COST OF LONG-TERM DEBT

1.0 HYDRO ONE DISTRIBUTION LONG-TERM DEBT

The debt portfolio for Hydro One Distribution, as set out in Exhibit B2, Tab 1, Schedule 2, is based on debt issued by Hydro One Networks Inc. to Hydro One Inc., of which the Distribution business is mapped a portion. Hydro One Networks Inc. issues debt to Hydro One Inc., reflecting debt issues by Hydro One Inc. to third party public debt investors.

Third party public debt investors hold all of the long-term debt issued by Hydro One Inc. Hydro One Inc.'s debt financing strategy takes into consideration the objectives of cost effectiveness, distributing debt maturities evenly over time, and ensuring the term of the debt portfolio is compatible with the long life of the Company's assets.

Hydro One Inc. has a Medium Term Note ("MTN") Program that provides ready access to issue debt with a term greater than one year into the Canadian debt capital markets. The standard maturity terms of five, ten and 30 years are preferred by investors and represent the main financing which Hydro One Inc. utilizes to execute its financing strategy and raise the required funds. The preliminary short form base shelf prospectus for the current $3.0 billion MTN Program is provided in Exhibit A, Tab 11, Schedule 2. Hydro One Distribution will update its application with the final short form base shelf prospectus after the final prospectus has been filed with the Ontario Securities Commission.

2.0 CREDIT RATINGS

As Hydro One Inc. issues medium term notes in the Canadian public debt markets, credit ratings are a requirement. The credit ratings of Hydro One Inc.'s debt obligations by Dominion Bond Rating Service, Moody's Investors Service and Standard & Poor's Rating Services are as follows:

Table 1
Credit Ratings for Hydro One Inc.

Rating Agency	Short-term Debt	Debt
Standard & Poor's Rating Services (S&P)	A-1	A+
Dominion Bond Rating Service (DBRS)	R-1(middle)	A(high)
Moody's Investors Service (Moody's)	Prime-1	Aa3

The most recent rating agency reports are provided in Exhibit A, Tab 11, Schedule 1.

3.0 COST OF LONG-TERM DEBT

The long-term debt rate is calculated as the weighted average rate on embedded debt, new debt and forecast debt planned to be issued in 2009, 2010 and 2011. The weighted average rate on long-term debt rate is 5.72% for 2010 and 5.72% for 2011. Details of Hydro One Distribution's long-term debt rate calculation for the 2009 bridge year and 2010 and 2011 test years are identified at Exhibit B2, Tab 1, Schedule 2, pages 4, 5 and 6.

The amount of each Hydro One Networks Inc. debt issue that is mapped to the Distribution business is based on its most recent forecast of borrowing requirements. Borrowing requirements are driven mainly by debt retirement, capital expenditures net of internally generated funds, and the maintenance of its capital structure. For example, in

November 2008, Hydro One Inc. issued $400 million of five-year notes with a coupon rate of 5.00%, of which $160 million was mapped to Hydro One Distribution as shown on line 21 of Exhibit B2, Tab 1, Schedule 2, page 5. The interest rates of debt issues mapped to the Distribution business, as shown in Exhibit B2, Tab 1, Schedule 2, are equal to the actual interest rates on debt issued by Hydro One Networks Inc. to Hydro One Inc., and by Hydro One Inc. to third party public debt investors.

3.1 Embedded Debt

The Board has determined in its Cost of Capital Report that for embedded debt, the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt. Hydro One Distribution’s embedded long-term debt, which was issued during the period from 2000 to 2007, is shown on lines 1 to 18 of Exhibit B2, Tab 1, Schedule 2, page 5. The rates on these embedded debt issues were approved by the Board as part of EB-2007-0681.

3.2 New Debt

The Board has determined in its Cost of Capital Report that the rate for new debt that is held by a third party will be the prudently negotiated contract rate. This would include recognition of premiums and discounts. The following discusses new debt issued from 2007 to 2009, which are shown on lines 19 to 25 of Exhibit B2, Tab 1, Schedule 2, page 5.

In October of 2007, Hydro One Inc. issued $300 million of ten-year notes with a 5.18% coupon rate, of which $75 million was mapped to Hydro One Distribution, as shown on line 19 of Exhibit B2, Tab 1, Schedule 2, page 5.

In March of 2008, Hydro One Inc. issued $300 million of notes, of which $120 million was mapped to Hydro One Distribution as shown on line 20 of Exhibit B2, Tab 1, Schedule 2, page 5. The issue was a re-opening of the 5.18% coupon note originally issued in October, 2007, bringing the total amount in that series to $600 million.

In March of 2008, Hydro One Inc. also issued a $250 million three-year note with a coupon rate of 4.08%, of which $100 million was mapped to Hydro One Distribution. Hydro One subsequently entered into a $250 million notional principal amount fixed to floating interest rate swap to convert this note into variable or floating rate debt paying an effective interest rate of three-month bankers' acceptance rate plus 30 basis points. This variable rate debt has been included as part of the deemed short-term debt amount equal to 4% of rate base.

In November of 2008, Hydro One Inc. issued $400 million of five-year notes with a 5.00% coupon rate, of which $160 million was mapped to Hydro One Distribution, as shown on line 21 of Exhibit B2, Tab 1, Schedule 2, page 5.

