

IN THE MATTER OF the *Ontario Energy Board Act 1998*, S.O.1998,
c.15, (Schedule B);, (the Act)

AND IN THE MATTER OF section 99 of the Act;

AND IN THE MATTER OF an application by Hydro One Networks Inc.
for authority to expropriate interest in certain lands for the purpose of
constructing and operating a new 500 kilovolt double circuit
transmission line known as the Bruce to Milton Transmission
Reinforcement Project.

RESPONSES TO
BOARD'S REQUEST FOR SUBMISSIONS ON QUESTIONS RAISED IN
REVISED PROCEDURAL ORDER NO. 3

BY

INTERVENORS GROUP REPRESENTED BY
FALLIS FALLIS & McMILLAN
(‘THESE INTERVENORS’)

PREAMBLE:

1. The Board and the Applicant appear to have presumed, in these proceedings, that the Board has the sole and exclusive legislative authority under s. 99 of the *Ontario Energy Board Act, 1998*, (*‘OEB Act’*), to approve an application to expropriate certain lands made by qualified person, as applicant, which has obtained from the Board an order granting leave to construct, expand or reinforce an electricity transmission line under ss. 92 and 96 of the *OEB Act*.

2. These Intervenor made a motion to the Board on July 14th, 2010, submitting that the Board does NOT have any such legislative competence to approve such an application to expropriate lands under section 99 of the *OEB Act*; that the Legislature never intended to give the Board that legislative authority under the *OEB Act*; and that sole purpose for s. 99 of the *OEB Act*, as so enacted by the Legislature, was limited to empowering a person, (which had previously obtained an Order under s. 96 of that *Act* on an application under S. 92 of the *Act*), with an Order of "AUTHORITY" under S. 99(5) of the *OEB Act* to be qualified, as authorized in law, to expropriate certain lands, here the lands associated with the s. 96 Order of the Board granting such leave to Hydro One to construct and reinforce a 500 KV transmission line.
3. In order to allow these Intervenor to fully answer the 3 questions posed by the Board to all Intervenor in this proceeding, in *Amended Procedural Order No. 3*, we request that the Board first reflect upon the following submissions to in order to give context and parameters to the Response of these Intervenor.
4. Hydro One Inc. (the "Company") is a share capital corporation, incorporated under the *Business Corporations Act*, and 100% of its issued and outstanding shares are held and owned by the Government of Ontario, which nominates and appoints all of the Directors of the Company. (See extracts of 2009 Annual Report of the Company attached at Schedule 'A' hereto and the statement of its auditors, KPMG LLP therein).
5. Hydro One Networks Inc. is described by its auditors, Ernst & Young LLP, as being a wholly owned subsidiary of Hydro One Inc. The latest 2007 audited Distribution Business Financial Statements of Hydro One Networks Inc. available to these Intervenor, (found in Board File EB-2009-0096, Exhibit A-9-1, extracts of which are attached at Schedule 'B' hereto), disclose that it was incorporated on March 9, 1999 under the *Business Corporations Act*.

6. Based upon the above observations these Intervenor have concluded that the beneficial ownership equities that exist in Hydro One Networks Inc., must lie with the Government of Ontario, which owns 100% of the outstanding and issued shares of Hydro One Inc. which wholly owns all of the issued and outstanding shares issued by its subsidiary corporation, Hydro One Networks Inc. These Intervenor invite the Board to make a similar conclusion in its written Decision in this proceedings.
7. The Minister of Energy and Infrastructure is charged with responsibility of the administration of the *Electricity Act, 1998* under S. 2 thereof, and in Parts IV and IX.1 of that *Act* the Legislature has provided statutory provisions in respect to Hydro One Inc. including additional objects and specific provisions in respect to the ownership and use of transmission corridor lands in which Hydro One has acquired fee simple title thereto.
8. Under the *Ministry of Energy and Infrastructure Act*, R.S.O. 1990, Chap. 23, as amended, the Minister of Energy and Infrastructure, (the "Minister"), has the legislative authority to make recommendations and decisions to cause the acquisition of corridor lands for the infrastructure establishment of electrical transmission lines throughout Ontario. In that regard, and to initiate such infrastructure projects, the Minister has the legislative authority to request the Minister of Government Services, under the *Ministry of Government Services Act*, R.S.O. 1990, Chap. 25, as amended, to take and expropriate land or any interest therein on behalf of the Government or the Ministry of Energy and Infrastructure, specifically under the provisions of S. 8 of the *Ministry of Energy and Infrastructure Act*.
9. The relevant sections of the *Ministry of Energy and Infrastructure Act* states as follows:

Definitions:

1. In this Act

"Government" means the Government of Ontario and any ministry or agency thereof and the Crown in right of Ontario and any agency thereof; ("government")

“Government related agency” means,

- (a) the Office of the Assembly and the offices of persons appointed on the address of the Assembly,
- (b) the corporation of any municipality in Ontario,

Acquisition of property, for use of Government

8. (1) The Minister may acquire by purchase, lease or otherwise, and hold property, including any Interest therein, for the use or purposes of Government and he or she may dispose of all or any part of such property or any interest therein by sale, lease or otherwise, when no longer required for the use or purposes of Government. R.S.O. 1990, c. M.25, s. 8 (1).

For Use of Government Related Agency

- (2) The Minister, if requested by a Government related agency, may acquire by purchase, lease or otherwise, and hold property, including any interest therein, for the use or purposes of the Government related agency, and, if requested by such agency, he or she may dispose of all or any part of such property or any interest therein by sale, lease or otherwise, when no longer required for the use or purposes of the Government related agency. R.S.O. 1990, c. M.25, s. 8 (2).

Expropriation

- (3) Subject to the *Expropriations Act*, the Minister, for and in the name of the Crown, may, without consent of the owner thereof, enter upon, take and expropriate any land or interest therein that he or she considers necessary for the use or purposes of the Government. R.S.O. 1990, c. M.25, s. 8 (3)

Expropriation by Minister on behalf of Government or Government Related Agency

- (4) Subject to the *Expropriations Act* and this Act, but despite the fact that the Government or any Government related agency has, under any other special or general Act, authority, without the consent of the owner, to enter upon, take and expropriate land or any interest therein, the Minister, upon the request of the Government or Government related agency or as he or she may be directed by the Lieutenant Governor in Council, may, for and in the name of the Crown and without the consent of the owner thereof, enter upon, take and expropriate land or any interest therein on behalf of the Government or Government related agency under this Act. R.S.O. 1990, c. M.25, s. 8 (4).

Disposal of Real Property

- (5) Any disposal by the Minister or by the Ontario Realty Corporation of real property, or any interest therein, by way of grant, sale, lease or otherwise, is subject to the

approval of the Lieutenant Governor in Council. R.S.O. 1990, c. M.25, s. 8 (5); 1999, c. 9, s. 139 (1).

Application of subs. (5) to leases and easements

- (6) Subsection (5) does not apply to a grant of a lease for a term of less than twenty-one years or to a grant of an easement. R.S.O. 1990, c. M.25, s. 8 (6).

Definition

- (7) In this section,
“Ontario Realty Corporation” means the Ontario Realty Corporation continued by subsection 2 (2) of the Capital Investment Plan Act, 1993. 1999, c. 9, s. 139 (2).

Property vested in Crown

9. (1) Except as otherwise provided in any other Act or by the Lieutenant Governor in Council, all public works and all property, or any interest therein, belonging to the Government shall vest in the Crown. R.S.O. 1990, c. M.25, s. 9 (1).

