

Hydro One Networks Inc.

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Susan Frank

Vice President and Chief Regulatory Officer
Regulatory Affairs



BY COURIER

September 6, 2011

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Ms. Walli

EB-2011-0268– Adjustment to Hydro One Networks’ Approved 2012 Electricity Transmission Revenue Requirement To Reflect Adoption of US GAAP - Hydro One Evidence

In its Decision, Notice of Hearing and Procedural Order No. 1 dated August 25, 2011, the Board ordered Hydro One to file with the Board and all intervenors of record several specific documents related to the use of US GAAP as its approved framework for rate setting, regulatory accounting and regulatory reporting commencing January 1, 2012 and any other information deemed by Hydro One to be of assistance, under the file number EB-2011-0268.

Attached please find all the Board requested documents as follows:

- The decision of the OSC granting Hydro One permission to use US GAAP in its financial statements filed with the OSC for the fiscal year beginning January 1, 2012, as dated July 21, 2011;
- Hydro One’s letter to the Board dated May 31, 2011 regarding electricity transmission revenue requirements and US GAAP considerations; and
- Hydro One’s letter to the Board dated July 15, 2011 regarding the Distribution Business and utilization of US GAAP.

In the attached, Hydro One has provided additional information for the Board’s consideration in this written proceeding, including:

- Hydro One’s request to the OSC, incorporating the rationale for its request, that they grant Hydro One permission to use US GAAP in its financial statements filed with the OSC, as dated July 7, 2011; and
- Schedules which document and provide the detailed calculations behind the \$195.3M reduction driven by the adoption of US GAAP upon Hydro One Transmission’s OEB approved 2012 base

revenue requirement of \$1,657.6M. Please note that as per the OEB Decision in EB-2010-0002, the 2012 Cost of Capital is to be updated in the Fall of 2011 to reflect OEB approved parameters, 2011 actual debt issuances and updated forecast 2012 third-party long-term debt rates.

Please be aware that due to a typographical error on Hydro One's part in its earlier submitted material, the impact of US GAAP utilization on Hydro One's 2012 approved base revenue requirement was misstated as a reduction to \$1,426.3 million; the correct figure is \$1,462.3 million as stated throughout the attached materials.

If you have any questions regarding this submission please contact Ann-Marie Reilly at 416 345-6482.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

c. EB-2011-0268 Intervenors (electronic)

EXHIBIT LIST

1
2

Exhibit	Tab	Schedule	Contents
A			Administration
	1	1	Exhibit List
	2	1	Adjustments Relating To Adoption of US GAAP
	3	1	Summary of Hearing
	4	1	Procedural Orders, Correspondence, Notice
B			Documentation
	1		OSC Approval
	1	1	OSC Approval of Hydro One Request To File Under US GAAP
	1	2	Hydro One Request to OSC For Approval To File Financial Statements under US GAAP
	2		Hydro One Correspondence to OEB Regarding US GAAP
	2	1	Hydro One 2011-2012 Transmission Revenue Requirements - US GAAP Considerations, dated May 31, 2011
	2	2	Hydro One Distribution Business Utilization of US GAAP as of January 1, 2012, dated Jul 15, 2011
C			Justification and Impact of Move To US GAAP
C1			Written Direct
	1	1	Justification of Move To US GAAP
	1	2	Summary of Financial Impact of Move To US GAAP
C1	2	1	OEB Order 2011 Uniform Electricity Transmission Rate Order dated Jan 18, 2011

Exhibit	Tab	Schedule	Contents
	2	2	EB-2010-0002 Hydro One Networks' 2011-2012 Electricity Transmission Final Revenue Requirement & Charge Determinants in Accordance With Decision dated January 5, 2011
C2			Supporting Schedules – Revised EB-2010-0002 Schedules to Reflect US GAAP
	1	1	Revenue Requirement Summary
	1	2	OM&A
	1	3	Rate Base and Depreciation
	1	4	Capital Expenditures
	1	5	Capital Structure and Return on Capital
	1	6	Cost of Long-Term Debt Capital Test Year (2012) Year Ending December 31
	1	7	Income Tax
	1	8	External Revenue
	1	9	Export Transmission Service Revenue
	1	10	Deferral and Variance Accounts
	1	11	Continuity of Revenue Requirement
D			Variance & Deferral Accounts
	1	1	Regulatory Asset Accounts Requested, Continued and Discontinued Due to the Adoption of US GAAP

1
2 **IN THE MATTER OF** *the Ontario Energy Board Act,*
3 *1998;*

4
5 **AND IN THE MATTER OF** a hearing initiated by the
6 Board on its own motion under section 78 of the *Ontario*
7 *Energy Board Act, 1998* to consider adjustments to Hydro
8 One Networks' 2012 Transmission revenue requirement

9
10 **ADJUSTMENTS RELATING TO ADOPTION OF U.S. GENERALLY ACCEPTED**
11 **ACCOUNTING PRINCIPLES**

- 12
13 1. Hydro One Networks Inc. (“Hydro One Networks”) is a subsidiary of Hydro One Inc. and is
14 an Ontario corporation with its head office in Toronto. It carries on the business, among
15 other things, of owning and operating transmission and distribution facilities in Ontario. The
16 transmission business of Hydro One Networks will be referred to as “Hydro One
17 Transmission”. The distribution business of Hydro One Networks will be referred to as
18 “Hydro One Distribution”.
- 19
20 2. Hydro One Networks hereby requests that the Ontario Energy Board (the “Board”), pursuant
21 to a hearing under section 78 of the Ontario Energy Board Act, 1998, initiated on the Board’s
22 own motion, issue an Order or Orders adjusting the revenue requirement and customer rates
23 for the transmission of electricity, to be implemented on January 1, 2012.
- 24
25 3. Hydro One Networks asks the Board for approval to utilize US Generally Accepted
26 Accounting Principles (“US GAAP”) as its approved framework for rate setting, regulatory
27 accounting and regulatory reporting commencing January 1, 2012 in a manner appropriate
28 for a rate regulated entity.

- 1
- 2 4. Hydro One Networks seeks approval of a reduction of \$195.3 million to the 2012 base
- 3 revenue requirement of \$1,657.6 million previously approved by the Board, reducing it to
- 4 \$1,462.3 million.
- 5
- 6 5. Hydro One Networks seeks approval of an increase in the 2012 capital expenditures from
- 7 \$781.3 million to \$981.3 million.
- 8
- 9 6. Hydro One Networks seeks approval of an increase in the 2012 rate base from \$8,726.3
- 10 million to \$8,774.4 million.
- 11
- 12 7. Hydro One Networks seeks approval to: discontinue the Impact for Changes in IFRS
- 13 Account, the IFRS – Gains and Losses Account, and the IFRS Capitalisation Policy Variance
- 14 Account; continue with the IFRS Incremental Transition Costs Account (with revised scope);
- 15 and to establish the Impact for US GAAP Account.
- 16
- 17 8. Hydro One Networks seeks acknowledgement and approval that if US GAAP is adopted to
- 18 establish the revenue requirement and rates for Hydro One Transmission, it is appropriate for
- 19 Hydro One Networks to do so for Hydro One Distribution.
- 20
- 21 9. The evidence to be filed with the Board includes:
- 22 a) the eligibility of Hydro One Network under securities legislation to report financial
- 23 information using US GAAP;
- 24 b) the authorization by the Ontario Securities Commission (“OSC”) authorizing Hydro One
- 25 Networks to use US GAAP for financial reporting purposes;
- 26 c) an explanation of the benefits of adoption US GAAP rather than Modified International
- 27 Financial Reporting Standards (“MIFRS”).

1 10. The persons affected by this Application are the ratepayers of Hydro One's transmission
2 business. It is impractical to set out their names and addresses because they are too
3 numerous.

4
5 11. Hydro One Networks requests that a copy of all documents filed with the Board by each
6 party to this Application be served on the Applicant and the Applicant's counsel as follows:

7
8 a) The Applicant:

9
10 Ms. Anne-Marie Reilly
11 Regulatory Coordinator – Regulatory Affairs
12 Hydro One Networks Inc.

13
14 Address for personal service: 8th Floor, South Tower
15 483 Bay Street
16 Toronto, ON M5G 2P5

17
18 Mailing Address: 8th Floor, South Tower
19 483 Bay Street
20 Toronto, ON M5G 2P5

21
22 Telephone: (416) 345-6482
23 Fax: (416) 345-5866
24 Electronic access: Regulatory@HydroOne.com

25
26
27 b) The Applicant's counsel:

28
29 D.H. Rogers, Q.C.
30 Anita M. Varjacic
31 Rogers Partners LLP

32
33 Address for personal service: 100 Wellington Street West
34 Suite 500, P.O. Box 255
35 Toronto, ON M5K 1J5
36

1 Mailing Address: 100 Wellington Street West
2 Suite 500, P.O. Box 255
3 Toronto, ON M5K 1J5
4
5 Telephone: (416) 594-4500
6 Fax: (416) 594-9100
7 Electronic access: don.rogers@rogerspartners.com
8 anita.varjacic@rogerspartners.com
9
10

11 DATED at Toronto, Ontario, this 1st day of September, 2011.
12

13 HYDRO ONE NETWORKS INC.

14 By its counsel,
15

16 ORIGINAL SIGNED BY D.H. ROGERS

17 D.H. Rogers, Q.C.

1 **SUMMARY OF HEARING**

2
3 Hydro One Networks (“Hydro One” or “Hydro One Transmission”) is asking for an
4 Order approving a revised revenue requirement and rates for Hydro One’s Transmission
5 Business for 2012 under the assigned Docket Number EB-2011-0268. This summary
6 provides a brief description of the chronology leading to the adjusted approvals being
7 sought and the reasons for the modifications.

8
9 **1.0 HISTORY LEADING TO HEARING**

10
11 Hydro One applied to the Board for approval of its 2011 and 2012 revenue requirement
12 and transmission rates in May 2010 under the assigned docket number EB-2010-0002.
13 That application was premised on the assumption that Hydro One would be required to
14 adopt MIFRS for financial and regulatory reporting purposes commencing January 1,
15 2012 as mandated by the Canadian Accounting Standards Board; and, that Canadian
16 GAAP (CGAAP) was equivalent to MIFRS with the two exemptions requested of the
17 OEB by Hydro One. The oral hearing took place in September and October 2010, with
18 Hydro One’s final reply argument being filed on November 12, 2010. The Board
19 released its Decision with Reasons on December 23, 2010. The final rate order for 2011
20 transmission rates was approved on January 18, 2011. The final rate order for 2012 was
21 to be approved following the Board’s release of the Cost of Capital parameters update in
22 the fall of 2011.

23
24 In May 2011 it became known that there was an option for rate regulated entities to apply
25 to its securities regulator for an exemption to permit use of US GAAP for the preparation
26 of financial statements. On May 31, 2011, Hydro One wrote to the Board to advise the
27 Board that it was evaluating the option of adopting US GAAP in lieu of MIFRS in 2012:
28 Exhibit B, Tab 2, Schedule 1.

1 The Board released its Addendum to Report of the Board: Implementing International
2 Financial Reporting Standards in an Incentive Rate Mechanism Environment on June 13,
3 2011 (“Addendum Report”). The Addendum Report considered, for the first time, the
4 possibility that a utility could adopt US GAAP for regulatory purposes. The Board
5 outlined what information/evidence a utility would need to provide in a cost of service
6 application if adopting US GAAP.

7
8 Hydro One filed its official application with the OSC on July 7, 2011 seeking approval to
9 utilize US GAAP as the basis for preparing its periodic public securities filings effective
10 January 1, 2012: Exhibit B, Tab 1, Schedule 2. Hydro One received approval from the
11 OSC to do so on July 21, 2011: Exhibit B, Tab 1, Schedule 1.

12
13 In the interim, on July 15, 2011, Hydro One applied to the Board for an order to vary its
14 decision in EB-2010-0002 to adopt US GAAP for regulatory reporting purposes and rate
15 setting effective January 1, 2012 and for necessary adjustments to its revenue
16 requirement. The Board denied that request and on its own motion commenced a hearing
17 under section 78 by Decision, Notice of Hearing and Procedural Order No. 1 dated
18 August 25, 2011: Exhibit A, Tab 4, Schedule 1.