In November of 2008, Hydro One Inc. issued $100 million of two-year notes with a 3.89% coupon rate, of which $40 million was mapped to Hydro One Distribution, as shown on line 22 of Exhibit B2, Tab 1, Schedule 2, page 5.

In January of 2009, Hydro One Inc. issued $100 million of notes, of which $35 million was mapped to Hydro One Distribution as shown on line 23 of Exhibit B2, Tab 1, Schedule 2, page 5. The issue was a re-opening of the 3.89% coupon 2 year note originally issued in November, 2008, bringing the total amount in that series to $200 million.

In January of 2009, Hydro One Inc. issued $200 million of notes, of which $70 million was mapped to Hydro One Distribution as shown on line 24 of Exhibit B2, Tab 1, Schedule 2, page 5. The issue was a re-opening of the 5.00% coupon 5 year note originally issued in November, 2008, bringing the total amount in that series to $600 million.

In March of 2009, Hydro One Inc. issued $300 million of thirty-year notes with a 6.03% coupon rate, of which $105 million was mapped to Hydro One Distribution, as shown on line 25 of Exhibit B2, Tab 1, Schedule 2, page 5.

3.3 Forecast Debt

Hydro One Distribution's forecast borrowing requirements are $102.6 million remaining for 2009, $489.6 million for 2010 and $381.5 million for 2011. For 2010 and 2011 planning purposes it is assumed that debt issuance will be evenly distributed over the standard five, ten and 30-year terms, which are preferred by investors.

Table 2 lists the fixed rate MTN's which Hydro One Distribution plans to issue in 2009, as shown in line 26 and 27 of Exhibit B2, Tab 1, Schedule 2, page 5. The remainder of the long term debt to be issued during 2009 is assumed to be ten year debt.

Table 2
Forecast Debt Issues for 2009

2009		
Principal Amount ($Millions)	**Term (Years)**	**Coupon**
102.6	10	4.77%

Table 3 lists the fixed rate MTN's which Hydro One Distribution plans to issue in 2010 and 2011, as shown on lines 25 to 30 of Exhibit B2, Tab 1, Schedule 2, page 6.

Table 3
Forecast Debt Issues for 2010 and 2011

2010			2011		
Principal Amount ($Millions)	Term (Years)	Coupon	Principal Amount ($Millions)	Term (Years)	Coupon
163.2	5	3.78%	127.2	5	5.08%
163.2	10	5.07%	127.2	10	6.37%
163.2	30	6.16%	127.2	30	7.46%

3.4 Interest Rates for 2009, 2010 and 2011 Forecast Debt Issues

Distribution business borrowing will be financed at market rates applicable to Hydro One Inc. Table 4 summarizes the derivation of the forecast Hydro One Inc. yield for each of the planned issuance terms for 2009, 2010 and 2011.

Table 4
Forecast Yield for 2009-2011 Issuance Terms

	2009		
	5-year	**10-year**	**30-year**
Government of Canada	1.74%	2.80%	3.55%
Hydro One Spread	1.74%	1.97%	2.31%
Forecast Hydro One Yield	3.48%	4.77%	5.86%
	2010		
	5-year	**10-year**	**30-year**
Government of Canada	2.04%	3.10%	3.85%
Hydro One Spread	1.74%	1.97%	2.31%
Forecast Hydro One Yield	3.78%	5.07%	6.16%
	2011		
	5-year	**10-year**	**30-year**
Government of Canada	3.34%	4.40%	5.15%
Hydro One Spread	1.74%	1.97%	2.31%
Forecast Hydro One Yield	5.08%	6.37%	7.46%

Each rate is comprised of the forecast Canada bond yield plus the Hydro One Inc. credit spread applicable to that term. The ten-year Government of Canada bond yield forecast for 2010 and 2011 is based on the April, 2009 Consensus Forecasts**.** The five- and 30-year Government of Canada bond yield forecasts are derived by adding the April, 2009 average spreads (five-year to ten-year for the five-year forecast and 30-year to ten-year for the 30-year forecast) to the ten-year Government of Canada bond yield forecast. Hydro One's credit spreads over the Government of Canada bonds are based on the average of indicative new issue spreads for April, 2009 obtained from the Company's MTN dealer group for each planned issuance term.

3.4 Treasury OM&A Costs

Treasury OM&A costs are incurred to:

- execute borrowing plans and issue commercial paper and long-term debt;
- ensure compliance with securities regulations, bank and debt covenants;
- manage the company's daily liquidity position, control cash and manage the company's bank accounts;
- settle all transactions and manage the relationship with creditors; and
- communicate with debt investors, banks and credit rating agencies.

These costs are $1.1 million for 2010 and 2011 as shown on line 32 of Exhibit B2, Tab 1, Schedule 2, pages 5 and 6.

3.5 Other Financing-Related Fees

Column (e) of Exhibit B2, Tab 1, Schedule 2 ("Premium, Discount and Expenses") represents the costs of issuing debt. These costs are specific to each debt issue and include commissions, legal fees, debt discounts or premiums on issues or re-openings of issues relative to par, and hedge gains or losses.

Other financing related fees, $0.6 million in 2010 and 2011, identified on line 33 of Exhibit B2, Tab 1, Schedule 2, pages 5 and 6, include the Distribution allocation of Hydro One Inc.'s annual credit rating agency, letter of credit, banking, custodial and trustee fees.