(‘emphasis added’)

10. The Minister Government Services has the legislative authority to expropriate lands for, and on behalf of, the Minister for a 500 KV Electrical Transmission Line, and the Minister need only apply to the Board for an Order for leave to construct, expand or reinforce such undertaking pursuant to S. 92 and 96 of the *OEB Act*.
11. Armed with the authority of an Order issued by the Board under s. 96 of the *OEB Act* the Minister of Government Services, on behalf of the Minister, is NOT required to apply to the Board for ‘AUTHORITY’ to expropriate such lands for a 500 KV Electrical Transmission lands as the Legislature has already given to the Minister of Government Services the legislative power, on behalf of the Minister, to expropriate such certain lands under S. 8 of the *Ministry of Government Services Act* and has specifically provided in S. 8(3) thereof that such expropriation is subject to the *Expropriations Act*.

12. These Intervenor submit that the Legislature has clearly intended throughout all of its legislation that all Government expropriations of any land to be acquired compulsorily from any land owner, or the holder of any interest whatsoever therein, be conducted and carried out by the Minister of Government Services for any Minister of any branch of the Government and any Government Related Agency, *subject to the Expropriations Act*.
13. These Intervenor suggest that it would now seem very illogical that the Legislature would in 1968 introduce a fully comprehensive scheme for dealing with expropriations, causing injurious affection and developing hearings procedures therein to inquire of the fairness, soundness, reasonable necessity of the expropriation undertaking, and to develop compensation procedures for damages that may outflow any approved expropriation or approved injurious affection so caused, and then 30 years later, by the *OEB Act, 1998* the Legislature would unilaterally remove one category of takings, (namely for works involving electricity distribution or transmission lines, an interconnection or station, or a hydro carbon line), otherwise available to all Ontarions, from the benefit of the procedures and remedies otherwise set out in the *Expropriations Act* , and to the specific detriment of those owners of land effected by such category of taking, (here over 400 properties in a linear corridor of 180 KM running from Bruce GSS to Milton TS).
14. Every municipality in Ontario has a right to apply for an Order to construct an electrical distribution or transmission line under the authority of the *Municipal Act, 2001* under S. 6(1) of that *Act*. Additionally, if granted an Order by the Board under S. 96 of the *OEB Act* every municipality in Ontario is a ‘*Government Related Agency*’ within the meaning of the *Ministry of Government Services Act* , and, as such, has a right under S. 8 (2) of that *Act* to request the Minister of Government Services to acquire such land for such municipality, and the Minister of Government Services has the power to acquire the same for such municipality. Again S. 8(4) provides that such expropriation is subject to the *Expropriations Act*. As any municipality that may receive leave of the Board under S. 96 of the *OEB Act* to construct, expand or reinforce a transmission line, is already “*authorized*” in law to

expropriate lands no application to the Board would be required under S. 99 of the *OEB Act* as every municipality already has the “*authority*” to expropriate lands.

15. S. 9(1) of the *City of Toronto Act, 2006*, S.O. 2006 chap. 11, S. 9(1) thereof provides that the power of the City to acquire land includes the power to expropriate land **in accordance with the Expropriations Act.** (See *Motion, Book of Authorities - Fallis Group* Tab 7. p.1)
16. The City of Toronto could just as easily be an Applicant for a S. 96 Order granting leave to construct an electrical distribution or transmission line, and if granted such approval could enter into a contract with Toronto Hydro for its erection and construction, and could otherwise qualify with the provisions of the *Electricity Act, 1998*. In short the expropriation of land by the City of Toronto could take place to compulsorily acquire such lands, but the Legislature has clearly enacted that such expropriation must take place ‘*in accordance with the Expropriations Act*’. As the City is already ‘*authorized*’ to expropriate lands no application to the Board would be required under S. 99 of the *OEB Act* as that City already has the “*authority*” to expropriate lands.
17. The Legislature has therefore enacted that every expropriation of land by the Government of Ontario, and every Government Related Agency of the Province of Ontario, if carried out under the authority of the *Ministry of Government Services Act*, shall be subject to the Expropriations Act.
18. The Supreme Court of Canada has determined in *Toronto Area Transit Operating Authority v. Dell Holdings Ltd.* [1997] 1. S.C.R. 32, (see *Book of Authorities* of these Interveners previously filed in the Motion herein - Tab # 6), that a remedial statute should not interpreted, in the event of an ambiguity, to deprive a person of common law rights unless that is the plain provision of the statute.

19. Section 100 of the *OEB Act* is the only section in that *Act* that makes any specific reference to the *Expropriations Act* at all. It states as follows:

Determination of compensation

100. If compensation for damages is provided for in this Part and is not agreed upon, the procedures set out in clauses 26 (a) and (b) of the *Expropriations Act* apply to the determination of the compensation, and the compensation shall be determined under section 27 of that Act or by the Ontario Municipal Board. 1998, c. 15, Sched. B, s. 100.

20. These Intervenor submit that as S. 100 applies only to Part VI of the *OEB Act*, S. 100 applies only to those specific sections within Part VI *that deal with compensation*. The only specific sections within Part VI of the *OEB Act*, (other than S. 100), that deal with compensation and/or damages are respectively Ss. 98, 102 and 103 which state as follows:

Right to enter land

98. (1) The following persons may enter on land at the intended location of any part of a proposed work and may make such surveys and examinations as are necessary for fixing the site of the work:

1. Any person who has leave under this Part or a predecessor of this Part to construct the work.
2. Any person who is exempted under section 95 from the requirement to obtain leave to construct the work.
3. Where the proposed work is the expansion or reinforcement of a transmission or distribution system, any person who is required by the Board, pursuant to a condition of the person's licence, to expand or reinforce the transmission or distribution system.
4. The officers, employees and agents of a person described in paragraph 1, 2 or 3. 2006, c. 33, Sched. X, s. 2 (1).

Interim order

(1.1) The Board may, upon application, issue an interim order authorizing a person and the officers, employees and agents of that person to enter on land at the intended location of any part of a proposed work and to make such surveys and examinations as are necessary for fixing the site of the work and as are specified in the order if,

- (a) the person has applied for leave under section 90 or 92 and has complied with section 94;
- (b) the person has applied to the Board for an exemption under section 95; or
- (c) the Board has commenced a proceeding to determine whether to require the person, pursuant to a condition of the person's licence, to expand or reinforce a transmission or distribution system. 2006, c. 33, Sched. X, s. 2 (2).

Damages

- (2) Any damages resulting from an entry onto land carried out under subsection (1) or pursuant to an order under subsection (1.1) shall be determined by agreement or, failing agreement, in the manner set out in section 100. 2006, c. 33, Sched. X, s. 2 (3).

Right to compensation for damages

- 102.** Any person who has acquired land for a work under this Part by agreement with the owner of the land shall pay to the owner due compensation for any damages resulting from the exercise of the person's rights under the agreement and, if the compensation is not agreed upon, it shall be determined in the manner set out in section 100. 1998, c. 15, Sched. B, s. 102.

Entry upon land

- 103(1)** Any person may at any time enter upon land, without the consent of the owner of the land, for the purpose of inspecting, altering, maintaining, repairing, renewing, disconnecting, replacing or removing a work or part of a work where leave for the construction, expansion or reinforcement of the work or the making of an interconnection was granted under this Part or a predecessor of this Part. 1998, c. 15, Sched. B, s. 103 (1).

