11												
Capital Cost	635,000												
Less: Capital Contribution Requirec	(0)												
Net Capital	635,000												
Average Rate Base		314,164	624,992	618,319	611,647	604,975	598,302	591,630	584,958	578,285	571,613	564,941	558,269
Incremental OM&A Costs	1.0%	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350	6,350
Ontario Capital Tax	0.285%	461	433	407	383	361	340	321	304	288	274	260	248
Grants in Lieu of Municipal tax	0.63%	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970
Depreciation	1.4%	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672
Interest and Return on Rate Base	7.48%	23,510	46,769	46,270	45,771	45,271	44,772	44,273	43,774	43,274	42,775	42,276	41,776
Income Tax Provision	36.12%	457	(2,049)	(500)	911	2,196	3,365	4,427	5,391	6,264	7,055	7,768	8,411
Large Corporations Tax	0.000%	-	-	-	-	-	-	-	-	-	-	-	-
REVENUE REQUIREMENT PRE-TAX		41,420	62,146	63,169	64,057	64,821	65,470	66,014	66,461	66,819	67,096	67,296	67,428
Incremental Revenue		-	-	-	-	-	-	-	-	-	-	-	-
SUFFICIENCY/(DEFICIENCY)		(41,420)	(62,146)	(63,169)	(64,057)	(64,821)	(65,470)	(66,014)	(66,461)	(66,819)	(67,096)	(67,296)	(67,428)
	Base Year												
Network Pool Revenue Requirement including sufficiency/(deficiency)	744,947	786,367	807,093	808,116	809,004	809,768	810,417	810,961	811,408	811,766	812,043	812,243	812,375
Network MW	255,597	255,597	255,597	255,597	255,597	255,597	255,597	255,597	255,597	255,597	255,597	255,597	255,597
Network Pool Rate (\$/kw/month)	2.91	3.08	3.16	3.16	3.17	3.17	3.17	3.17	3.17	3.17	3.18	3.18	3.18
Increase/(Decrease) in Network Pool Rate (\$/kw/month), relative to base yea		0.17	0.25	0.25	0.26	0.26	0.26	0.26	0.26	0.27	0.27	0.27	0.27
RATE IMPACT relative to base year		5.8%	8.6%	8.6%	8.9%	8.9%	8.9%	8.9%	8.9%	9.3%	9.3%	9.3%	9.3%

Assumptions			
Ontario Capital Tax	0.285%	2007 Ontario capital tax rate	
Grants in Lieu of Municipal tax	0.63%	Transmission system average	
Depreciation	1.4%	Reflects 74 year weighted average service life for towers, conductors and station equipment, excluding lan	
Interest and Return on Rate Base	7.48%	Includes OEB-approved ROE of 10.5% on common equity and 4% on preferred equity, 5.47% forecast cost of debt and 40/4/56	
Income Tax Provision	36.12%	common/pref/debt split	
Large Corporations Tax	0.000%	2007 federal and provincial corporate income tax rate including surta:	
Capital Cost Allowance	8%	2007 large corporations tax rate	
Incremental OM&A	1%	100% Class 47 assets (formerly Class 1)	
		1% of Initial Capital per year	

**Hydro One Networks -- Transmission Connection Economic Evaluation Model
2007 Parameters and Assumptions**

Transmission rates are based on current OEB-approved uniform provincial transmission rates.

Monthly Rate (\$ per kW)	
Network	2.83
Transformation	1.50
Line	0.82

Grants in lieu of Municipal tax (% of up-front capital expenditure, a proxy for property value):

0.63% Based on Transmission system average

Ontario Capital tax based on currently enacted rates, per TSC Appendix 5 (% of UCC, a proxy for taxable capital) :

0.285% 2007 provincial rate

Overhead rate on capital:

Varies from year to year; latest forecast as follows:

2007	14.0%
2008	13.0%
2009	10.0%
2010	10.0%
2011	12.0%

Fully allocated overheads per TSC section 6.5.2 (c) using Hydro One Networks forecast Transmission capitalized overhead rate

AFUDC rate:

Varies from year to year; latest forecast as follows:

2007	5.9%
2008	5.8%
2009	5.8%
2010	5.8%
2011	5.7%

Based on Hydro One Networks Transmission forecast embedded cost of debt. Charged on construction work in progress to in-service date of capital.

Income taxes (based on currently enacted rates, per TSC Appendix 5):

Basic Federal Tax Rate (before surtax) - % of taxable income:

2007 21.00%

Current rate

Federal Surtax - % of taxable income:

2007 1.12%

Current rate

Ontario corporation income tax - % of taxable income:

2007 14.00%

Current rate

Large Corporation Tax - % of UCC (a proxy for taxable capital)

2007 0.000%

Current rate

Capital Cost Allowance Rate, Class 47:

2007 8.0%

Current rate *

* Rate change retroactively enacted in 2006 to 8% for assets added after Feb. 22/05; formerly Class 1

After-tax Discount rate:

2007 5.87%

Based on OEB-approved ROEs of 9.88% on common equity and 5.5% on preferred equity, forecast cost of debt of 5.47%, 36/4/60 common/pref/debt split, and current enacted income tax rate of 36.12%

1 **OTHER PUBLIC INTEREST CONSIDERATIONS**

2
3 **1.0 ADEQUACY, RELIABILITY, AND QUALITY IMPACTS**

4
5 As confirmed by IESO's SIA as described in Exhibit B, Tab 6, Schedule 3, Hydro One's
6 CIA as described in Exhibit B, Tab 6, Schedule 3, and the OPA assessment as described
7 in Exhibit B, Tab 6, Schedule 5, Appendix 1, the new line facilities will improve the
8 adequacy, reliability, and quality of electric service to consumers and will not adversely
9 impact on the system or other transmission customers.

10
11 The new line facilities will ensure that adequate generation utilizing the committed and
12 forecast Bruce area generation is available to the rest of the province and they will avoid
13 the potential for increased congestion in the Bruce area. The new line will also improve
14 the reliability and quality of energy supply by providing an additional transmission path
15 for Bruce area generation to be delivered to Ontario consumers.

16
17 **2.0 ADDITIONAL SYSTEM BENEFITS**

18
19 As stated in the IESO's SIA, the proposed facilities also provide an additional system
20 benefit of a reduction in system losses in the order of 119 MW.

21