ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

The interest rate used for construction work in progress ("CWIP"), which is referred to as Allowance for Funds Used During Construction ("AFUDC") reflects the Board's Decision in proceeding EB-2006-0117. This Decision prescribed that the interest rate to use for CWIP, would be the Scotia Capital All-Corporates Mid-Term Average Weighted Bond Yield, as published on the Bank of Canada web-site and updated quarterly. Per the OEB's website, since July, 2007, "the source reference for the CWIP interest rate, the Scotia Capital Inc. All Corporates Average Weighted Yield Mid-Term has not been publicly available via the Bank of Canada's website. This bond yield has been renamed as the DEX Mid Term Corporate Bond Index". Hydro One Distribution has used the 10-year Government of Canada forecast plus the April 2009 spread between the average actual 10-year Government of Canada bond yield and the average DEX Mid-Term Corporate Bond Index Yield for 2009 Bridge and 2010 and 2011 Test Years. 2008 used both the prescribed (Q2 to Q4) and approved embedded cost of debt (Q1), while 2006 and 2007 reflect CWIP at Hydro One Distribution's previously approved embedded cost of debt.

Table 1
Allowance for Funds Used During Construction

Year	AFUDC Rate	AFUDC ($ millions)
2006	6.4%	22.7
2007	5.2 %	18.6
2008	5.3%	30.1
2009	6.1%	18.4
2010	6.4%	22.3
2011	7.7%	27.1