19
20 Hydro One also notified the Board on July 15, 2011 that it intended to utilize US GAAP
21 for its Distribution Business effective January 1, 2012: Exhibit B, Tab 2, Schedule 2.

22 23 **2.0 APPROVALS REQUESTED**

24 25 **2.1 Revenue Requirement**

26
27 Respecting Hydro One’s adjusted revenue requirement for 2012, for its Transmission
28 Business, the Company is seeking approvals for:

- 1 1. Approval allowing Hydro One Networks to utilize US GAAP as its approved
2 framework for rate setting, regulatory accounting and regulatory reporting
3 commencing January 1, 2012 in a manner appropriate for a rate regulated entity.
4
- 5 2. Hydro One Networks seeks acknowledgement and approval that if US GAAP is
6 adopted to establish the revenue requirement and rates for Hydro One Transmission,
7 it is appropriate for Hydro One Networks to do so for Hydro One Distribution.
8
- 9 3. A reduction to the base revenue requirement from \$1,657.6 million to \$1,462.3
10 million for 2012 as set out in Exhibit C2, Tab 1, Schedules 1 to 11.
11
- 12 4. Hydro One Networks seeks approval of an increase in the 2012 capital expenditures
13 from \$781.3 million to \$981.3 million as set out in Exhibit C2, Tab 1, Schedule 4.
14
- 15 5. Hydro One Networks seeks approval of an increase in the 2012 rate base from
16 \$8,726.3 million to \$8,774.4 million as set out in Exhibit C2, Tab 1, Schedule 3.
17

18 **2.2 Variance Accounts**

19

20 Hydro One Networks seeks approval to: discontinue the Impact for Changes in IFRS
21 Account, the IFRS – Gains and Losses Account, and the IFRS Capitalisation Policy
22 Variance Account; continue with the IFRS Incremental Transition Costs Account (with
23 revised scope); and to establish the Impact for US GAAP Account as set out in Exhibit
24 D1, Tab 1, Schedule 1.
25

1 **3.0 BOARD FILING REQUIREMENTS FOR US GAAP APPLICATION**

2
3 In the Addendum Report, the Board stated that if a utility was filing a cost of service
4 application following adoption of US GAAP, it would need to include the following
5 information:

- 6 a) the eligibility of the utility under applicable securities legislation to report financial
7 information using US GAAP;
8 b) the authorization by the appropriate Canadian Securities regulator authorizing the
9 utility to use US GAAP for financial reporting purposes;
10 c) an explanation of the benefits and potential disadvantages of adoption of US GAAP
11 rather than Modified International Financial Reporting Standards (“MIFRS”).

12
13 Hydro One has provided the specified information in this evidence as outlined in Exhibit
14 C, Tab 1, Schedule 1.

15
16 Hydro One is strongly of the view that its adoption of US GAAP for both financial
17 accounting and regulatory accounting and reporting purposes is in the best interests of all
18 stakeholders.

19
20 **4.0 IMPACT ON REVENUE REQUIREMENT**

21
22 Following the Board’s decision in EB-2010-0002 Hydro One filed and the Board
23 approved the final rate order. Implementation of US GAAP on January 1, 2012 would
24 reduce the revenue requirement by \$195.3 million. Revised calculations implementing
25 the Board decision in EB-2010-0002 modified to reflect adoption of US GAAP are
26 included at Exhibit C2, Tab 1, Schedules 1-11. The original rate order is also included
27 for ease of reference and comparison at Exhibit C1, Tab 2, Schedules 1 and 2.

1 **PROCEDURAL ORDERS – CORRESPONDENCE – NOTICES**

2

3 Attachment 1: Decision and Order and Notice of Hearing



EB-2011-0268

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

AND IN THE MATTER OF an application by Hydro One Networks Inc. for an order or orders approving a transmission revenue requirement and rates and other charges for the transmission of electricity for 2011 and 2012.

AND IN THE MATTER OF a Motion by Hydro One Networks Inc. pursuant to the Ontario Energy Board's *Rules of Practice and Procedure* for a review by the Board of its Decision with Reasons EB-2010-0002 dated December 23, 2010.

BEFORE: Cynthia Chaplin
Presiding Member

Paul Sommerville
Member

Marika Hare
Member

DECISION, NOTICE OF HEARING AND PROCEDURAL ORDER NO. 1

On December 23, 2010, the Ontario Energy Board (the "Board") issued its EB-2010-0002 Decision with Reasons (the "Decision") determining the 2011 and 2012 Transmission revenue requirement for Hydro One Networks Inc. ("Hydro One"), and by subsequent rate order dated January 18, 2011, set the Ontario Uniform Transmission

Rates, effective January 1, 2011. The Hydro One Transmission Revenue Requirement for 2012 and the 2012 Uniform Transmission Rates will be established after the Board issues its revised Cost of Capital parameter update in the fall of 2011.

On July 15, 2011, Hydro One filed a letter and a Notice of Motion with the Board seeking to vary the Decision. The Motion was copied to all intervenors in the EB-2010-0002 proceeding. In that Motion, and by letter dated August 11, 2011, Hydro One informed the Board that it had sought, and on July 21, 2011 received, approval from the Ontario Securities Commission (“OSC”) to utilize United States Generally Accepted Accounting Principles (“US GAAP”) as the basis for preparing its financial statements for public securities filings beginning in January 1, 2012 and terminating January 1, 2015.

The Motion sought to vary the Board Decision to permit Hydro One to use US GAAP for rate application filings, regulatory accounting and regulatory reporting, and to adjust the 2012 revenue requirement set and the variance accounts approved in the Decision, to reflect the adoption of US GAAP rather than International Financial Reporting Standards (“IFRS”) for regulatory purposes. Hydro One had previously informed the Board, by way of letter dated May 31, 2011, that it was evaluating the option of adopting US GAAP in lieu of IFRS for 2012.

The Motion included the following requests:

1. An order varying the Decision and allowing Hydro One to utilize US GAAP as its approved framework for rate setting, regulatory accounting and regulatory reporting commencing January 1, 2012, in a manner appropriate for a rate regulated entity including the following resulting adjustments to 2012 levels:
 - a. A reduction in Hydro One’s 2012 approved revenue requirement from \$1,657.6 million to \$1,426.3 million;
 - b. An increase in Hydro One’s 2012 capital expenditures from \$781.3 million to \$981.3 million;
 - c. An increase in Hydro One’s 2012 rate base from \$8,726.3 million to \$8,774.4 million;

2. An order requiring Hydro One to file a draft 2012 rate order for review and approval which includes all impacts of adopting US GAAP in place of modified IFRS, subject to any changes required by the Board's subsequent issuance of the approved cost of capital parameters effective January 1, 2012; and
3. An order requiring establishment of necessary US GAAP variance accounts in place of or in addition to the IFRS variance accounts.

The issues raised by Hydro One in the Motion will be considered by the Board. However, the Board finds that there are no "new facts that have arisen" or a "change in circumstances" within the meaning of Rule 44 of the Board's *Rules of Practice and Procedure* that raise a question as to the correctness of the Decision. The new facts referred to in the Motion consist of the choice made by Hydro One to apply to the OSC for approval to use US GAAP for external financial reporting and securities filings, and the receipt of the decision from the OSC granting that approval.

The Board finds that a change in strategy by an applicant, such as a choice by a utility to seek permission to use an alternate financial reporting standard, does not constitute a new fact that has arisen or a change in circumstances sufficient to serve as a ground for review under Rule 44. The Board therefore determines, under Rule 45 of the Rules of Practice and Procedure, that the matter ought not to be reviewed.

However, the Board will, on its own motion, commence a hearing under section 78 of the *Ontario Energy Board Act, 1998* to consider adjustments to Hydro One's 2012 Transmission revenue requirement and other adjustments and variance accounts that may be necessary should Hydro One use US GAAP rather than modified IFRS for regulatory purposes. The Board will restrict its consideration of the 2012 Transmission revenue requirement and transmission rates to adjustments consequent on the adoption of US GAAP by Hydro One.

The Board grants intervenor status in this proceeding to all intervenors in the EB-2010-0002 proceeding.

The Board intends to proceed by way of written hearing unless a party satisfies the Board that there is good reason for holding an oral hearing. Any party objecting to the Board holding a written hearing in this proceeding must provide written reasons why an oral hearing is necessary. Any submissions objecting to a written hearing must be

received by the Board and copied to the applicant within **10 days** of the issuance of this notice.

Please be aware that this procedural order may be amended, and further procedural orders may be issued from time to time.

THE BOARD THEREFORE ORDERS THAT:

1. If Hydro One wishes to file any additional material in support of its requests, it shall file such information on or before Thursday, September 8, 2011. Hydro One must include in that filing, in addition to any other information deemed by Hydro One to be of assistance, the following:
 - the decision of the OSC granting Hydro One permission to use US GAAP in its financial statements filed with the OSC;
 - Hydro One's letter to the Board dated May 31, 2011 regarding electricity transmission revenue requirements and US GAAP considerations; and
 - Hydro One's letter to the Board dated July 15, 2011 regarding the Distribution Business and utilization of US GAAP.
2. Intervenors or Board staff wishing information and material from Hydro One that is in addition to the evidence filed with the Board and that is relevant to the proceeding, shall request it by written interrogatories filed with the Board and delivered to Hydro One on or before Thursday, September 22, 2011.
3. Hydro One shall file with the Board complete responses to the interrogatories and deliver them to all intervenors no later than Monday, October 3, 2011.
4. Written submissions by intervenors or Board staff must be filed with the Board and copied to all other parties, by Monday, October 17, 2011.
5. If Hydro One wishes to respond to the submissions, its written response must be filed with the Board and delivered to all other parties by Monday, October 31, 2011.

All filings to the Board must quote file number **EB-2011-0268**, be made through the Board's web portal at, www.errr.ontarioenergyboard.ca and consist of two paper copies

and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available parties may email their document to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

ADDRESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Attention: Board Secretary

E-mail: Boardsec@ontarioenergyboard.ca
Tel: 1-888-632-6273 (toll free)
Fax: 416-440-7656

DATED at Toronto, August 25, 2011

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

**OSC APPROVAL OF HYDRO ONE REQUEST TO FILE UNDER US
GAAP**

Hydro One Networks Inc.

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Susan.E.Frank@HydroOne.com



Susan Frank

Vice President and Chief Regulatory Officer
Regulatory Affairs

BY COURIER

August 11, 2011

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Ms. Walli:

EB-2010-0002 – Hydro One Networks 2011-2012 Electricity Transmission Revenue Requirement - US GAAP Considerations Update

In my letter of July 15, 2011, I indicated a copy of the Ontario Securities Commission's (OSC) approval to adopt US GAAP for securities will be provided to the Board. The OSC Decision approving the filing of Hydro One's financial statements in accordance with US GAAP for the financial years commencing on or after January 1, 2012 but before January 1, 2015 and the interim periods therein has been publicly disclosed on August 11, 2011.

The OSC Decision is attached and since it has now been publically disclosed, confidential treatment of the Decision is not required.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

Date: July 21, 2011

IN THE MATTER OF
THE SECURITIES LEGISLATION OF ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF
APPLICATIONS IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
HYDRO ONE INC.
(the Filer)

DECISION

Background

The principal regulator in the Jurisdiction has received an application from the Filer for a decision under the securities legislation of the Jurisdiction (the **Legislation**) exempting the Filer from the requirements under section 3.2 of National Instrument 52-107 - *Acceptable Accounting Principles and Auditing Standards* (**NI 52-107**) that financial statements be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises (the **Exemption Sought**) to permit the Filer to prepare its financial statements in accordance with U.S. GAAP for its financial years that begin on or after January 1, 2012 but before January 1, 2015.