Compensation

- (2) Compensation for any damages resulting from the exercise of a right under subsection (1), if not agreed upon by the person and the owner of the land, shall be determined in the manner set out in section 100. 1998, c. 15, Sched. B, s. 103 (2).
21. These Intervenor submit that S. 98 of the *OEB Act* relates only to Hydro One's early right of entry which was approved by Order of the Board in EB-2000-0051, and such entries have already taken place. S. 100 of the *OEB Act* has application to S. 98 with respect to providing

a mechanism for resolving damages that Hydro One and any landowner may not otherwise agree upon, arising from pre-acquisition permitted entry on an owners lands, and the Legislature has therein directed that unresolved damage compensation issues be determined under Ss. 26 and 27 of the *Expropriations Act* or the OMB for damages caused during early entry by Hydro One. S. 98 of the *OEB Act* has absolutely nothing to do with the expropriation of land.

22. These Intervenor submit that S. 102 of the *OEB ACT* relates only to land acquired by Hydro One by an 'agreement' with an owner of land, (not acquired by 'expropriation'), in the event that the issue of compensation for damages from the exercise of Hydro One's Right so acquired under the 'agreement', is not agreed upon. In that event the provisions of S. 100, apply, as the Legislature has therein directed that compensation be determined under Ss. 26 and 27 of the *Expropriations Act* or by the OMB. Sec. 102 section has absolutely nothing to do with the expropriation of land
23. These Intervenor submit that S. 103 (1) of the *OEB ACT* relates only to post land-interest acquisition situations by Hydro One where Hydro One requires subsequent entry upon previously acquired interest in lands of an Owner thereof for the purpose of inspecting, altering, maintaining, repairing, renewing, disconnecting, replacing or removing a work or part of a work where leave for the construction, expansion or reinforcement of the work or the making of an interconnection was granted under Part VI or a predecessor of Part VI. S. 103(1) of the *OEB Act* has absolutely nothing to do with the expropriation of land.
24. These Intervenor submit that S. 103(2)of the *OEB ACT* references "compensation" for damages incurred by an owner of land caused her by Hydro One by e subsequent entry upon previously acquired interest in lands of an Owner thereof as permitted under S. 103(1) of the *OEB Act*, which exercise by Hydro One of such rights of entry are post land interest

acquisition situations. S. 103(2) of the *OEB Act*, similar to S. 103(1) thereof, has absolutely nothing to do with the expropriation of land.

25. These Intervenors therefore submit that when the Legislature enacted S. 100 of the *OEB Act* in 1988, it did so to ensure that prospect damages from entry related issues, (incurred both before land interest acquisition and after land interest acquisition), would have a summary resolution remedy in the event of disagreement. Damages incurred under S. 98, S.102 and S. 103 situations related to entry by Hydro One, as above mentioned would therefore have a remedial compensation resolution mechanism for compensation determination in Ss. 26 and 27 of the *Expropriations Act*, or by the OMB, if the parties, (here Hydro One and a land owner) were otherwise unable to so agree thereon.
26. These Intervenors submit that S. 99 of the *OEB Act* *makes absolutely no provision for a determination of compensation for damages whatsoever* that may be suffered by land owners or the owners of any interest in land, whether expropriated by Hydro One, or for damages suffered to any owner of any interest in land caused by lawful injurious affection, and that the Legislature made no such provision, fully contemplating that the *Expropriations Act* fully governed and applied in situations where land is expropriated or injurious affection is caused by a statutory authority. (see S. 2(1) & (2) of the *Expropriations Act*).
27. These Intervenors therefore submit that S. 100 of the *OEB Act* has absolutely no application to any of the considerations of the Board on the application made by Hydro One under S. 99 of the *OEB Act* which is before the Board in these proceedings, and that S. 100 of that *Act* therefor cannot be utilized by the Board or Hydro One to justify a previously stated position that its promulgation serves to confirm that the Legislature intended that the Board has legislative competence to approve the expropriations as sought by the Applicant herein, Hydro One.

RESPONSE SUBMISSIONS TO DIRECT BOARD QUESTIONS:

- A. WHAT SIGNIFICANCE, IF ANY, DO THESE DIFFERENT DEFINITIONS ('EXPROPRIATING AUTHORITY' & 'STATUTORY AUTHORITY' as defined under the Expropriations Act), HAVE IN THE CONTEXT OF THE PROCEEDING CURRENTLY BEFORE THE BOARD?**
28. These Intervenors submit that Hydro One has made an application '*to the Board for 'authority' to expropriate land for a work*' under S. 99(1) of the *OEB ACT*, and that the Board, under S. 99(5) thereof, '*may make an order 'authorizing' the applicant to expropriate the land*' if the Board is of the opinion that the expropriation of the land is in the public interest.
29. These Intervenors submit that the *OEB Act* is NOT a remedial statute, as it provides no guidance, rules, or procedures for the Board, for expropriation, or compensation in respect to expropriations, nor does it provide for regulations thereunder for such guidance, rules, or procedures for or before the Board.
30. The Board has been granted statutory powers by the Legislature, and therefore has legislative competence, to determine if Hydro One ought to be granted '*authority*', (in the sense of a right, and a power under the authority of statute, S. 99(5) of the), by way of a Board Order to thereby empower Hydro One with authority by statute to thereafter commence proceedings to expropriate lands, which Hydro One does not otherwise currently have, unlike the Minister.

31. These Intervenor submit that if, after holding a hearing and determining that the expropriation of land is in the public interest, the Board makes an Order authorizing Hydro One, as Applicant in this proceeding, to expropriate the land, that Hydro One will then be so empowered, both as an '*expropriating authority*' and as a '*statutory authority*', as so defined under the *Expropriations Act*, and that Hydro One may then make an application under that *Act* to expropriate lands and cause injurious affection.
32. These Intervenor submit that the Legislature did NOT provide the Board with any legislative competence to '*approve*' the expropriation of certain lands as sought by Hydro One, as the Legislature had previously passed the *Expropriations Act* in 1968, which is in much the same form now as it was then, and that the Legislature enacted specifically, in S. 2(1) in 1968, and later in 2002, (four years after the *OEB Act* was enacted in 1998), the Legislature enacted S.2 (2) thereof, which sections now state as follows:

Application of Act

- 2(1) *Despite any general or special act, where land is expropriated or injurious affection is caused by a statutory authority, this Act applies; - (enacted in 1998).*

References in other Acts

- 2(2) *The provisions of any general or special Act providing procedures with respect to the expropriation of land or the compensation payable for land expropriated or for injurious affection that refer to another Act, shall be deemed to refer to this Act and not to the other Act. - (enacted in 2002).*

(Emphasis Added)

33. These Intervenor submit that these enactments by the Legislature, in 1968 and 2002, fully trump the arguments of Hydro One that there are two separate expropriation schemes in Ontario, one expropriation scheme for everyone else in Ontario under the *Expropriation Act*,

and another separate expropriation scheme under S. 99 of the *OEB Act* for hydrocarbon and electricity works first requiring Board leave under Ss. 92 and 96 of the *OEB Act*.

