

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

The interest rate used for construction work in progress (CWIP), referred to as Allowance for Funds Used During Construction (AFUDC), reflects the Board’s Decision in proceeding EB-2006-0117. This Decision required that the interest rate to be used for CWIP would be the Scotia Capital All-Corporates Mid-Term Average Weighted Bond Yield, as published on the Bank of Canada website 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”. For the 2010 bridge year, as well as, for the 2011 and 2012 test years Hydro One Transmission has used the ten year Government of Canada forecast plus the November 2009 spread between the average actual ten year Government of Canada bond yield and the average DEX Mid-Term Corporate Bond Index Yield. For the historical years, 2007 reflects the average of the approved embedded cost of debt (Q1) and the prescribed quarterly interest rates (Q2 to Q4), while 2008 and 2009 reflect the average quarterly prescribed interest rate.

Table 1
Allowance for Funds Used During Construction

Year	AFUDC Rate	AFUDC (\$ millions)
2007	5.2%	18.6
2008	5.3%	26.9
2009	5.9%	45.7
2010	4.9%	73.6
2011	5.6%	54.4 ¹
2012	6.1%	63.2 ¹

¹ Excludes CWIP for project included in rate base as discussed in Exhibit A, Tab 11, Schedule 5.