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

- (a) the Ontario Securities Commission is the principal regulator for this application;
- (b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 - *Passport System* (**MI 11-102**) is intended to be relied upon in British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador (the **Passport Jurisdictions**); and
- (c) the decision of the principal regulator automatically results in an equivalent decision in the Passport Jurisdictions.

Interpretation

Terms defined in National Instrument 14-101 - *Definitions*, MI 11-102 and NI 52-107 have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by the Filer.

1. The Filer is incorporated under the *Business Corporations Act* (Ontario). The head office of the Filer is located at 483 Bay Street, Toronto, Ontario M5G 2P5.
2. The Filer is a reporting issuer or equivalent in the Jurisdiction and each Passport Jurisdiction and is not in default of securities legislation in any such jurisdiction.
3. The Filer is not an SEC issuer.
4. The Filer has "activities subject to rate regulation", as defined in the Handbook.
5. As a "qualifying entity" for the purposes of section 5.4 of NI 52-107, the Filer is permitted to prepare its financial statements for its financial year commencing January 1, 2011 and ending December 31, 2011 in accordance with Canadian GAAP - Part V of the Handbook.
6. Were the Filer an SEC issuer, it would be permitted by section 3.7 of NI 52-107 to file financial statements prepared in accordance with U.S. GAAP, which accords treatment of "activities subject to rate regulation" similar to that under Canadian GAAP - Part V of the Handbook.

Decision

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision.

7. The decision of the principal regulator under the Legislation is that the Exemption Sought is granted provided that:
 - (a) for its financial years commencing on or after January 1, 2012 but before January 1, 2015 and interim periods therein, the Filer files its financial statements in accordance with U.S. GAAP; and
 - (b) information for comparative periods presented in the financial statements referred to in paragraph (a) is prepared in accordance with U.S. GAAP.
8. The Exemption Sought will terminate in respect of the Filer's financial statements for annual and interim periods commencing on or after the earlier of:
 - (a) January 1, 2015; and

- (b) the date on which the Filer ceases to have "activities subject to rate regulation" as defined in the Handbook as at the date of this decision.

CMZ

**HYDRO ONE REQUEST TO OSC FOR APPROVAL TO FILE
FINANCIAL STATEMENTS UNDER US GAAP**

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8
416.362.2111 MAIN
416.862.6666 FACSIMILE

PRIVILEGED & CONFIDENTIAL

OSLER

July 7, 2011

Michael Innes
Direct Dial: 416.862.4284
minnes@osler.com
Our Matter Number: 1126590

SENT BY COURIER AND ELECTRONIC MAIL

Ontario Securities Commission
19th Floor, 20 Queen Street West
Toronto, Ontario
M5H 3S8

Attention: David Mattacott, Applications Administrator

Dear Sirs/Mesdames:

Passport application under section 5.1 of National Instrument 52-107 - *Acceptable Accounting Principles and Auditing Standards* (NI 52-107) pursuant to National Policy 11-203 - *Process for Exemptive Relief Applications in Multiple Jurisdictions* (NP 11-203)

We are counsel to Hydro One Inc. (the **Filer**) and are filing this passport application (as defined in NP 11-203) on its behalf for a decision granting exemptive relief (the **Exemption Sought**) from section 3.2 of NI 52-107, which requires the Filer to prepare its financial statements in accordance with accounting principles generally accepted in Canada applicable to publicly accountable enterprises. The Exemption Sought would permit the Filer to prepare its financial statements in accordance with accounting principles generally accepted in the United States (**US GAAP**) for financial years that begin on or after January 1, 2012 but before January 1, 2015, without requiring the Filer to become an "SEC issuer" (as defined in NI 52-107).

Prior to filing this application, the Filer sent to the Ontario Securities Commission (the **OSC**) a pre-filing letter dated April 28, 2011 addressed to Cameron McInnis, Chief Accountant, Chief Accountant's Office. The pre-filing letter outlined the Filer's intention to file an application to permit the Filer to prepare and report its financial statements in accordance with US GAAP without requiring the Filer to qualify as an SEC issuer. We understand that representatives of the Filer and staff of the OSC held a discussion in respect of the pre-filing letter. We understand that on May 10, 2011, staff of the OSC advised the Filer to file a formal application in respect of the relief sought following the issuance of a decision in respect of a similar application made by an unnamed applicant, later revealed to be Enbridge Income Fund (**Enbridge**). Enbridge was granted the requested relief on June 3, 2011.

OSLER

The OSC is identified as the principal regulator for the purposes of this passport application under section 3.6(3)(b) of NP 11-203 on the basis that the head office of the Filer is located in the Province of Ontario. Pursuant to section 5.2(1)(a)(v) of NP 11-203, notice is hereby given that section 4.7(1) of Multilateral Instrument 11-102 - *Passport System (MI 11-102)* is intended to be relied upon in British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

Given the fact the Exemption Sought is material to the Filer in the context of the presentation of its future financial statements, the Filer requests that this application and any supporting materials be held in confidence during the application review process in accordance with Section 5.4(1) of NP 11-203.

If the Exemption Sought is granted, the Filer expects to apply to the Ontario Energy Board (the **OEB**) to allow the Filer to use US GAAP for OEB rate setting purposes. A copy of this letter is also expected to be shared with the OEB on a confidential basis.

I. FACTS

A. Background to the Filer

1. The Filer is incorporated under the *Business Corporations Act* (Ontario). The head office of the Filer is located at 483 Bay Street, Toronto, Ontario M5G 2P5.
2. The authorized share capital of the Filer consists of an unlimited number of common and preferred shares. As at July 6, 2011, the Filer had 12,920,000 preferred shares and 100,000 common shares outstanding, all of which were owned by the Province of Ontario.
3. As at July 6, 2011, the Filer had approximately \$7.8 billion aggregate principal amount of senior unsecured medium term notes and debentures outstanding (none of which are convertible into equity securities of the Filer or any other issuer), which the Filer has issued pursuant to various prospectus offerings.
4. The Filer is a reporting issuer in each province of Canada and is not in default of any requirement of securities legislation in any such province.
5. The Filer is a holding company which, through its subsidiaries:
 - (a) distributes electricity and engages in electricity conservation and demand management activities; and
 - (b) transmits electricity to local distribution companies (**LDCs**) and non-LDC customers throughout the Province of Ontario.

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6. The bulk of the Filer's business is subject to rate regulation by the OEB, which has broad powers relating to the licensing, standards of conduct and service and the regulation of rates charged by the Filer and other electricity distributors and transmitters in the Province of Ontario.

B. Financial Statements of the Filer

7. The consolidated financial statements of the Filer have historically been prepared in accordance with Canadian generally accepted accounting principles (**CGAAP**), which permits the use of specific rate-regulated accounting treatments consistent with Part V of the Handbook of the Canadian Institute of Chartered Accountants (the **CICA Handbook**). Further, these specific rate-regulated accounting treatments are supported by specific regulatory decisions and treatments prescribed by the OEB consistent with its "Accounting Procedures Handbook for Electric Distribution Utilities" (the **AP Handbook**). Under Part V of the CICA Handbook, rate regulated utilities are obliged to record regulatory assets and/or liabilities to reflect the economic substance of OEB rate making policies, decisions and mechanisms.
8. Pursuant to Part 3 of NI 52-107, effective for fiscal years beginning on or after January 1, 2011, most reporting issuers that are neither "foreign issuers" (as defined in NI 52-107) nor SEC issuers are required to prepare and report their financial statements in accordance with CGAAP applicable to publicly accountable enterprises, which is equivalent to International Financial Reporting Standards ("**IFRS**").
9. Section 5.4 of NI 52-107 defers the application of Part 3 of NI 52-107 to "qualifying entities" for a period of one year until fiscal years beginning on or after January 1, 2012. A "qualifying entity" is defined in section 5.4(2) of NI 52-107 as a person or company that has activities subject to rate regulation, as defined in Part V of the CICA Handbook, and is permitted under CGAAP to apply Part V of the CICA Handbook.
10. The Filer is a "qualifying entity" for the purposes of section 5.4 of NI 52-107. As a "qualifying entity", the Filer is preparing its financial statements for its fiscal year commencing on January 1, 2011 and ending December 31, 2011 in accordance with CGAAP applying Part V of the CICA Handbook.
11. Section 3.7 of NI 52-107 permits an SEC issuer to prepare and report its financial statements in accordance with US GAAP.
12. An "SEC issuer" is defined in section 1.1 of NI 52-107 as an issuer that (a) has a class of securities registered under section 12 of the U.S. Securities Exchange Act of 1934, as amended (the **1934 Act**) or is required to file reports under section

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15(d) of the 1934 Act, and (b) is not registered or required to be registered as an investment company under the *Investment Company Act of 1940* of the United States of America, as amended from time to time.

13. The Filer is not an SEC issuer because it does not have a class of securities registered under section 12 of the 1934 Act and is not required to file reports under section 15(d) of the 1934 Act.
14. The Exemption Sought would permit the Filer to prepare its financial statements in accordance with US GAAP for financial years that begin on or after January 1, 2012 but before January 1, 2015 without becoming an SEC issuer.

C. Transition from CGAAP to IFRS

15. The transition by the Filer from CGAAP to IFRS required by section 3.2 of NI 52-107 for fiscal years beginning on or after January 1, 2012 would have serious consequences for the Filer and its customers.
16. As noted above, CGAAP permits the use of specific rate-regulated accounting treatments consistent with Part V of the CICA Handbook. These specific rate-regulated accounting treatments are supported by specific regulatory decisions and treatments prescribed by the OEB consistent with its AP Handbook. Under Part V of the CICA Handbook, rate regulated utilities are obliged to record regulatory assets and/or liabilities to reflect the economic substance of OEB rate-making policies, decisions and mechanisms.
17. The OEB has the general power to include or exclude costs, revenues, losses or gains in customer rates in respect of a specific period, potentially resulting in a change in the timing of accounting recognition from what would have applied in an unregulated company. Such a change in timing may result in the recognition of regulatory assets or liabilities.
18. The Filer's regulatory assets represent certain amounts receivable from future customers or costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. The Filer's regulatory liabilities represent amounts for expenses incurred in different periods than would have been the case had the Filer been unregulated or amounts received from customers that are subject to future refund. The Filer's regulatory assets and liabilities are currently recorded, consistent with the provisions of Part V of the CICA Handbook, based on underlying OEB mechanisms and treatments. As at March 31, 2011, the Filer reported \$1,081 million of regulatory assets and \$623 million of regulatory liabilities.

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19. IFRS does not currently permit the recognition of rate-regulated assets or liabilities.
20. The Filer's transition from CGAAP to IFRS will result in significant derecognition of its regulatory assets and liabilities which will be charged to its retained earnings. As further detailed in its MD&A for the three-month period ended March 31, 2011, the Filer expects that the effect of adopting IFRS will be a charge of approximately \$1.9 billion to retained earnings which, when considered with an additional 2011 IFRS transition adjustment, would reduce the Filer's retained earnings as at December 31, 2010 from approximately \$2.3 billion to approximately \$0.2 billion.
21. In addition to the derecognition of existing regulatory assets, IFRS will require a substantial change to the Filer's capitalization policy that will be mirrored for rate-setting purposes. As a result of its inability to capitalize certain overhead and indirect costs under IFRS, the Filer expects that the OEB will approve an increase in customer rates to permit the Filer to recover non-capitalizable overhead as a current period charge. The Filer estimates that the annual increases in electricity rates as a result of this change to the Filer's capitalization policy under IFRS will be approximately 15% with respect to the Filer's transmission business and 14% with respect to the Filer's distribution business. As a whole, the annual increase to the Filer's ratepayers related to adopting to the changes to the Filer's capitalization policy under IFRS is expected to be approximately 6%.
22. The use of IFRS will also distort the portrayal of the economic substance of the financial results of the Filer on a going-forward basis. The Filer's inability to record regulatory assets and liabilities on its balance sheet, as prepared under IFRS, is expected to significantly increase the earnings volatility in the Filer's statement of comprehensive income that is not reflective of underlying cash flows and would be inconsistent with the true economic performance of the Filer in the applicable reporting period.