34. As the Government of Ontario owns all of the outstanding shares of Hydro One Inc. which describes Hydro One Networks Inc. in its 2009 audited financial statement as being a wholly owned subsidiary of Hydro One Inc., Hydro One Networks Inc. is therefor controlled by the Government of Ontario, being the Crown. S. 3 of the *Expropriations Act* states as follows:

Crown bound by Act

3. *This Act binds the Crown.*

35. These Intervenor submit that the Crown is bound by the provisions of S. 2(1) and (2) of the *Expropriations Act*, and that, as the Government of Ontario is the Crown and is the owner of all of the issued and outstanding shares of Hydro One Inc., (whose 2009 audited Financial Statements reveal that Hydro One Networks Inc. is a wholly owned subsidiary thereof), Hydro One Networks Inc. is thereby estopped, in law, as is the Crown, from denying that the *Expropriations Act* does apply to the intended expropriation by Hydro One Networks Inc.
36. These Intervenor submit that the Board has no legislative competence under the *OEB Act* to authorize Hydro One to cause injurious affection to the residual lands of owners not otherwise the subject of an intended fee or easement expropriation taking. The *OEB Act* provides no such legislative authority to the Board, makes no mention of, nor define the words ‘*statutory authority*’, ‘*injurious affection*’, or ‘*expropriating authority*’, nor does it define the meaning of the words ‘*land*’, or ‘*owner*’ or ‘*expropriate*’; and it makes no provision whatsoever for compensation for any expropriation of an interest in land from an unwilling owner thereof.

37. These Intervenor submit that if this Board does not empower Hydro One with 'authority' to expropriate land as is otherwise sought by Hydro One, but rather chooses to 'approve' the expropriation itself, (which these Intervenor submit is beyond the legislative competence of the Board so to do), these Intervenor submit that the Board would effectively put Hydro One in a 'Merchant of Venice' situation whereby Hydro One would appear to get its 'pound' of expropriation but that it cannot have one 'drop' of injurious affection, as the Board has absolutely no legislative competence to cause Hydro One to cause injurious affection to lands adjacent to the proposed lands intended by Hydro One for expropriation.
38. Absent the existence of legislative competence of the Board to authorize Hydro One, to cause injurious affection to the residual lands, and the interest therein of any owner, located abutting any proposed lands intended for expropriation, such owner(s) would be at liberty to seek to enjoin Hydro One, in a Court of Law, from causing such injurious affection in advance of the taking, and to seek further full compensation damages in a Court of Law, in respect to any financial injury suffered as a consequence thereof.
39. The *Expropriations Act* gives rights to both an 'expropriating authority' and to a 'statutory authority', as well as to the owners of all interests in land in a compulsory taking, and is a complete remedial Act which was enacted by the Legislature in 1968 as a complete code, and which Act the Supreme Court of Canada has determined in Toronto Area Transit Operating Authority v. Dell Holdings Ltd. to be a remedial Act which must be given a broad and liberal interpretation consistent with its purpose. Substance, not form, is the governing factor. In the event of an ambiguity a remedial statute should **not** be interpreted to deprive one of the common law rights unless that is the plain provision of the statute.
40. These Intervenor submit that the Board must first ask itself whether or not the *OEB Act*, which is a regulatory Act for hydrocarbon and electrical undertakings etc., is also, in fact,

a remedial *Act*, enacted for the benefit of owners in respect of forced takings from owners of an interest in land.

41. These Intervenor submit that the Board must also ask itself to determine and outline the legal harm that would be suffered by landowners if, in fact, the go-forward expropriation process should take place under the *Expropriations Act*, rather than under the *OEB Act*, should the power of the Board be limited, by legislative competence, only to making an Order empowering Hydro One to expropriate lands, as being in the public interest.

B. IF THE BOARD AUTHORIZES THE PROPOSED EXPROPRIATIONS, WILL HYDRO ONE BECOME AN EXPROPRIATING AUTHORITY, OR A STATUTORY AUTHORITY ?

42. The *OEB Act* does not utilize or contain the words, '*expropriating authority*' or '*statutory authority*'. Those are defined words utilized only in the context and meaning of the *Expropriations Act* in respect of which *Act* this Board does not appear to engage or recognize as having exclusive jurisdiction over all matters of the expropriation of land from owners otherwise unwilling to sell such land interests.
43. These Intervenor submit that this question, as raised by the Board assumes or presumes that the Board has legislative competence to '*authorize*', (in the sense of '*approve of*'), the proposed expropriations.
44. These Intervenor state that if the Board authorizes the proposed expropriations it will be acting beyond its legislative competence as the Board's power is limited only to the request

made by Hydro One, namely, making and Order to grant '*Authority*' to Hydro One to expropriate.

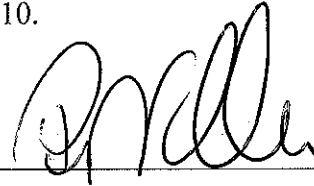
45. If the Board accedes to the specific request of Hydro One and makes an Order clothing or empowering Hydro One with the right to expropriate the land it will thereby have made Hydro One both an '*expropriating authority*' and a '*statutory authority*' within the meaning of the *Expropriations Act*, enabling Hydro One to have the full benefits of that *Act* and affording every owner of every interest in the land of the right to benefit from the remedial provisions of that *Act*, *including*: an inquiry hearing. (hearings of necessity), and a right to compensation entitlement for the interest in lands that are the subject of the expropriation, and compensation for damages suffered to the residual abutting lands of those owners that may be the subject of a compensation damage entitlement occasioned by injurious affection lawfully caused by Hydro One as a '*statutory authority*'.
46. These Intervenor submit that if the Board purports to authorize the proposed expropriations under the current S. 99 application of Hydro One, Hydro One will NOT become an '*expropriating authority*' nor a '*statutory authority*' as the *Expropriations Act* has not been engaged by the Board in that S. 99 proceeding, as those two types of stated authorities are NOT within the contemplation of the wording of the *OEB Act*, and are of no relevance to the consideration of the hearing contemplated thereunder.
47. These Intervenor submit that failing an Order being made by the Board empowering Hydro One with "Authority" to expropriate the lands, Hydro One will not be an '*expropriating authority*' nor a '*statutory authority*' as defined under the *Expropriations Act*, and will NOT be able to lawfully expropriate the lands or cause injurious affection to the residual lands of the owners thereof.

C. IS THIS AN ISSUE THE BOARD WILL NEED TO ADDRESS IN ITS FINAL DECISION IN THIS CASE ?

48. These Intervenor submit that the issues raised by the Board in Amended Procedural Order No.3, and on the Motion heard on June 14th, 2010, need to be addressed in advance of both the settlement of the Issues List, which hearing thereon has been already heard by this Board, and certainly before a final decision is rendered in this case, as the legislative competence of the Board has been called into question as to whether or not the Board presently has any legislative authority under S. 99 of the *OEB Act* to unilaterally issue a *Certificate of Approval* for the expropriation of land sought to be expropriated by Hydro One, on a S. 99 application specifically made by Hydro One to obtain 'authority' to expropriate land for a work.
41. These Intervenor submit that, as land owners, from whom Hydro One seeks to lawfully to confiscate and condemn their lands for the intended work of Hydro One, and which seeks to cause injurious affection to them, they have the right to know sooner, rather than later, exactly what beneficial rights and remedies that these Intervenor are lawfully entitled to receive under the *Expropriations Act*, and which rights and remedies are otherwise available to all Ontario landowners, and if not fully available to them, to fully understand the reasons of this Board as to why they are being singled out to be denied the fullness of such rights and benefits under the *Expropriations Act* which the Legislature has appeared to have enacted for their very protection and advantage, since 1968, over 41 years ago.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated at Durham, ON, this 28th day of July, 2010.

A handwritten signature in black ink, appearing to read 'P. Fallis', is written over a horizontal line.

