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Undertaking

TO PROVIDE THE MEMORANDUM OF AGREEMENT WITH THE PROVINCE OF
ONTARIO, DATED MARCH 2008.

Response

Please see Attachment 1.

MEMORANDUM OF AGREEMENT

BETWEEN

**Her Majesty the Queen
in Right of the province of Ontario
as Represented by the Minister of Energy**

AND

Hydro One Inc. ("HOI")

A. Purpose:

This document sets out the agreement between Hydro One Inc. ("HOI"), a corporation incorporated under the *Business Corporations Act* (Ontario) (the "OBCA") and subject to/governed by the *Electricity Act, 1998* (the "EA") and its sole shareholder, Her Majesty the Queen in Right of the Province of Ontario as represented by the Minister of Energy (the "Shareholder") on mandate, governance, responsibilities, performance expectations and executive compensation.

This Memorandum of Agreement is intended to promote a positive and co-operative working relationship between HOI and the Shareholder.

B. Mandate:

1. HOI's core mandate is the safe, reliable and cost-effective transmission and distribution of electricity to Ontario electricity users.
2. HOI will operate as a commercial enterprise with an independent Board of Directors that will, at all times, exercise its fiduciary responsibility and a duty of care to act in the best interests of HOI.

C. Governance:

The governance relationship between HOI and the Shareholder shall be founded on the following principles:

1. The Board of Directors of HOI is responsible for oversight of the management of the business and affairs of the Corporation, including the appointment of executive officers and management and the formation and operation of key committees essential to its governance structure.
2. HOI will maintain a high level of accountability and transparency as follows:
 - (i) As an OBCA company, HOI is subject to all of the governance requirements associated with the OBCA, and as a reporting issuer of debt securities is subject to the governance requirements under the *Securities Act (Ontario)* and any other applicable securities regulatory requirements.
 - (ii) HOI is also subject to the *Freedom of Information and Protection of Privacy Act (Ontario)*, the *Public Sector Salary Disclosure Act (Ontario)* and the *Auditor General Act (Ontario)*.
 - (iii) As a transmitter and distributor of electricity, and as a generator for the purposes of distributing electricity to remote areas through its wholly-owned subsidiary Hydro One Remote Communities Inc., HOI is licensed by and subject to the jurisdiction of the Ontario Energy Board (the OEB) pursuant to the *Ontario Energy Board Act, 1998*, including all of the OEB's orders, codes and other regulatory requirements as are applicable.

3. The Shareholder may at times direct HOI to undertake special initiatives. Such directives will be communicated as written declarations by way of an Unanimous Shareholder Agreement or Declaration in accordance with Section 108 of the OBCA. Hydro One will disclose this direction as required under securities legislation.

D. Responsibilities – Operational:

1. HOI will operate its transmission and distribution assets as efficiently and cost-effectively as possible, within the legislative and regulatory framework of the Province of Ontario. The company will operate these assets in a manner that appropriately mitigates the Shareholder's financial and operational risk.
2. HOI will continue to operate in full compliance within the legislative and regulatory framework and using best practices with respect to employee and public safety.
3. HOI will prioritize investments in transmission and distribution capacity to support projects necessary to maintain ongoing grid security and reliability.
4. HOI will operate in Ontario in accordance with the highest corporate standards, including but not limited to the areas of corporate governance, social responsibility, environmental stewardship and corporate citizenship.

E. Responsibilities – Financial:

1. HOI will annually prepare a three to five year investment plan for new projects. Once approved by HOI's Board of Directors, the plan will be submitted to the Minister of Energy and the Minister of Finance for concurrence.
2. As an OBCA corporation and reporting issuer with a commercial mandate, HOI will operate on a financially sustainable basis and maintain or increase the value of its assets for its Shareholder.
3. HOI will obtain the approval of the Minister of Energy and Minister of Finance, in advance, with respect to:
 - (i) any proposal to issue or transfer shares in the Corporation or any of its subsidiaries;
 - (ii) any proposed acquisition or divestment of assets, other major transaction, proposal or action by the Corporation or any of its subsidiaries, where such acquisition or divestment, major transaction, proposal or action would potentially have a material impact on:
 - the cash flow to the Ontario Electricity Financial Corporation
 - the financial interests of the Province; or
 - the payments in lieu of taxes by the Corporation and its subsidiaries under the EA.

F. Responsibilities – Communications & Reporting:

1. The HOI Board of Directors and the Minister of Energy will meet, as needed, to enhance mutual understanding of interrelated strategic matters.
2. HOI's Chair, President and Chief Executive Officer and the Minister of Energy will meet on a regular basis.
3. HOI's Chair, President and Chief Executive Officer and the Minister of Finance will meet at the Minister's request.
4. HOI's senior management and senior officials of the Ministry of Energy and the Ministry of Finance will meet and communicate on a regular and as needed basis to discuss ongoing issues and clarify expectations or to identify and address emergent issues, including but not limited to issues that may have a material impact on the financial performance of HOI or the Shareholder. Such communication and reporting from HOI should be on an immediate or, at minimum, an expedited basis where an urgent material human safety or system reliability matter arises.

5. HOI will provide the Minister of Energy and senior officials of the Ministries of Energy and Finance its multi-year and annual business planning information, and advise on developments and issues that may materially impact the business and financial performance of HOI, and/or the financial performance and interest of the Shareholder, on a timely basis.
6. HOI will provide the Minister of Energy and senior officials of the Ministries of Energy and Finance quarterly and monthly financial reports and briefings on operational and financial performance against plan.
7. In all other respects, HOI will communicate with government ministries and agencies in a manner typical for an Ontario corporation of its size and scope.

G. Performance Expectations:

1. HOI will seek continuous improvement in the operational performance of its transmission and distribution assets and internal operations.
2. HOI will annually establish three to five year performance targets for operating and financial results as well as major project execution. Key measures are to be agreed upon with the Minister of Energy and the Minister of Finance. HOI will benchmark its performance on these measures against the performance of other utilities, including international utilities where information is available. On these measures, Hydro One will target performance to be in the top quartile of private and publicly-owned utilities in North America.
3. Once approved by HOI's Board of Directors, HOI's annual performance targets will be submitted to the Minister of Energy and the Minister of Finance for concurrence.
4. HOI will provide annual reports on its performance compared to targets to senior officials of the Ministry of Energy and Ministry of Finance.

H. Executive Compensation:

1. HOI will have regard to the recommendations of the Agency Review Panel regarding Executive and Senior Management Compensation in setting executive compensation policies, procedures and practices, including internal governance practices and procedures.

I. Review of this Agreement:

This agreement will be reviewed and updated as required.
This Memorandum of Agreement shall be effective as of the date hereof:


Dated the 27 day of March, 2008

On behalf of HOI:


On behalf of the Shareholder:

Original Signed by:

Original Signed by:



Rita Burak
 Chair,
 Hydro One Inc. Board of Directors



Her Majesty the Queen in Right of the Province of
 Ontario as represented by the Minister of Energy,
 Gerry Phillips