D. US GAAP and becoming an SEC Issuer to use US GAAP

23. Unlike IFRS, but similar to Part V of the CICA Handbook, US GAAP accords specific accounting treatment to "activities subject to rate regulation". Under ASC 980, *Regulated Operations* (formerly Statement of Financial Accounting Standards #71), US GAAP provides for treatment of regulatory assets and liabilities that is consistent with that provided under Part V of the CICA Handbook.
24. A number of Canadian utilities are becoming, or have announced their intention to become, SEC issuers so that they may report in US GAAP under NI 52-107 and thereby retain the rate-regulated accounting treatment available under US

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GAAP, including Algonquin Power & Utilities Corp., Enbridge Inc., Emera Incorporated, Fortis Inc. and Nova Scotia Power Incorporated.

25. To become an SEC issuer, the Filer would be required to register its debt securities with the SEC under section 12 of the 1934 Act, and/or register an offering of securities under the U.S. Securities of 1933, as amended (the **1933 Act**).
26. The Filer expects to be able to fund its capital expenditures and other financing requirements from funds generated by its operations and through additional offerings of debt securities in Canada. To the extent the Filer determines it needs to raise capital in the United States, however, it expects to do so in unregistered offerings to “qualified institutional buyers” pursuant to the exemption from registration afforded by Rule 144A under the 1933 Act. Such unregistered offerings would not result in the Filer becoming an SEC issuer.
27. Becoming an SEC issuer and maintaining such status would impose substantial costs on the Filer, including those associated with registering and making filings with the United States Securities and Exchange Commission (**SEC**), as well as the assumption of additional regulatory and audit obligations. In addition, the Filer would be subject to heightened litigation risk in the United States due its more litigious environment.

II. SUBMISSIONS

28. NI 52-107 sets out acceptable accounting principles and auditing standards to be applied by issuers and registrants for financial statements filed or delivered to the Canadian securities regulatory authorities. The purpose of NI 52-107 is to ensure that market participants present their financial statements in a manner that is readily understandable and allows for comparisons among such statements. Under NI 52-107, a domestic registrant must use CGAAP, unless it is also registered with the SEC, in which case, as an SEC issuer, it may use US GAAP. In permitting SEC issuers to use US GAAP in their financial reporting, the Canadian Securities Administrators (**CSA**) have recognized that US GAAP, like IFRS, is an acceptable accounting framework, the use of which satisfies the continuous disclosure and investor protection objectives of NI 52-107.
29. The Filer does not believe that NI 52-107 was intended to encourage domestic issuers to become SEC issuers solely to permit them to use US GAAP. Rather, NI 52-107 simply recognizes the fact that US GAAP is an acceptable accounting framework in the eyes of the CSA.

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30. The Filer has no significant business operations or assets located in the United States and, in the absence of section 3.2 of NI 52-107, would be unlikely to make a registered offering of securities in the United States in the foreseeable future.
31. As noted above, because IFRS does not permit the Filer to record rate-regulated assets and liabilities, the adoption of IFRS will result in the distortion of the economic substance of OEB rate-regulated treatments in the context of the Filer's financial statements. US GAAP better represents the economic realities of the Filer's rate regulated business, providing a well recognized, accepted and comprehensive basis of accounting and financial reporting.
32. As noted above, the adoption of IFRS effective January 1, 2012 will result in a sizeable de-recognition of the Filer's existing regulatory assets and liabilities and a write-off of the net amount to January 1, 2010 retained earnings. In addition to the significant adverse impact on the Filer's retained earnings, the adoption of IFRS is expected to lead to significant electricity rate increases due to the required adjustments to the Filer's capitalization policy. Such increases will only result from an accounting change, not, for example, from an attempt to raise funds to build critical infrastructure. These increases would not result were the Filer to adopt US GAAP, which would permit the Filer to retain its current capitalization policy, as permitted under Part V of the CICA Handbook.
33. In considering its accounting principles, the Filer has also considered its future funding requirements. The Filer competes for debt financing in North America with other major electrical and natural gas utilities in Canada and the United States, as well as other major corporations. The Filer believes that in determining whether to invest in the securities of a utility company, a potential purchaser of debt securities will analyze a number of factors relating to the issuer and its comparable peer group, including financial results, earnings coverage ratios, debt-to-capital ratios and debt ratings. Were it to adopt IFRS, the Filer expects, at minimum, to have to provide a significant and extensive MD&A supplement to current reporting to explain the economic repercussions of the rate-setting process and its effects on its related cash flows, given that this would no longer be apparent from reported regulatory assets and liabilities in the financial statements. In addition, the Filer would come under pressure to provide supplemental financial metrics and other non-GAAP measures. A similarly situated issuer reporting in US GAAP would not be required to provide such disclosure. It is not reasonable to expect debt investors to take the time and expend the effort required to evaluate the accounting effect of IFRS on regulated utilities when this information is not clearly set forth in the financial statements themselves. The effort necessary to undertake such an analysis is significant and unlikely to be sustained on an ongoing basis. This will put the Filer as well as other Canadian utilities that report under IFRS at a significant competitive disadvantage in terms

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of being able to raise funds in the debt capital markets, as compared to issuers who report in US GAAP.

34. In contrast to the adoption of IFRS, the adoption of US GAAP will improve the ability of investors to analyze the Filer's financial position. Since US GAAP is very similar to Part V of the CICA Handbook, if the Filer is permitted to report under US GAAP, its financial results will be more comparable to the Filer's current results than would be the case were it to adopt IFRS. US GAAP would also enhance comparability with many of the Filer's industry peers who report or are planning to report their financial statements using US GAAP.
35. There should be little concern from a policy standpoint that permitting the Filer to use US GAAP, a mature, proven and appropriate set of financial reporting standards for rate-regulated entities, will create confusion in the marketplace. Generally speaking, US GAAP is well understood by investors and analysts in Canada. The Canadian securities regulatory authorities already accept financial statements of US issuers reporting in US GAAP without requiring their reconciliation to CGAAP. This regulatory stance reflects an awareness that Canadian investors can appreciate, understand and rely on US GAAP. Moreover, we understand that a number of debt analysts have expressed a clear preference for US GAAP over IFRS for rate-regulated utilities such as the Filer. They believe that the reporting of the effects of rate regulation on the Filer's financial statements under US GAAP promotes transparency and consistency and thereby facilitates financial analyses.
36. The issues surrounding the adoption of IFRS without regard to rate-regulated accounting and the inconsistencies between IFRS and rate-regulated accounting have been extensively discussed amongst industry professionals, issuers and regulators alike. Indeed, section 5.4 of NI 52-107 itself recognizes that rate-regulated entities are subject to specific considerations that would have made it inappropriate to require them to comply with section 3.2 of NI 52-107 at the same time as other issuers. It is respectfully submitted that there is no shortage of oversight or understanding by users of US GAAP financial statements. Should the Filer be permitted to adopt US GAAP without becoming an SEC issuer, there would be no reduction in the accuracy and completeness of the Filer's financial reporting. On the contrary, the relevance of the Filer's financial reporting would be improved compared to the alternative of adopting IFRS.
37. It is respectfully submitted, however, that it is not in the public interest to require the Filer to incur the compliance costs, liability risks and other expenses associated with becoming and remaining an SEC issuer solely for the purpose of enabling it to present its financial statements using US GAAP. This is particularly



the case given the significance of the Filer's place in the electricity market in the Province of Ontario.

38. The Exemption Sought would permit the Filer to use US GAAP for three financial years, commencing on January 1, 2012. This will allow the securities regulatory authorities to assess the consequences of granting the Exemption Sought in light of subsequent developments, including the potential for express recognition of rate regulated accounting under IFRS coincident with the adoption of IFRS in the United States. It would be unfortunate, to say the least, were the Filer to incur the substantial costs of becoming an SEC issuer for the sole purpose of adopting US GAAP, only for rate regulated accounting to subsequently become permissible under IFRS. In short, the proposed sunset provision in the Exemption Sought provides not only the securities regulatory authorities, but also the Filer, with time to evaluate alternatives and determine the best way to proceed in light of the significant ramifications for the Filer of adopting IFRS, as currently formulated.
39. We note that similar relief has been granted in *Re Enbridge Income Fund*, 2011 ABASC 314 and *Re Fortis Inc. et al*, 2011 OSCB 6705 on substantially similar facts as are being presented by the Filer in this application.

III. OTHER MATTERS

In connection with this application we enclose:

- (a) an authorization and verification statement of the Filer, authorizing us to make and file this application and verifying the truth of the facts contained herein;
- (b) a draft form of decision; and
- (c) a cheque in respect of the applicable filing fees.

The application and the draft decision document will also be sent to you via electronic mail under separate cover.

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Please contact me at the number above with any questions concerning this application.

Yours very truly,



Michael Innes

AH:

Enclosures

c: Laura Formusa, President and Chief Executive Officer, *Hydro One Inc.*
Sandy Struthers, Executive Vice-President and Chief Financial Officer, *Hydro One Inc.*
Ali Suleman, Vice President and Treasurer, *Hydro One Inc.*
Joe Agostino, General Counsel, *Hydro One Inc.*
Rod Crown, Assistant General Counsel, *Hydro One Networks Inc.*
Karen Newman, Vice President, Corporate Controller, *Hydro One Networks Inc.*
Frank D'Andrea, Director, Corporate Accounting and Reporting, *Hydro One Networks Inc.*
Steven Smith, *Osler, Hoskin & Harcourt LLP*
Anna Huculuk, *Osler, Hoskin & Harcourt LLP*

AUTHORIZATION AND VERIFICATION STATEMENT

We authorize Osler, Hoskin & Harcourt LLP to make and file the passport application dated July 7, 2011 on behalf of Hydro One Inc. and verify the truth of the facts stated therein.

DATED at Toronto, Ontario this 7th day of July, 2011.

HYDRO ONE INC.

By: 

Sandy Struthers
Executive Vice President and Chief
Financial Officer

Citation: ●

●

IN THE MATTER OF
THE SECURITIES LEGISLATION OF ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF
APPLICATIONS IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
HYDRO ONE INC.
(the Filer)

DECISION

Background

The principal regulator in the Jurisdiction has received an application from the Filer for a decision under the securities legislation of the Jurisdiction (the **Legislation**) exempting the Filer from the requirements under section 3.2 of National Instrument 52-107 - *Acceptable Accounting Principles and Auditing Standards (NI 52-107)* that financial statements be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises (the **Exemption Sought**) to permit the Filer to prepare its financial statements in accordance with U.S. GAAP for its financial years that begin on or after January 1, 2012 but before January 1, 2015.

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

- (a) the Ontario Securities Commission is the principal regulator for this application;
- (b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 - *Passport System (MI 11-102)* is intended to be relied upon in British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador (the **Passport Jurisdictions**); and
- (c) the decision of the principal regulator automatically results in an equivalent decision in the Passport Jurisdictions.

Interpretation

Terms defined in National Instrument 14-101 - *Definitions*, MI 11-102 and NI 52-107 have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by the Filer.

1. The Filer is incorporated under the *Business Corporations Act* (Ontario). The head office of the Filer is located at 483 Bay Street, Toronto, Ontario M5G 2P5.
2. The Filer is a reporting issuer or equivalent in the Jurisdiction and each Passport Jurisdiction and is not in default of securities legislation in any such jurisdiction.
3. The Filer is not an SEC issuer.
4. The Filer has “activities subject to rate regulation”, as defined in the Handbook.
5. As a “qualifying entity” for the purposes of section 5.4 of NI 52-107, the Filer is permitted to prepare its financial statements for its financial year commencing January 1, 2011 and ending December 31, 2011 in accordance with Canadian GAAP - Part V of the Handbook.
6. Were the Filer an SEC issuer, it would be permitted by section 3.7 of NI 52-107 to file financial statements prepared in accordance with U.S. GAAP, which accords treatment of “activities subject to rate regulation” similar to that under Canadian GAAP - Part V of the Handbook.

Decision

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision.