Peter T. Fallis

Solicitor for the **INTERVENORS GROUP**
REPRESENTED BY FALLIS FALLIS &
McMILLAN

SCHEDULE "A"

Investing in Ontario's Energy Future

Management's Report

The Consolidated Financial Statements, Management's Discussion and Analysis ("MD&A") and related financial information presented in this Annual Report have been prepared by the management of Hydro One Inc. ("Hydro One" or the "Company"). Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada and applicable securities legislation. The MD&A has been prepared in accordance with National Instrument 51-102, Part 5.

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements and MD&A have been properly prepared within reasonable limits of materiality and in light of information up to February 11, 2010.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal control and internal audit. The system of internal control includes a written corporate conduct policy; implementation of a risk management framework; effective segregation of duties and delegation of authorities; and sound and conservative accounting policies that are regularly reviewed. This structure is designed to provide reasonable assurance that assets are safeguarded and that reliable information is available on a timely basis. In addition internal and disclosure controls have been documented, evaluated, tested and identified consistent with National Instrument 52-109 (Bill 198). An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Finance Committee of the Hydro One Board of Directors.

The Consolidated Financial Statements have been examined by KPMG LLP, independent external auditors appointed by the Hydro One Board of Directors. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with accounting principles generally accepted in Canada. The Auditors' Report, which appears on page 37, outlines the scope of their examination and their opinion.

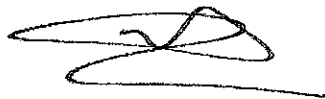
The Hydro One Board of Directors, through its Audit and Finance Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Audit and Finance Committee of Hydro One met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit and Finance Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

The Company's President and Chief Executive Officer and Senior Vice-President and Chief Financial Officer have certified Hydro One's annual Consolidated Financial Statements and annual MD&A filed under provincial securities legislation, related disclosure controls and procedures and the design and effectiveness of related internal controls over financial reporting pursuant to National Instrument 52-109.

On behalf of Hydro One Inc.'s management:



Laura Formosa
President and Chief Executive Officer



Sandy Struthers
Senior Vice-President and Chief Financial Officer

Auditors' Report

To the Shareholder of Hydro One Inc.

We have audited the consolidated balance sheets of Hydro One Inc. (the Company) as at December 31, 2009 and December 31, 2008, and the consolidated statements of operations and comprehensive income, retained earnings, accumulated other comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and December 31, 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP

Chartered Accountants,
Licensed Public Accountants

Toronto, Canada
February 11, 2010

Consolidated Statements of Operations and Comprehensive Income

<i>Year ended December 31 (Canadian dollars in millions, except per share amounts)</i>	2009	2008
Revenues		
Transmission (Note 15)	1,147	1,212
Distribution (Note 15)	3,534	3,334
Other	63	51
	4,744	4,597
Costs		
Purchased power (Note 15)	2,326	2,181
Operation, maintenance and administration (Note 15)	1,057	965
Depreciation and amortization (Note 3)	537	548
	3,920	3,694
Income before financing charges and provision for payments in lieu of corporate income taxes	824	903
Financing charges (Note 4)	308	292
Income before provision for payments in lieu of corporate income taxes	516	611
Provision for payments in lieu of corporate income taxes (Notes 5 and 15)	46	113
Net income	470	498
Other comprehensive loss	—	(1)
Comprehensive income	470	497
Basic and fully diluted earnings per common share (Canadian dollars) (Note 14)	4,528	4,797

Consolidated Statements of Retained Earnings

<i>Year ended December 31 (Canadian dollars in millions)</i>	2009	2008
Retained earnings, January 1	1,497	1,258
Change in accounting policy for the recognition of future income tax assets and liabilities (Note 2)	12	—
Net income	470	498
Dividends (Note 14)	(188)	(257)
Retained earnings, December 31	1,791	1,497

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Accumulated Other Comprehensive Income

<i>Year ended December 31 (Canadian dollars in millions)</i>	2009	2008
Accumulated other comprehensive income, January 1	(10)	(9)
Other comprehensive loss	—	(1)
Accumulated other comprehensive income, December 31	(10)	(10)

Consolidated Balance Sheets

<i>December 31 (Canadian dollars in millions)</i>	2009	2008
Assets		
Current assets:		
Cash	—	16
Accounts receivable (net of allowance for doubtful accounts — \$25 million; 2008 — \$23 million) (Note 15)	843	754
Regulatory assets (Note 8)	72	64
Materials and supplies	21	19
Future income tax assets (Notes 2 and 5)	21	2
Other	16	18
	973	873
Fixed assets (Notes 2 and 4):		
Fixed assets in service	18,407	17,334
Less: accumulated depreciation	6,815	6,418
	11,592	10,916
Construction in progress	1,256	912
Future use land, components and spares	150	132
	12,998	11,960
Other long-term assets:		
Deferred pension asset (Note 12)	424	441
Regulatory assets (Notes 2 and 8)	1,033	291
Goodwill	133	133
Intangible assets (net of accumulated amortization) (Notes 2 and 7)	218	162
Future income tax assets (Notes 2 and 5)	18	—
Other	13	18
	1,839	1,045
Total assets	15,810	13,878

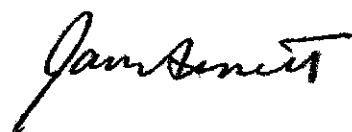
See accompanying notes to Consolidated Financial Statements.

Consolidated Balance Sheets (continued)

December 31 (Canadian dollars in millions)	2009	2008
Liabilities		
Current liabilities:		
Bank indebtedness	26	—
Accounts payable and accrued charges (Notes 13 and 15)	800	793
Regulatory liabilities (Notes 2 and 8)	100	43
Accrued interest	74	64
Short-term notes payable	55	—
Long-term debt payable within one year (Note 9)	600	400
	1,655	1,300
Long-term debt (Note 9)	6,281	5,733
Other long-term liabilities:		
Employee future benefits other than pension (Note 12)	940	908
Regulatory liabilities (Notes 2 and 8)	504	564
Future income tax liabilities (Notes 2 and 5)	693	—
Environmental liabilities (Note 13)	303	237
Long-term accounts payable and other liabilities	16	12
	2,456	1,721
Total liabilities	10,392	8,754
Contingencies and commitments (Notes 17 and 18)		
Shareholder's equity (Note 14)		
Preferred shares (authorized: unlimited; issued: 12,920,000)	323	323
Common shares (authorized: unlimited; issued: 100,000)	3,314	3,314
Retained earnings	1,791	1,497
Accumulated other comprehensive income	(10)	(10)
Total shareholder's equity	5,418	5,124
Total liabilities and shareholder's equity	15,810	13,878

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:



James Arnett
Chair



Walter Murray
Chair, Audit and Finance Committee

Consolidated Statements of Cash Flows

<i>Year ended December 31 (Canadian dollars in millions)</i>	2009	2008
Operating activities		
Net income	470	498
Environmental expenditures	(7)	(14)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	487	502
Revenue difference deferral account	—	(73)
Regulatory liability refund account	(24)	30
Smart meters	(16)	1
External revenue variance account	12	—
Revenue recovery account	7	(25)
Other regulatory asset and liability accounts	(13)	6
Future income taxes	16	—
Amortization of debt costs	—	2
	930	927
Changes in non-cash balances related to operations (Note 14)	(38)	125
Net cash from operating activities	892	1,052
Financing activities		
Long-term debt issued	1,150	1,050
Long-term debt retired	(400)	(540)
Short-term notes payable	55	—
Dividends paid	(188)	(259)
Other	2	3
Net cash from financing activities	619	254
Investing activities		
Capital expenditures		
Fixed assets	(1,473)	(1,185)
Intangible assets	(93)	(99)
	(1,566)	(1,284)
Other assets	13	6
Net cash used in investing activities	(1,553)	(1,278)
Net change in cash and cash equivalents	(42)	28
Cash and cash equivalents, January 1	16	(12)
Cash and cash equivalents, December 31 (Note 14)	(26)	16