7. The decision of the principal regulator under the Legislation is that the Exemption Sought is granted provided that:
 - (a) for its financial years commencing on or after January 1, 2012 but before January 1, 2015 and interim periods therein, the Filer files its financial statements in accordance with U.S. GAAP; and
 - (b) information for comparative periods presented in the financial statements referred to in paragraph (a) is prepared in accordance with U.S. GAAP.
8. The Exemption Sought will terminate in respect of the Filer’s financial statements for annual and interim periods commencing on or after the earlier of:
 - (a) January 1, 2015; and

- (b) the date on which the Filer ceases to have “activities subject to rate regulation” as defined in the Handbook as at the date of this decision.

“●” (Name of signatory for the principal regulator)

● (Title)

Ontario Securities Commission

**HYDRO ONE 2011-2012 TRANSMISSION REVENUE
REQUIREMENTS – US GAAP CONSIDERATIONS, DATED MAY
31, 2011**

Toronto, Ontario M5G 2P5
www.HydroOne.com

Cell: (416) 258-9383
Susan.E.Frank@HydroOne.com

Susan Frank
Vice President and Chief Regulatory Officer
Regulatory Affairs



BY COURIER

May 31, 2011

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Ms. Walli

EB-2010-0002 – Hydro One Networks’ 2011-2012 Electricity Transmission Revenue Requirements – US GAAP Considerations

Hydro One Networks Inc. (Hydro One) wishes to provide the Ontario Energy Board (the Board) with advance notice that Hydro One is evaluating the option of adopting U.S. Generally Accepted Accounting Principles (US GAAP) in lieu of IFRS in 2012. If Hydro One decides to proceed to adopt US GAAP, and if any application is made to the Ontario Securities Commission (“OSC”) and subsequently approved by the OSC, then, Hydro One would shortly thereafter file a Motion To Vary with the Board respecting its EB-2010-0002 Decision With Reasons to reflect the adoption of US GAAP for rate making and financial reporting purposes beginning in 2012. The context and details on such follow below.

In its Decision with Reasons dated December 23, 2010 in the EB-2010-0002 proceeding, the Board directed Hydro One to reflect the adoption of IFRS effective January 1, 2012. This resulted in the shifting of approximately \$200 million of capital related expenditures to operations resulting in a similar increase in the annual revenue requirement for the 2012 test year.

The adoption of US GAAP for financial reporting purposes in 2012 is anticipated to:

- Provide financial results more reflective of the underlying economic substance of rate regulation as regulatory assets/ liabilities are recognized (whereas under IFRS they are not).
- Make financial reporting more comparable with current results since US GAAP is very similar to Canadian GAAP. This will facilitate investor benchmarking to other large North American utilities.

- Lower the 2012 approved transmission revenue requirement by approximately \$200 million and increase 2012 capital expenditures by the same \$200 million (resulting in an approximate 15% net rate reduction in total).
- Allow increased financing flexibility by making it easier to access the US Dollar debt market as required given Hydro One's growing capital program.
- Result in the continuation of deferral and variance account recognition. This would include transactions related to items such as incremental IFRS conversion costs.

If you have any questions regarding this submission please contact Allan Cowan at 416 345-6219.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

FORWARD-LOOKING STATEMENTS AND INFORMATION

This document contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and include beliefs and assumptions made by the management of our company. Words such as "expect", "would" and "will" are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. We do not intend, and we disclaim any obligation to update any forward-looking statements, except as required by law.

**HYDRO ONE DISTRIBUTION BUSINESS UTILIZATION OF US
GAAP AS OF JANUARY 1, 2012, DATED JUL 15, 2011**

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**Susan Frank**

Vice President and Chief Regulatory Officer
Regulatory Affairs

July 15, 2011

Ms. Kirsten Walli
Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700, P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

Hydro One Networks Distribution Business: Utilization of US GAAP as of January 1, 2012

This is further to my letter of May 31, 2011. As the Board is aware, Hydro One Networks Inc. (Hydro One) was evaluating its option of adopting US General Accounting Principals (US GAAP) in lieu of IFRS. I can advise the Board that Hydro One has now opted to proceed in that fashion.

Hydro One requests that the Board make the following orders with regards to its Distribution Business: an order approving the utilization of US GAAP in lieu of modified international financial reporting standards (MIFRS) for regulatory accounting and reporting purposes as of January 1, 2012; and, an order approving Hydro One's use of US GAAP in lieu of MIFRS for its future Distribution Cost of Service Rate Applications. These requests are discussed below.

Adoption of US GAAP

Hydro One filed its official application with the Ontario Securities Commission (OSC) on July 7, 2011, seeking approval to utilize US GAAP as the basis for preparing its periodic public securities filings effective January 1, 2012. Hydro One anticipates receiving formal OSC approval to do so by the end of July 2011 and perhaps sooner.

In anticipation of that approval, Hydro One intends on utilizing US GAAP for regulatory accounting and reporting purposes as of January 1, 2012 and filing any future Distribution Cost of Service Rate Applications on a basis which reflects the adoption of US GAAP for ratemaking and financial reporting purposes beginning in 2012.

In its Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment, EB-2008-0408, the Board indicated that it will require utilities to explain the use of any accounting framework other than modified

international financial reporting standards (MIFRS) for regulatory purposes. In doing so, the Board noted that a utility would need to demonstrate its eligibility under the relevant securities legislation to report external financial information using that framework, would need to include a copy of the authorization to use the alternative framework from the appropriate Canadian Securities Regulator and to set out the benefits and potential disadvantages to the utility and its ratepayers.

As noted, Hydro One filed its application to the OSC on July 7, 2011. That application sets out the requirements under the formal securities legislation and outlines how Hydro One meets those requirements. A copy of this submitted application, subject to any subsequent changes requested by the OSC, is attached as a “Privileged and Confidential” document. Of course, once the formal order is received from the OSC, Hydro One will file that with this Board as well. Provision of these two documents fulfils the first two requirements outlined in the Addendum to Report of the Board.

Hydro One is of the view that there is significant value to both ratepayers and the shareholder in using US GAAP for regulatory purposes. Use of a consistent financial accounting framework for both external/internal financial reporting and regulatory accounting and reporting preserves the existing link between audited financial statements and financial information and documentation utilized in rate applications and regulatory reports. The impacts of Board rate Decisions can be clearly reflected as regulatory assets, liabilities or accounting policy treatments under US GAAP. It is a benefit to the Board, Hydro One, and interested stakeholders to compare financial information provided in the regulatory process to Hydro One’s audited financial statements. This provides all participants with assurance of the integrity of the information.

The use of a consistent accounting framework for financial and regulatory reporting reduces Hydro One’s costs from what they otherwise would be if inconsistent frameworks were used. Amongst other things, the alternative would be to have dual reports and reconciliations, parallel transaction processing, and dual IT systems and ledgers. The cost savings is a direct benefit to ratepayers. The utility also benefits from a consistent accounting methodology by having a better ability to present economic consequences of rate regulation in its audited external financial statements. This provides more meaningful and reliable information regarding the economic substance of Hydro One’s business and operations to its external investors and analysts.

In addition, ratepayers are expected to benefit materially as a result of the retention of two specific accounting policies which cannot be retained under IFRS due to the specific requirements of IAS 16, “Property, Plant and Equipment”. IAS 16 prohibits the capitalization of certain overheads and indirect costs that currently qualify for capitalization under both Canadian and US GAAP. Hydro One capitalizes these expenditures based on causality and benefit based studies performed by an expert external consultant. These studies are filed as part of Hydro One’s cost of service applications. The resulting overhead allocation and capitalization rates support the direct attribution of overheads to capital assets, including self-constructed fixed and intangible assets. Under US GAAP, Hydro One would retain its existing capitalization policies with respect to overheads and indirects.

Retaining existing capitalization policies benefits customers by avoiding a significant rate increase driven by specific rules found in IAS 16. Allowing Hydro One to continue with its

current overhead capitalization accounting treatment will reduce future annual distribution revenue requirement compared to the MIFRS alternative as of January 1, 2012 and beyond. This is particularly salient in a time where ratepayers and the Board are both expressing heightened concerns about the cost of electricity.

In addition, US GAAP allows continued use of group depreciation methods. IAS 16 does not. If US GAAP is approved as Hydro One's regulatory accounting and reporting framework, Hydro One will continue its existing depreciation accounting policies, including the use of group depreciation. This results in depreciation rates and annual depreciation expenses that will be lower than those available under MIFRS. Over the long run these rates will more closely reflect the average service life of all in-service assets. This will avoid future rate increases that would accompany the use of item depreciation, which does not take into consideration the dispersion of asset expected service lives within a group. The use of group depreciation rates also relieves the utility of the risk of not recovering unforecast or unforecastable premature asset retirement losses.

Hydro One is aware that the Board favours consistency in accounting methodology across local utilities. Hydro One acknowledges that its transition to US GAAP will not facilitate comparison with other local distribution companies. However, the adoption of US GAAP will improve Hydro One's ability to benchmark with other large North American utilities and other entities that are retaining or adopting US GAAP. In the future, once appropriate normalization adjustments have been made, local benchmarking can still take place.

Hydro One notes that those who are involved in setting standards for US and international accounting are working closely together, and expect to do so more significantly in the future. As a result of this cooperative effort, US and international accounting frameworks continue to converge. The use of rate-regulated accounting remains as one of the few major differences requiring resolution. As the Board noted in its Addendum Report, "Hydro One pointed out that differences between US GAAP and IFRS are concentrated in specific well-defined areas where the potential impacts can be easily understood." Thus, Hydro One remains of the view that its use of US GAAP will not lead to the confusion or unmanageable complexity that was previously expressed as a concern.

Note that similar adoption of US GAAP in 2012 by the HON Transmission business would also result in a material benefit to ratepayers for all the same reasons and such a request has been submitted recently to the OEB in a Motion To Vary the Board's Decision in the EB-2010-0002 proceeding. Further, this Board's approval of US GAAP for ratemaking and financial reporting purposes beginning in 2012 for both Hydro One's Distribution and Transmission businesses would ensure that cost efficiencies will be maintained through consistency of approach.

For the foregoing reasons, Hydro One remains of the view that its adoption of US GAAP for both financial accounting and regulatory accounting and reporting purposes is in the best interests of the utility and its ratepayers.

Accordingly, Hydro One asks for this Board's approval to utilize US GAAP in lieu of MIFRS for regulatory accounting and reporting purposes as of January 1, 2012 as well as proceed to file its future Distribution Cost of Service Rate Applications utilizing US GAAP.

I trust the foregoing is satisfactory. If the Board has any questions or concerns, please do not hesitate to contact me.

Yours very truly,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Enc.

Privileged and Confidential

Hydro One Submission to OSC dated July 7, 2011

REDACTED

1 **JUSTIFICATION OF MOVE TO US GAAP**

2
3 This exhibit outlines how Hydro One meets the Board’s specified requirements to adopt
4 US GAAP for regulatory purposes as of January 1, 2012.

5
6 **1.0 BOARD FILING REQUIREMENTS FOR US GAAP APPLICATION**

7
8 The Board released its Addendum to Report of the Board: Implementing International
9 Financial Reporting Standards in an Incentive Rate Mechanism Environment on June 13,
10 2011 (“Addendum Report”). The Addendum Report considered, for the first time, the
11 possibility that a utility could adopt US GAAP for regulatory purposes.

12
13 In the Addendum Report, the Board stated that if a utility was filing a cost of service
14 application following adoption of US GAAP, it would need to include the following
15 information:

- 16 a) the eligibility of the utility under applicable securities legislation to report financial
17 information using US GAAP;
- 18 b) the authorization by the appropriate Canadian Securities regulator authorizing the
19 utility to use US GAAP for financial reporting purposes;
- 20 c) an explanation of the benefits and potential disadvantages of adoption of US GAAP
21 rather than Modified International Financial Reporting Standards (“MIFRS”).

22
23 **2.0 HOW HYDRO ONE SATISFIES BOARD FILING REQUIREMENTS FOR**
24 **US GAAP APPLICATION**

25
26 On July 7, 2011 Hydro One filed its official application to the OSC to allow it to use US
27 GAAP for preparing its periodic public securities filings effective January 1, 2012 and
28 received OSC approval for the request on July 21, 2011. The application to the OSC

1 outlines Hydro One's eligibility requirements for the exemption sought. The application
2 and the approval can be found at Exhibit B, Tab 1, Schedules 2 and 1 respectively. This
3 satisfies the first two Board filing requirements specified in the Addendum Report.

4
5 The final filing requirement is to set out the benefits and potential disadvantages to the
6 utility and the ratepayers.

7
8 Hydro One is of the view that there is significant value to both ratepayers and its
9 shareholder in using US GAAP for regulatory purposes. Use of a consistent financial
10 accounting framework for both external/internal financial reporting and regulatory
11 accounting and reporting preserves the existing link between audited financial statements
12 and financial information and documentation utilized in rate applications and regulatory
13 reports. The impacts of Board rate Decisions can be clearly reflected as regulatory assets,
14 liabilities or accounting policy treatments under US GAAP. It is a benefit to the Board,
15 Hydro One, and interested stakeholders to compare financial information provided in the
16 regulatory process to Hydro One's audited financial statements. This provides all
17 participants with assurance of the integrity of the information.

18 In addition, the use of a consistent accounting framework for financial and regulatory
19 reporting reduces Hydro One's costs from what they otherwise would be if different
20 accounting frameworks were used. Amongst other things, the alternative would be to
21 have dual reports and reconciliations, parallel transaction processing, and dual IT systems
22 and ledgers. The cost savings is a direct benefit to ratepayers. The utility also benefits
23 from a consistent accounting methodology by having a better ability to present economic
24 consequences of regulatory matters in its audited external financial statements. This
25 provides more meaningful and reliable information regarding the economic substance of
26 Hydro One's business and operations to its external investors and analysts. This is also
27 why Hydro One proposes to use US GAAP for its distribution business.

1 Ratepayers are also expected to benefit materially as a result of the retention of two
2 specific accounting policies which cannot be retained under IFRS due to the specific
3 requirements of IAS 16, “property, plant and equipment”. IAS 16 prohibits the
4 capitalization of certain overheads and indirect costs that currently qualify for
5 capitalization under Canadian and US GAAP. Hydro One capitalizes these expenditures
6 based on causality and benefit based studies performed by an expert external consultant.
7 These studies are filed with Hydro One’s cost of service applications. The resulting
8 overhead allocation and capitalization rates support the direct attribution of overheads to
9 capital assets, including self-constructed fixed and intangible assets. Under US GAAP,
10 Hydro One would substantially retain its existing capitalization policies with respect to
11 overheads and capitalization.

12 Retaining existing capitalization policies benefits customers by avoiding a significant rate
13 increase driven by specific rules found in IAS 16. That is why Hydro One is requesting
14 approval in this proceeding to continue with its current overhead capitalization
15 accounting treatment. This reduces the 2012 transmission revenue requirement by
16 approximately \$200 million. This would also obviate the need of the variance account
17 approved in EB-2010-0002 to track differences between the forecasted \$200 million
18 impact of overheads not capitalized and actual overheads. Hydro One seeks to
19 discontinue that account.

20 Continuing the use of current overhead capitalization methodology and accounting
21 treatment is significant for ratepayers and removes a significant permanent increase in the
22 revenue requirement solely due to an accounting change of adopting MIFRS. This is
23 particularly salient in a time where ratepayers and the Board are both expressing
24 heightened concerns about the cost of electricity.

25 In addition, US GAAP allows continued use of group depreciation methods. IAS 16 does
26 not. If US GAAP is approved as Hydro One’s regulatory accounting and reporting

1 framework, Hydro One will continue its existing depreciation accounting policies,
2 including the use of group depreciation. This results in depreciation rates and annual
3 depreciation expenses that will be lower over the long run and which more closely reflect
4 the average service life of all in-service assets. This will avoid future rate increases that
5 would accompany the use of item depreciation which does not take into consideration the
6 dispersion of asset expected service lives within a group. In addition, the Board approved
7 a variance account in EB-2010-0002 to track premature asset retirement losses.
8 Transition to US GAAP and continued use of group depreciation policies would also
9 obviate the need for this variance account which Hydro One therefore seeks to
10 discontinue should the Board approve its request.

11 Hydro One is aware that consistency in accounting methodology across local utilities is
12 desirable. Hydro One acknowledges that its transition to US GAAP will not facilitate
13 this comparison with other local utilities. However, the adoption of US GAAP will
14 improve Hydro One's ability to benchmark with other large North American utilities and
15 other entities which are retaining or adopting US GAAP. In the future, once appropriate
16 normalization adjustments have been made, local benchmarking can still take place.

17 Hydro One notes that those who are involved in setting standards for US and
18 international accounting are working closely together, and expect to do so more
19 significantly in the future. As a result of this cooperative effort, US and international
20 accounting frameworks continue to converge. The use of rate-regulated accounting
21 remains as one of the few major differences requiring resolution.

22 Hydro One is strongly of the view that its adoption of US GAAP for both financial
23 accounting and regulatory accounting and reporting purposes is in the best interests of all
24 stakeholders.

1 **SUMMARY OF FINANCIAL IMPACT OF MOVE TO US GAAP**

2

3 **1.0 SUMMARY OF REVENUE REQUIREMENT**

4

5 As outlined in Exhibit C2, Tab 1, Schedule 1, Hydro One is requesting an adjusted Rates
 6 Revenue Requirement of \$1,431.5 million in 2012. Adopting US GAAP results in a
 7 reduction of \$195.3 million upon the previously Board approved 2012 Rates Revenue
 8 Requirement of \$1,626.8 million. This is summarized in the following table.

9

10

Table 1

11

Revenue Requirement Summary

<i>(\$ millions)</i>	OEB Approved 2012	US GAAP Impact 2012	Revised OEB Approved 2012
OM&A	627.1	(200.0)	427.1
Depreciation	330.8	2.0	332.8
Return on Debt	287.1	1.6	288.7
Return on Equity	352.1	1.9	354.0
Income Tax	60.6	(0.8)	59.8
Base Revenue Requirement	1,657.6	(195.3)	1,462.3
Deduct: External Revenue	28.7		28.7
Subtotal	1,628.9	(195.3)	1,433.6
Deduct: Export Tx Service Revenue	(16.0)		(16.0)
Deduct: Other Cost Charges	-		-
Add: Low Voltage Switch Gear	13.9		13.9
Rates Revenue Requirement	1,626.8	(195.3)	1,431.5

12

1 **2.0 CALCULATION OF REVENUE REQUIREMENT AND OTHER**
2 **FINANCIAL IMPACTS**

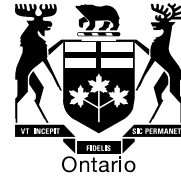
3
4 The reduction in the 2012 Board approved revenue requirement of \$195.3 million as a
5 result of adopting US GAAP for regulatory purposes is derived by reversing the IFRS
6 impacts reflected in the Board approved EB-2010-0002 rate order issued on January 18,
7 2011 [filed as Exhibit C1, Tab 2, Schedule 1]. These same IFRS impacts were provided
8 to the Board by Hydro One in its letter of January 5, 2011 as Exhibit 1.9, [as found in
9 Exhibit C1, Tab 2, Schedule 2]; for convenience, these IFRS impacts are also provided in
10 Exhibit C2, Tab 1, Exhibit 1, Appendix A.

11
12 The impact upon the Revenue Requirement as well as capital expenditures and rate base
13 of adopting US GAAP in 2012 is summarized in Exhibit C2, Tab 1, Schedules 1 and 11.
14 The detailed calculations of the impacts of US GAAP on individual revenue requirement
15 line items such as depreciation and income tax are provided in Exhibit C2, Tab 1,
16 Schedules 2 through 9.

17
18 **3.0 SUBSEQUENT ADJUSTMENT TO COST OF CAPITAL AND INCOME**
19 **TAX**

20
21 As per the OEB Decision With Reasons in the EB-2010-0002 proceeding, dated
22 December 23, 2010, the 2012 Cost of Capital is to be updated in the Fall of 2011 to
23 reflect OEB approved 2012 cost of capital parameters [for return on equity and short-
24 term debt], 2011 actual Hydro One debt issuances and updated forecast 2012 third-party
25 long-term debt rates, as well as the impact of such upon income tax. Consequently, the
26 2012 Transmission Revenue Requirement which will be approved by the Board in its
27 Decision in this EB-2011-0268 proceeding will be subject to those further OEB directed
28 adjustments to cost of capital prior to their final approval by the Board and the issuance
29 of a 2012 Uniform Electricity Transmission Rate Order.

**OEB ORDER 2011 UNIFORM ELECTRICITY TRANSMISSION
RATE ORDER DATED JAN 18, 2011**



EB-2010-0002

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

AND IN THE MATTER OF an Application by Hydro One
Networks Inc. for an Order under section 78 of the *Ontario
Energy Board Act, 1998*, seeking changes to the uniform
provincial electricity transmission rates.

BEFORE: Paul Sommerville
Presiding Member

Ken Quesnelle
Member

Paula Conboy
Member

**REVENUE REQUIREMENT AND CHARGE DETERMINANT ORDER ARISING FROM
THE EB-2010-0002 DECISION WITH REASONS OF DECEMBER 23, 2010
and
2011 UNIFORM ELECTRICITY TRANSMISSION RATE ORDER (REVISED)**

On May 19, 2010, Hydro One Networks Inc. ("Hydro One") filed an application with the Ontario Energy Board (the "Board") under section 78 of *Ontario Energy Board Act, 1998*. The application sought approval for changes to the Hydro One transmission revenue requirement and the uniform rates for electricity transmission, to be effective January 1, 2011 and January 1, 2012. The Board assigned the application file number EB-2010-0002.

The Board issued its Decision with Reasons on December 23, 2010. The Board further ordered Hydro One to file a draft Rate Order with the Board and all intervenors, including:

- An exhibit showing the final revenue requirements to reflect the Board's findings;
- An exhibit showing the calculation of the uniform electricity transmission rates and revenue shares reflecting the revenue requirement from above; and a draft schedule of the 2011 Uniform Electricity Transmission Rates.

On January 5, 2011 Hydro One filed these exhibits. The Board notes that the draft rate order implements the Board's 2010 decisions for Hydro One as well as two other Ontario electricity transmitters:

Great Lakes Power Transmission Inc.	EB-2009-0948	issued May 17, 2010
Five Nations Energy Inc.	EB-2009-0387	issued November 1, 2010

The Board also notes that all Ontario electricity transmitters were a party to this proceeding, including Canadian Niagara Power Inc.

On January 6, 2011, Hydro One held a briefing session for all parties concerning the Rate Order material filed. The Board's December 23, 2010 decision provided for a 7 day comment period for parties to comment on the Rate Order materials.

On January 9, 2011, the Building Owners and Managers Association of the Greater Toronto Area and the London Property Management Association ("BOMA/LPMA") filed a letter requesting more detailed information on three specific areas of Hydro One's draft Rate Order exhibits (HST adjustments, Working Capital changes and AFUDC adjustments). On January 12, 2011, Hydro One responded to the issues raised by BOMA/LPMA by providing further information and clarifications for each of the issues raised by BOMA/LPMA.

No other party commented or objected to the draft Rate Order exhibits.

The Board has reviewed the comments filed by BOMA/LPMA and the Hydro One response to those comments and finds that Hydro One has reasonably and appropriately reflected the Board's December 23, 2010 Decision in the draft Rate Order. The Board also finds that Hydro One has appropriately reflected the relevant Board decisions regarding the other transmitters in Ontario in the draft Rate Order.

Therefore, the Board finds it appropriate to issue a final Rate Order regarding Hydro One's 2011 Test Year revenue requirements and charge determinants for use in the implementation of the Ontario Uniform Electricity Transmission rates.