See accompanying notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. DESCRIPTION OF THE BUSINESS

Hydro One Inc. (Hydro One or the Company) was incorporated on December 1, 1998, under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the Province). The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario. These businesses are regulated by the OEB.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries:

Hydro One Networks Inc. (Hydro One Networks), Hydro One Remote Communities Inc. (Hydro One Remote Communities), Hydro One Brampton Networks Inc. (Hydro One Brampton), Hydro One Telecom Inc., Hydro One Delivery Services Inc. (HODS), Hydro One Lake Erie Link Management Inc. (HOLELMI) and Hydro One Lake Erie Link Company Inc. (HOLELCo).

HODS was dissolved on August 29, 2008. Effective December 13, 2007, upon approval of the resolution to apply for the dissolution of HODS, its interests in HOLELMI and HOLELCo were distributed to Hydro One.

Basis of Accounting

The Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP).

Rate-Setting

The rates of the Company's electricity Transmission and Distribution Businesses are subject to regulation by the Ontario Energy Board (OEB).

Transmission

On August 16, 2007, the OEB issued its decision in respect of Hydro One Networks' 2007 and 2008 transmission rate application. The decision, which was effective January 1, 2007, approved all operating and capital expenditures for 2007 and 2008. However, the decision resulted in a reduction in the approved return on equity from 9.88% to 8.35%. The OEB also approved final amounts and disposition treatments for certain regulatory liabilities including the revenue difference deferral account (RDDA), the earnings sharing mechanism (ESM) and export and wheeling fees, as well as the transmission market ready regulatory asset.

As part of a joint proceeding involving all transmitters in Ontario, on October 17, 2007, the OEB approved Uniform Transmission Rates (UTRs) for implementation on November 1, 2007, through to December 31, 2008. The new rates fully reflect the approved changes to our revenue requirement and charge determinants.

On May 30, 2008, Hydro One Networks submitted an application to the OEB to adjust UTRs effective January 1, 2009. On August 28, 2008, the OEB approved the application allowing Hydro One Networks to recover revenues consistent with the OEB-approved 2008 revenue requirement, which reflected the full repayment to customers of the amounts recorded in the ESM and the RDDA at the end of 2008.

To achieve the necessary funding in support of required infrastructure, Hydro One Networks filed a transmission rate application for 2009 and 2010 rates in September 2008. The application sought OEB approval for revenue requirement of approximately \$1,233 million and \$1,341 million, based on a return on equity of 8.53% and 9.35% for 2009 and 2010, respectively. On May 28, 2009, the OEB issued its decision in respect of this application. The decision, which was effective July 1, 2009, resulted in a reduced revenue requirement of \$1,180 million and \$1,240 million in 2009 and 2010, respectively, primarily due to a lower approved return on equity. The OEB decision disallowed development capital expenditures of \$180 million for 2010, but agreed to reconsider the projects if additional evidence was provided. On September 4, 2009, Hydro One Networks filed the additional evidence on two projects amounting to approximately \$160 million in capital expenditures. The OEB approved the supplemental evidence for inclusion in Hydro One Networks' 2010 rates. This resulted in a revised revenue requirement of \$1,257 million for 2010, on the basis of an updated return on equity of 8.39% for 2010.

Management's best estimate of the total estimated future expenditures to comply with PCB regulations is about \$320 million. These expenditures will be incurred over the period from 2010 to 2025. As a result of its most recent cost estimate to comply with Environment Canada's PCB regulations and Environment Canada interpretations thereof, the Company has increased its December 31, 2009 environmental liability by approximately \$30 million compared to September 30, 2009.

LAR

As a result of 2009 changes to provincial regulations governing land contamination mitigation and changes in acceptable regulated contamination thresholds, as well as other factors, the Company reviewed its liability for contaminated LAR. As a result of this review, the Company recorded a \$40 million increase in its related liability, as compared to September 30, 2009. The Company's best estimate of the total future expenditures to complete its LAR program is about \$69 million. As part of its review, the Company extended the term of its planned program for distribution properties from 2013 to 2020 and for transmission properties from 2015 to 2020.

Asbestos-Containing Materials

As a result of regulatory changes, Hydro One expects to incur future expenditures to identify, remove and dispose of asbestos-containing materials installed in some of its facilities. The Company plans to undertake additional studies, using the assistance of external experts as required, to estimate the incremental expenditures associated with removing such materials prior to facility demolition. This information will allow the Company to reasonably estimate and record any obligation it may have to incur such expenditures. The Company also anticipates that such future expenditures will be recoverable in future electricity rates.

14. SHARE CAPITAL

Common and Preferred Shares

On March 31, 2000, the Company issued to the Province 12,920,000 5.5% cumulative preferred shares with a redemption value of \$25.00 per share, and 99,990 common shares, bringing the total number of outstanding common shares to 100,000. The Company is authorized to issue an unlimited number of preferred and common shares.

The preferred shares are entitled to an annual cumulative dividend of \$18 million, which is payable on a quarterly basis. The preferred shares are redeemable at the option of the Province at a price of \$25 per share, representing the stated value, plus any accrued and unpaid dividends if the Province sells a number of the common shares which it owns to the public such that the Province's holdings are reduced to less than 50% of the common shares of the Company. Hydro One may elect, without condition, to pay all or part of this redemption price by issuing additional common shares to the Province. If the Province does not exercise its redemption right, the Company would have the ability to adjust the dividend on the preferred shares to produce a yield that is 0.50% less than the then-current dividend market yield for similarly rated preferred shares. The preferred shares do not carry voting rights, except in limited circumstances, and would rank in priority over the common shares upon liquidation.

Dividends

Common dividends are declared at the sole discretion of the Hydro One Board of Directors, and are recommended by management based on results of operations, financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations.

In 2009, preferred dividends in the amount of \$18 million (2008 – \$18 million) and common dividends in the amount of \$170 million (2008 – \$241 million) were declared.

Earnings per Share

Earnings per share is calculated as net income during the year, after cumulative preferred dividends, divided by the weighted average number of common shares outstanding during the year.