THEREFORE, THE BOARD ORDERS THAT:

1. The Hydro One Base Revenue Requirement for 2011, \$1,345.6 million as shown in Exhibit 1.0 in Appendix A, is approved for recovery through the Uniform Electricity Transmission Rates.
2. The allocation of the approved revenue requirements to the three electricity transmission rate pools as shown in Exhibit 2.0 in Appendix A is approved.
3. The Hydro One charge determinants for each rate pool as shown in Exhibit 3.0 in Appendix A are approved.
4. The final revenue requirement by rate pool and the Uniform Electricity Transmission Rates and Revenue Allocators for rates effective January 1, 2011, as shown in Exhibit 4.0 in Appendix A are approved.
5. The Wholesale Meter Service and Exit Fee Schedule, attached as Exhibit 5.0 in Appendix A, is approved.
6. The 2011 Ontario Transmission Rate Schedules, attached as Appendix B are approved.

ISSUED at Toronto, January 18, 2011

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

APPENDIX A

**HYDRO ONE NETWORKS INC. TRANSMISSION REVENUE
REQUIREMENT/CHARGE DETERMINANT ORDER**

AND

**2011 UNIFORM ELECTRICITY TRANSMISSION RATE ORDER
(REVISED)**

EB-2010-0002

JANUARY 18, 2011

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2010-0002

Revenue Requirement Summary

(\$ millions)	Supporting Reference	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
OM&A	Exhibit 1.1	436.3	450.0	(17.6)	177.1	418.8	627.1
Depreciation	Exhibit 1.2	302.9	334.8	(1.0)	(4.1)	301.8	330.8
Return on Debt	Exhibit 1.4	284.8	312.3	(27.3)	(25.1)	257.5	287.1
Return on Equity	Exhibit 1.4	340.5	380.4	(37.0)	(28.3)	303.5	352.1
Income Tax	Exhibit 1.5	80.9	70.0	(17.0)	(9.4)	64.0	60.6
Base Revenue Requirement		1,445.5	1,547.4	(99.9)	110.2	1,345.6	1,657.6
Deduct: External Revenue	Exhibit 1.6	31.3	24.7	2.4	4.0	33.7	28.7
Subtotal		1,414.2	1,522.7	(102.3)	106.2	1,311.8	1,628.9
Deduct: Export Tx Service Revenue	Exhibit 1.7	(10.1)	(10.2)	(5.9)	(5.8)	(16.0)	(16.0)
Deduct: Other Cost Charges	Exhibit 1.8	(10.0)	2.6	2.6	(2.6)	(7.4)	-
Add: Low Voltage Switch Gear	Note 2	11.8	12.5	(0.7)	1.4	11.1	13.9
Rates Revenue Requirement		1,405.8	1,527.5	(106.3)	99.3	1,299.5	1,626.8

Note 1: In 2011, a variance account will be established for property rights payments to track changes from approved amounts. In 2012, IFRS transition variance accounts will be established for the impact of further changes to IFRS; IFRS gains and losses; and the \$200 million impact on 2012 Revenue Requirement of adopting IFRS accounting for overheads capitalized [this is estimated to be \$196.7 million once the rate base impact is taken into account of the shift from capex to OM&A]. Further, the 2012 Revenue Requirement impact if the Bruce to Milton Project in-service date is delayed from 2012 until 2013 will also be tracked in a variance account. Also, variance accounts will continue to be utilized for export revenues, secondary land use, External Station Maintenance and E&CS revenues to track changes from approved amounts.

Note 2: The value of \$13.9M for LVSG in 2012 is an estimate and will be revised once the 2012 Revenue Requirement is finalized in the fall of 2011.

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2010-0002

2011 Revenue Requirement by Rate Pool

	Supporting Exhibit	2011 Rate Pool Revenue Requirement (\$ Million)					
		Network	Line Connection	Transformation Connection	Uniform Rates Sub-Total	Wholesale Meter	Total
OM&A	1.1	203.9	38.9	104.6	347.5	0.5	348.0
Other Taxes (Grants-in-Lieu)	Note 1	43.5	10.9	16.4	70.7	0.0	70.8
Depreciation of Fixed Assets	1.2	167.2	39.5	78.6	285.3	0.1	285.4
Capitalized Depreciation	Note 2	(5.6)	(1.4)	(2.2)	(9.2)	(0.0)	(9.2)
Asset Removal Costs	Note 2	11.2	2.8	4.4	18.4	0.0	18.4
Other Amortization	Note 2	4.5	1.1	1.7	7.2	0.0	7.3
Return on Debt	1.4	158.2	39.5	59.7	257.4	0.1	257.5
Return on Equity	1.4	186.4	46.6	70.4	303.4	0.1	303.5
Income Tax	1.5	39.3	9.8	14.8	63.9	0.0	64.0
Base Revenue Requirement		808.6	187.7	348.5	1344.8	0.8	1345.6
Less Regulatory Asset Credit	1.8	(4.4)	(1.0)	(1.9)	(7.4)	(0.0)	(7.4)
Total Revenue Requirement		804.1	186.7	346.6	1337.4	0.8	1338.2
Less Non-Rate Revenues	1.6	(20.3)	(4.7)	(8.7)	(33.7)	(0.0)	(33.7)
Less Export Revenues	1.7	(16.0)			(16.0)		(16.0)
Plus LVSG Credit	6.0			11.1	11.1		11.1
Total Revenue Requirement for UTR		767.9	182.0	348.9	1298.8	0.8	1299.5
Hydro One Proposed Pool Revenue Requirement	Note 3	839.7	195.6	369.6	1405.0	0.8	1405.8

Note 1: Included with OM&A total in Exhibit 1.1. See EB-2010-0002 Exhibit G2, Tab 5, Schedule 1, Page 1.

Note 2: Included with Depreciation total in Exhibit 1.2. See EB-2010-0002 Exhibit G2, Tab 5, Schedule 1, Page 1.

Note 3: See EB-2010-0002 Exhibit G2, Tab 5, Schedule 1, Page 1.

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2010-0002

Summary Charge Determinants
(for Setting Uniform Transmission Rates for January 1, 2011 to December 31, 2011)

	Total MW *
Network	241,795
Line Connection	233,996
Transformation Connection	202,198

* 2011 charge determinants per Exhibit H1, Tab 3, Schedule 1, Table 1, multiplied by 12.

Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2010-0002

Uniform Transmission Rates and Revenue Disbursement Allocators
 (for Period January 1, 2011 to December 31, 2011)

Transmitter	Revenue Requirement (\$) <i>(Note 3, Note 4)</i>			
	Network	Line Connection	Transformation Connection	Total
FNEI	\$4,306,935	\$1,020,593	\$1,957,135	\$7,284,663
CNPI	\$2,727,030	\$646,211	\$1,239,202	\$4,612,443
GLPT	\$19,900,913	\$4,715,822	\$9,043,268	\$33,660,003
H1N <i>(Note 1)</i>	\$767,870,937	\$181,958,610	\$348,931,864	\$1,298,761,411
All Transmitters	\$794,805,816	\$188,341,236	\$361,171,470	\$1,344,318,521

Transmitter	Total Annual Charge Determinants (MW) <i>(Note 3, Note 4)</i>			
	Network	Line Connection	Transformation Connection	
FNEI	187.120	213.460	76.190	
CNPI	583.420	668.600	668.600	
GLPT	4,019.797	2,939.425	1,057.605	
H1N <i>(Note 2)</i>	241,794.994	233,995.528	202,198.429	
All Transmitters	246,585.331	237,817.013	204,000.824	

Transmitter	Uniform Rates and Revenue Allocators <i>(Note 4)</i>			
	Network	Line Connection	Transformation Connection	
Uniform Transmission Rates (\$/kW-Month)	3.22	0.79	1.77	
	↓	↓	↓	
FNEI Allocation Factor	0.00542	0.00542	0.00542	
CNPI Allocation Factor	0.00343	0.00343	0.00343	
GLPT Allocation Factor	0.02504	0.02504	0.02504	
H1N Allocation Factor	0.96611	0.96611	0.96611	
Total of Allocation Factors	1.00000	1.00000	1.00000	

Note 1: Hydro One Networks (H1N) 2011 UTR Revenue Requirement per Exhibit 2.0

Note 2: Hydro One Networks (H1N) Charge Determinant per Exhibit 3.0

Note 3: Data for Other Transmitters per Exhibit 4.1.

Note 4: Calculated data in shaded cells.

HYDRO ONE NETWORKS INC.
Ontario, Canada

WHOLESALE METER SERVICE
And
EXIT FEE SCHEDULE

Rate Schedule: HON-MET
Issued: January 18, 2011
Ontario Energy Board

APPLICABILITY:

This rate schedule is applicable to the *metered market participants** that are transmission customers of Hydro One Networks (“Networks”) and to *metered market participants* that are customers of a Local Distribution Company (“LDC”) that is connected to the transmission system owned by Networks.

* The terms and acronyms that are italicized in this schedule have the meanings ascribed thereto in Chapter 11 of the Market Rules for the Ontario Electricity Market.

a) Wholesale Meter Service

The *metered market participant* in respect of a *load facility* (including customers of an LDC) shall be required to pay an annual rate of \$ 7,700 for each *meter point* that is under the transitional arrangement for a *metering installation* in accordance with Section 3.2 of Chapter 6 of the Market Rules for the Ontario Electricity Market.

The Wholesale Meter Service rate covered by this schedule shall remain in place until such time as the rate is revised by Order of the Ontario Energy Board.

b) Fee for Exit from Transitional Arrangement

The *metered market participant* in respect of a *load facility* (including customers of an LDC) or a *generation facility* may exit from the transitional arrangement for a *metering installation* upon payment of a one-time exit fee of \$ 5,200 per *meter point*.

EFFECTIVE DATE: January 1, 2011	REPLACING RATE: EB-2008-0272 January 21, 2010	BOARD ORDER: EB-2010-0002	Page 2 of 2 Wholesale Meter Service Rate & Exit Fee Schedule for Hydro One Networks Inc.
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APPENDIX B

**HYDRO ONE NETWORKS INC. TRANSMISSION REVENUE
REQUIREMENT/CHARGE DETERMINANT ORDER**

AND

**2011 UNIFORM ELECTRICITY TRANSMISSION RATE ORDER
(REVISED)**

EB-2010-0002

JANUARY 18, 2011

2011 ONTARIO TRANSMISSION RATE SCHEDULES

The rate schedules contained herein shall be effective January 1, 2011.

Issued: January 18, 2011
Ontario Energy Board

TRANSMISSION RATE SCHEDULES

TERMS AND CONDITIONS

(A) APPLICABILITY

The rate schedules contained herein pertain to the transmission service applicable to:

- The provision of Provincial Transmission Service (PTS) to the Transmission Customers who are defined as the entities that withdraw electricity directly from the transmission system in the province of Ontario.
- The provision of Export Transmission Service (ETS) to electricity market participants that export electricity to points outside Ontario utilizing the transmission system in the province of Ontario. The Rate Schedule ETS applies to the wholesale market participants who utilize the Export Service in accordance with the Market Rules of the Ontario Electricity Market, referred to hereafter as Market Rules.

These rate schedules do not apply to the distribution services provided by any distributors in Ontario, nor to the purchase of energy, hourly uplift, ancillary services or any other charges that may be applicable in electricity markets administered by the Independent Electricity System Operator (IESO) of Ontario.

(B) TRANSMISSION SYSTEM CODE

The transmission service provided under these rate schedules is in accordance with the Transmission System Code (Code) issued by the Ontario Energy Board (OEB).

The Code sets out the requirements, standards, terms and conditions of the transmitter's obligation to offer to connect to, and maintain the operation of, the transmission system. The Code also sets out the requirements, standards, terms and conditions under which a Transmission Customer may connect to, and remain connected to, the transmission system.

The Code stipulates that a transmitter shall connect new customers, and continue to offer transmission services to existing customers, subject to a Connection Agreement between the customer and a transmitter.

(C) TRANSMISSION DELIVERY POINT

The Transmission Delivery Point is defined as the transformation station, owned by a transmission company or by the Transmission Customer, which steps down the voltage from above 50 kV to below 50 kV and which connects the customer to the transmission system.