Five-Year Summary of Financial and Operating Statistics

<i>Year ended December 31 (Canadian dollars in millions)</i>	2009	2008	2007	2006	2005
Statement of operations data					
Revenues					
Transmission	1,147	1,212	1,242	1,245	1,310
Distribution	3,534	3,334	3,382	3,273	3,085
Other	63	51	31	27	21
	4,744	4,597	4,655	4,545	4,416
Costs					
Purchased power	2,326	2,181	2,240	2,221	2,131
Operation, maintenance and administration	1,057	965	995	880	792
Depreciation and amortization	537	548	521	515	487
	3,920	3,694	3,756	3,616	3,410
Regulatory recovery ¹	-	-	-	-	91
Income before financing charges and provision for payments in lieu of corporate income taxes	824	903	899	929	1,006
Financing charges	308	292	295	295	325
Income before provision for payments in lieu of corporate income taxes	516	611	604	634	681
Provision for payments in lieu of corporate income taxes	46	113	205	179	198
Net income	470	498	399	455	483
Basic and fully diluted earnings per common share (Canadian dollars)	4,528	4,797	3,809	4,366	4,652

December 31 (Canadian dollars in millions)

Balance sheet data

Assets

Transmission	9,118	7,877	7,273	6,950	6,813
Distribution	6,531	5,873	5,407	5,161	4,893
Other	161	128	106	99	92
Total assets	15,810	13,878	12,786	12,210	11,798

Liabilities

Current liabilities (including current portion of long-term debt)	1,655	1,300	1,452	1,194	1,341
Long-term debt	6,281	5,733	5,063	4,848	4,443
Other long-term liabilities	2,456	1,721	1,385	1,347	1,298

Shareholder's equity

Share capital	3,637	3,637	3,637	3,637	3,637
Retained earnings	1,791	1,497	1,258	1,184	1,079
Accumulated other comprehensive income	(10)	(10)	(9)	-	-
Total liabilities and shareholder's equity	15,810	13,878	12,786	12,210	11,798

¹ As a result of the oral and written evidence submitted by Hydro One, on December 9, 2004, the OEB issued a ruling, citing prudence, and approving recovery of amounts previously delayed by the Electricity Pricing, Conservation and Supply Act, 2002, relating to regulatory deferral account balances sought by Hydro One in its May 31, 2004 submission. Consequently, a one-time regulatory recovery of \$91 million was recorded.

Five-Year Summary of Financial and Operating Statistics *(continued)*

<i>Year ended December 31 (Canadian dollars in millions)</i>	2009	2008	2007	2006	2005
Other financial data					
Capital expenditures					
Transmission	918	704	560	402	349
Distribution	643	570	511	417	338
Other	5	10	20	4	4
Total capital expenditures	1,566	1,284	1,091	823	691
Ratios					
Net asset coverage on long-term debt ²	1.79	1.84	1.87	1.92	1.93
Earnings coverage ratio ³	2.15	2.63	2.67	2.67	2.69
Operating statistics					
Transmission					
Units transmitted (TWh) ⁴	139.2	148.7	152.2	151.1	157.0
Ontario 20-minute system peak demand (MW) ⁴	24,477	24,231	25,809	27,056	26,219
Ontario 60-minute system peak demand (MW) ⁴	24,380	24,195	25,737	27,005	26,160
Total transmission lines (circuit-kilometres)	28,924	29,039	28,915	28,600	28,547
Distribution					
Units distributed to Hydro One customers (TWh) ⁴	28.9	29.9	30.2	29.0	29.7
Units distributed through Hydro One lines (TWh) ^{4,5}	43.5	44.7	45.7	44.7	45.6
Total distribution lines (circuit-kilometres)	123,528	123,260	122,933	122,460	122,118
Customers	1,333,920	1,325,745	1,311,714	1,293,396	1,273,768
Total regular employees	5,427	5,032	4,602	4,295	4,189

² The net asset coverage on long-term debt ratio is calculated as total assets minus total liabilities excluding long-term debt (including current portion) divided by long-term debt (including current portion).

³ The earnings coverage ratio has been calculated as the sum of net income, financing charges and provision for payments in lieu of corporate income taxes divided by the sum of financing charges, capitalized interest and cumulative preferred dividends.

⁴ System-related statistics include preliminary figures for December.

⁵ Units distributed through Hydro One lines represent total distribution system requirements and include electricity distributed to consumers who purchased power directly from the IESO.

SCHEDULE "B"

HYDRO ONE NETWORKS INC.

DISTRIBUTION BUSINESS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2007

**HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
AUDITORS' REPORT**

To the Directors of Hydro One Networks Inc.

We have audited the Balance Sheets of the Distribution Business (a business of Hydro One Networks Inc.), as at December 31, 2007 and December 31, 2006 and the Statements of Operations, and Cash Flows of the Distribution Business for the years then ended. These financial statements are the responsibility of the management of the Distribution Business. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Distribution Business of Hydro One Networks Inc. as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles. These financial statements are solely for the information and use of the Directors of Hydro One Networks Inc. for filing with the Ontario Energy Board. These financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

The Distribution Business has no separate legal status or existence (See Note 1).

Erat + Young LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Canada
April 23, 2008

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
STATEMENTS OF OPERATIONS

<i>Year ended December 31 (Canadian dollars in millions)</i>	2007	2006
Revenues		
Energy sales	2,836	2,740
Rural rate protection (Note 13)	125	125
Other	44	41
	3,005	2,906
Costs		
Purchased power (Note 13)	1,964	1,954
Operation, maintenance and administration (Note 13)	503	416
Depreciation and amortization (Note 3)	254	249
	2,721	2,619
Income before financing charges and provision for payments in lieu of corporate income taxes	284	287
Financing charges (Notes 4 and 13)	120	115
Income before provision for payments in lieu of corporate income taxes	164	172
Provision for payments in lieu of corporate income taxes (Notes 5 and 13)	77	46
Net income	87	126
Other comprehensive income	1	-
Comprehensive Income	88	126

See accompanying notes to financial statements.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
BALANCE SHEETS

<i>December 31 (Canadian dollars in millions)</i>	2007	2006
Assets		
Current assets		
Accounts receivable (net of allowance for doubtful accounts – \$18 million; 2006 – \$16 million) (Note 13)	571	585
Regulatory assets (Note 7)	73	94
Materials and supplies	28	23
Other	8	4
	680	706
Fixed assets (Note 6)		
Fixed assets in service	6,098	5,867
Less: accumulated depreciation	2,305	2,329
	3,793	3,538
Construction in progress	150	87
	3,943	3,625
Other long-term assets		
Regulatory assets (Note 7)	85	151
Goodwill	73	73
Long-term accounts receivable and other assets	1	1
	159	225
Total assets	4,782	4,556

See accompanying notes to financial statements.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
BALANCE SHEETS (continued)


<i>December 31 (Canadian dollars in millions)</i>	2007	2006
Liabilities		
Current liabilities		
Inter-company demand facility (Note 13)	158	68
Accounts payable and accrued charges (Note 13)	431	394
Accrued interest	21	21
Long-term debt payable within one year (Notes 8, 9 and 13)	224	105
	834	588
Long-term debt (Notes 8, 9 and 13)	1,864	1,981
Other long-term liabilities		
Employee future benefits other than pension (Note 10)	475	444
Environmental liabilities (Note 11)	34	37
Regulatory liabilities (Note 7)	48	5
Long-term accounts payable and accrued charges	4	5
	561	491
Total liabilities	3,259	3,060
Contingencies and commitments (Notes 9, 15 and 16)		
Excess of assets over liabilities	1,523	1,496
Total liabilities and excess of assets over liabilities	4,782	4,556

See accompanying notes to financial statements.

On behalf of the Board:



Laura Formosa
Chair



Beth Summers
Director

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
STATEMENTS OF CASH FLOWS

<i>Year ended December 31 (Canadian dollars in millions)</i>	2007	2006
Operating activities		
Net income	87	126
Adjustments for non-cash items:		
Depreciation and amortization (net of removal costs)	226	219
Retail settlements variance accounts	40	6
Other regulatory assets and liabilities accounts	24	(8)
	377	343
Changes in non-cash balances related to operations (Note 14)	63	(137)
Net cash from operating activities	440	206
Investing activities		
Capital expenditures	(477)	(393)
Other assets	2	1
Net cash used in investing activities	(475)	(392)
Financing activities		
Change in allocated long-term debt	2	107
Payments to Hydro One Inc. to finance dividends	(57)	(47)
Net cash from (used in) financing activities	(55)	60
Net change in inter-company demand facility	(90)	(126)
Inter-company demand facility, January 1	(68)	58
Inter-company demand facility, December 31	(158)	(68)

See accompanying notes to financial statements.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF THE DISTRIBUTION BUSINESS

Hydro One Inc. (Hydro One) was incorporated on December 1, 1998, under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the Province). The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario. These businesses are regulated by the Ontario Energy Board (OEB).

Hydro One Networks Inc. (Hydro One Networks or the Company) was incorporated on March 4, 1999 under the *Business Corporations Act* (Ontario) and is a wholly owned subsidiary of Hydro One. The Company owns and operates Hydro One's regulated transmission and distribution businesses. The regulated distribution business (the Distribution Business) operates a low-voltage electrical distribution network that distributes electricity from the transmission system, or directly from generators, to customers within Ontario. Distribution customers include small local distribution companies and large industrial customers with loads of less than 5 MW.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). The financial statements have been prepared for the specific use of the OEB. Consolidated financial statements of Hydro One for the year ended December 31, 2007 have been prepared and are publicly available.

These financial statements have been prepared on a carve-out basis to provide the financial position, results of operations, changes in the excess of assets over liabilities and cash flows of the Company's regulated Distribution Business on a basis approved by the OEB. The financial statements are considered by management to be a reasonable representation, prepared on a rational, systematic and consistent basis, of the financial results of that business. As a result of this basis of accounting, these financial statements may not necessarily be identical to the financial position and results of operations that would have resulted had the Distribution Business historically operated on a stand-alone basis.

The financial statements have been constructed primarily through specific identification of assets, liabilities (other than debt), revenues and expenses that relate to the Distribution Business. The Company's long-term debt is allocated based on the respective borrowing requirements of the Company's transmission and distribution businesses. A portion of the Company's shared functions and services costs are allocated to the Distribution Business on a fully allocated cost basis, consistent with OEB-approved independent studies. Payments in lieu of corporate income taxes have been recorded at effective rates based on income taxes as reported in the Statements of Operations as though the Distribution Business was a separate tax paying entity. Certain other amounts presented in these financial statements represent allocations subject to review and approval by the OEB.

Rate-setting

The rates of the Distribution Business are subject to regulation by the OEB. Current distribution rates are based on a cost of service rate regulation model, which also includes a targeted return on deemed common equity. On April 12, 2006, the OEB announced its decision regarding the Company's most recent rate application. On the basis of the written evidence submitted, the OEB approved the requested increase in the revenue requirement based on a reduction in the approved rate of return, from a targeted 9.88% to 9.00%, effective May 1, 2006.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2007 and in total thereafter are as follows: 2008 - \$7 million; 2009 - \$7 million; 2010 - \$6 million; 2011 - \$4 million; 2012 - \$4 million and thereafter - \$28 million.

There are uncertainties in estimating future environmental costs due to potential external events such as changing regulations and advances in remediation technologies. The Company continuously reviews factors affecting its cost estimates as well as the environmental condition of the various properties. The actual cost of investigation or remediation may differ from current estimates.

12. HYDRO ONE NETWORKS' SHARE CAPITAL

Hydro One Networks is authorized to issue an unlimited number of preferred shares and common shares.

13. RELATED PARTY TRANSACTIONS

The Province and Successor Corporations of Ontario Hydro

The Province, OEFC, IESO, Ontario Power Authority (OPA) and Ontario Power Generation Inc. (OPG) are related parties of Hydro One Networks' Distribution Business. In addition, the OEB is related to the Company by virtue of its status as a Provincial Crown Corporation, although as a self-financing and self-sufficient regulatory organization, it carries out independent regulation for Ontario's energy sector, including Hydro One's regulated Distribution Business. Transactions between these parties and the Distribution Business were as follows:

The Distribution Business received amounts for rural rate protection from the IESO. Revenues for 2007 include \$125 million (2006 - \$125 million) related to this program.

In 2007, the Distribution Business purchased power in the amount of \$1,937 million (2006 - \$1,916 million) from the IESO-administered electricity market and \$27 million (2006 - \$38 million) from OPG.

Under the Ontario Energy Board Act, 1998, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters. In 2007, the Distribution Business incurred \$5 million (2006 - \$4 million) in OEB fees.

The Company has service level agreements with Ontario Hydro's successor corporations, primarily OPG. These services include field and engineering, logistics, corporate, telecommunications and information technology services. Operation, maintenance and administration costs related to the purchase of services from these successor corporations were less than \$1 million in each of 2007 and 2006.

Consistent with the OPA mandate, the OPA is responsible for some of the Company's Conservation Demand Management (CDM) programs. The funding includes program costs, incentives and management fees and bonuses. In 2007, the Company received \$3 million (2006 - \$nil) from the OPA in respect of the CDM programs and had a net accounts receivable of \$3 million (2006 - \$nil).

The provision for payments in lieu of corporate income taxes was paid or payable by the Company to the OEFC.

Subsidiaries of Hydro One Inc.

The Company provides services to, and receives services from, Hydro One and its other subsidiaries. Amounts due to and from Hydro One and its subsidiaries are settled through the inter-company demand facility.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)

The Company has entered into various agreements with Hydro One and its subsidiaries related to the provision of corporate functions and services, supply management, computer support and operational services such as environmental, forestry and line services. Revenues include \$1 million (2006 - \$1 million) related to the provision of services to Hydro One and its subsidiaries and operation, maintenance and administration costs include \$3 million (2006 - \$3 million) related to the purchase of services from Hydro One and its subsidiaries.

The Company's debt, including the portion allocated to the Distribution Business, is due to Hydro One. Financing charges include interest expense on this debt in the amount of \$122 million (2006 - \$127 million). In addition, balances payable or receivable under the inter-company demand facility are due to or from Hydro One. Financing charges of the Distribution Business include interest expense on this facility in the amount of \$4 million (2006 - \$2 million).

The amounts due to and from related parties as a result of the transactions referred to above are as follows:

<i>December 31 (Canadian dollars in millions)</i>	2007	2006
Accounts receivable	3	2
Accounts payable and accrued charges	(181)	(181)

Included in accounts payable and accrued charges are amounts owing to the IESO in respect of power purchases of \$179 million (2006 - \$175 million).

14. STATEMENTS OF CASH FLOWS

The changes in non-cash balances related to operations consist of the following:

<i>Year ended December 31 (Canadian dollars in millions)</i>	2007	2006
Accounts receivable decrease (increase)	14	(140)
Materials and supplies increase	(5)	(1)
Other current assets (increase) decrease	(4)	3
Accounts payable and accrued charges increase (decrease)	37	(50)
Accrued interest decrease	-	(2)
Employee future benefits other than pension increase	31	48
Long-term accounts payable and accrued charges (decrease) increase	(1)	2
Other	(9)	3
	63	(137)

15. CONTINGENCIES

The Company is a wholly owned subsidiary of Hydro One. As such, the assets of the Company's Distribution Business are available for the satisfaction of the debts, contingent liabilities and commitments of the Company and Hydro One.

16. COMMITMENTS

The Company and Hydro One have numerous commitments. These commitments have not been specifically allocated to the Distribution Business. However, the net assets of the Distribution Business are available to satisfy these commitments.