The demand registered by two or more meters at any one delivery point shall be aggregated for the purpose of assessing transmission charges at that delivery point if the corresponding distribution feeders from that delivery point, or the plants taking power from that delivery point, are owned by the same entity within the meaning of Ontario's *Business Corporations Act*.

The billing demand supplied from the transmission system shall be adjusted for losses, as appropriate, to the Transmission Point of Settlement, which shall be the high voltage side of the transformer that steps down the voltage from above 50 kV to below 50 kV.

(D) TRANSMISSION SERVICE POOLS

The transmission facilities owned by the licenced transmission companies are categorized into three functional pools. The transmission lines that are used for the common benefit of all customers are categorized as Network Lines and the corresponding terminating facilities are Network Stations. These facilities make up the Network Pool.

The transformation station facilities that step down the voltage from above 50 kV to below 50 kV are categorized as the Transformation Connection Pool.

Other electrical facilities (i.e. that are neither Network nor Transformation) are categorized as the Line Connection Pool.

All PTS customers incur charges based on the Network Service Rate (PTS-N) of Rate Schedule PTS.

EFFECTIVE DATE:
January 1, 2011

BOARD ORDER:
EB-2010-0002

REPLACING BOARD ORDER:
EB-2008-0272
January 21, 2010

Page 2 of 6 Ontario Uniform
Transmission Rate Schedule

TRANSMISSION RATE SCHEDULES

The PTS customers that utilize transformation connection assets owned by a licenced transmission company also incur charges based on the Transformation Connection Service Rate (PTS-T).

The customer demand supplied from a transmission delivery point will not incur transformation connection service charges if a customer fully owns, or has fully contributed toward the costs of, all transformation connection assets associated with that transmission delivery point. The PTS customers that utilize lines owned by a licenced transmission company to connect to Network Station(s) also incur charges based on the Line Connection Service Rate (PTS-L).

The customer demand supplied from a transmission delivery point will not incur line connection service charges if a customer fully owns, or has fully contributed toward the costs of, all line connection assets connecting that delivery point to a Network Station. Similarly, the customer demand will not incur line connection service charges for demand at a transmission delivery point located at a Network Station.

(E) MARKET RULES

The IESO will provide transmission service utilizing the facilities owned by the licenced transmission companies in Ontario in accordance with the Market Rules. The Market Rules and appropriate Market Manuals define the procedures and processes under which the transmission service is provided in real or operating time (on an hourly basis) as well as service billing and settlement processes for transmission service charges based on rate schedules contained herein.

(F) METERING REQUIREMENTS

In accordance with the Market Rules and the Transmission System Code, the transmission service charges payable by Transmission Customers shall be collected by the IESO.

The IESO will utilize Registered Wholesale Meters and a Metering Registry in order to calculate the monthly transmission service charges payable by the Transmission Customers.

Every Transmission Customer shall ensure that each metering installation in respect of which the customer has an obligation to pay transmission service charges

arising from the Rate Schedule PTS shall satisfy the Wholesale Metering requirements and associated obligations specified in Chapter 6 of the Market Rules, including the appendices therein, whether or not the subject meter installation is required for settlement purposes in the IESO-administered energy market.

A meter installation required for the settlement of charges in the IESO-administered energy market may be used for the settlement of transmission service charges. The Transmission Customer shall provide to the IESO data required to maintain the information for the Registered Wholesale Meters and the Metering Registry pertaining to the metering installations with respect to which the Transmission Customers have an obligation to pay transmission charges in accordance with Rate Schedule PTS.

The Metering Registry for metering installations required for the calculation of transmission charges shall be maintained in accordance with Chapter 6 of the Market Rules.

The Transmission Customers, or Transmission Customer Agents if designated by the Transmission Customers, associated with each Transmission Delivery Point will be identified as Metered Market Participants within the IESO's Metering Registry. The metering data recorded in the Metering Registry shall be used as the basis for the calculation of transmission charges on the settlement statement for the Transmission Customers identified as the Metered Market Participants for each Transmission Delivery Point.

The Metering Registry for metering installations required for calculation of transmission charges shall also indicate whether or not the demand associated with specific Transmission Delivery Point(s) to which a Transmission Customer is connected attracts Line and/or Transformation Connection Service Charges.

This information shall be consistent with the Connection Agreement between the Transmission Customer and the licenced Transmission Company that connects the customer to the IESO-Controlled Grid.

EFFECTIVE DATE: January 1, 2011	BOARD ORDER: EB-2010-0002	REPLACING BOARD ORDER: EB-2008-0272 January 21, 2010	Page 3 of 6 Ontario Uniform Transmission Rate Schedule
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TRANSMISSION RATE SCHEDULES

(G) EMBEDDED GENERATION

The Transmission Customers shall ensure conformance of Registered Wholesale Meters in accordance with Chapter 6 of Market Rules, including Metering Registry obligations, with respect to metering installations for embedded generation that is located behind the metering installation that measures the net demand taken from the transmission system if

- (a) the required approvals for such generation are obtained after October 30, 1998; and
- (b) the generator unit rating is 2 MW or higher for renewable generation and 1 MW or higher for non-renewable generation; and
- (c) the Transmission Delivery Point through which the generator is connected to the transmission system attracts Line or Transformation Connection Service charges.

The term renewable generation refers to a facility that generates electricity from the following sources: wind, solar, Biomass, Bio-oil, Bio-gas, landfill gas, or water. Accordingly, the distributors that are Transmission Customers shall ensure that connection agreements between them and the generators, load customers, and embedded distributors connected to their distribution system have provisions requiring the Transmission Customer to satisfy the requirements for Registered Wholesale Meters and Metering Registry for such embedded generation even if the subject embedded generator(s) do not participate in the IESO-administered energy markets.

(H) EMBEDDED CONNECTION POINT

In accordance with Chapter 6 of the Market Rules, the IESO may permit a Metered Market Participant, as defined in the Market Rules, to register a metering installation that is located at the embedded connection point for the purpose of recording transactions in the IESO-administered markets. (The Market Rules define an embedded connection point as a point of connection between load or generation facility and distribution system).

In special situations, a metering installation at the embedded connection point that is used to settle energy market charges may also be used to settle transmission service charges, if there is no metering installation at the point of connection of a distribution feeder to the Transmission Delivery Point.

In the above situations:

- The Transmission Customer may utilize the metering installation at the embedded connection point, including all embedded generation and load connected to that point, to satisfy the requirements described in Section (F) above provided that the same metering installation is also used to satisfy the requirement for energy transactions in the IESO-administered market
- The Transmission Customer shall provide the Metering Registry information for the metering installation at the embedded connection point, including all embedded generation and load connected to that point, in accordance with the requirements described in Section (F) above so that the IESO can calculate the monthly transmission service charges payable by the Transmission Customer.

EFFECTIVE DATE: January 1, 2011	BOARD ORDER: EB-2010-0002	REPLACING BOARD ORDER: EB-2008-0272 January 21, 2010	Page 4 of 6 Ontario Uniform Transmission Rate Schedule
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APPLICABILITY:

The Provincial Transmission Service (PTS) is applicable to all Transmission Customers in Ontario who own facilities that are directly connected to the transmission system in Ontario and that withdraw electricity from this system.

	<u>Monthly Rate (\$ per kW)</u>
Network Service Rate (PTS-N): \$ Per kW of Network Billing Demand ^{1,2}	3.22
Line Connection Service Rate (PTS-L): \$ Per kW of Line Connection Billing Demand ^{1,3}	0.79
Transformation Connection Service Rate (PTS-T): \$ Per kW of Transformation Connection Billing Demand ^{1,3,4}	1.77

The rates quoted above shall be subject to adjustments with the approval of the Ontario Energy Board.

Notes:

1. The demand (MW) for the purpose of this rate schedule is measured as the energy consumed during the clock hour, on a "Per Transmission Delivery Point" basis. The billing demand supplied from the transmission system shall be adjusted for losses, as appropriate, to the Transmission Point of Settlement, which shall be the high voltage side of the transformer that steps down the voltage from above 50 kV to below 50 kV at the Transmission Delivery Point.
2. The Network Service Billing Demand is defined as the higher of (a) customer coincident peak demand (MW) in the hour of the month when the total hourly demand of all PTS customers is highest for the month, and (b) 85 % of the customer peak demand in any hour during the peak period 7 AM to 7 PM (local time) on weekdays, excluding the holidays as defined by IESO. The peak period hours will be between 0700 hours to 1900 hours Eastern Standard Time during winter (i.e. during standard time) and 0600 hours to 1800 hours Eastern Standard Time during summer (i.e. during daylight savings time), in conformance with the meter time standard used by the IMO settlement systems.
3. The Billing Demand for Line and Transformation Connection Services is defined as the Non-Coincident Peak demand (MW) in any hour of the month. The customer demand in any hour is the sum of (a) the loss-adjusted demand supplied from the transmission system plus (b) the demand that is supplied by embedded generation for which the required government approvals are obtained after October 30, 1998 and which have installed capacity of 2MW or more for renewable generation and 1 MW or higher for non-renewable generation. The term renewable generation refers to a facility that generates electricity from the following sources: wind, solar, Biomass, Bio-oil, Bio-gas, landfill gas, or water. The demand supplied by embedded generation will not be adjusted for losses.
4. The Transformation Connection rate includes recovery for OEB approved Low Voltage Switchgear compensation for Toronto Hydro Electric System Limited and Hydro Ottawa Limited.

TERMS AND CONDITIONS OF SERVICE:

The attached Terms and Conditions pertaining to the Transmission Rate Schedules, the relevant provisions of the Transmission System Code, in particular the Connection Agreement as per Appendix 1 of the Transmission System Code, and the Market Rules for the Ontario Electricity Market shall apply, as contemplated therein, to services provided under this Rate Schedule.

EFFECTIVE DATE: January 1, 2011	BOARD ORDER: EB-2010-0002	REPLACING BOARD ORDER: EB-2008-0272 January 21, 2010	Page 5 of 6 Ontario Uniform Transmission Rate Schedule
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RATE SCHEDULE: ETS**EXPORT TRANSMISSION SERVICE*****APPLICABILITY:***

The Export Transmission Service is applicable for the use of the transmission system in Ontario to deliver electrical energy to locations external to the Province of Ontario, irrespective of whether this energy is supplied from generating sources within or outside Ontario.

Export Transmission Service Rate (ETS):

Hourly Rate
\$2.00 / MWh

The ETS rate shall be applied to the export transactions in the Interchange Schedule Data as per the Market Rules for Ontario's Electricity Market. The ETS rate shall be subject to adjustments with the approval of the Ontario Energy Board.

TERMS AND CONDITIONS OF SERVICE:

The attached Terms and Conditions pertaining to the Transmission Rate Schedules, the relevant provisions of the Transmission System Code and the Market Rules for the Ontario Electricity Market shall apply, as contemplated therein, to service provided under this Rate Schedule.

EFFECTIVE DATE: January 1, 2011	BOARD ORDER: EB-2010-0002	REPLACING BOARD ORDER: EB-2008-0272 January 21, 2010	Page 6 of 6 Ontario Uniform Transmission Rate Schedule
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**EB-2010-0002 HYDRO ONE NETWORKS' 2011-2012 ELECTRICITY
TRANSMISSION FINAL REVENUE REQUIREMENT & CHARGE
DETERMINANTS IN ACCORDANCE WITH DECISION DATED
JANUARY 5, 2011**

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Vice President and Chief Regulatory Officer
Regulatory Affairs



BY COURIER

January 5, 2011

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Ms. Walli

EB-2010-0002 – Hydro One Networks’ 2011-2012 Electricity Transmission Revenue Requirement – Final Revenue Requirements & Charge Determinants in Accordance with Decision

In its Decision with Reasons dated December 23, 2010, the Board directed Hydro One to file with the Board and all intervenors of record a draft exhibit showing the final revenue requirement to reflect the Board’s findings in this Decision and an exhibit showing the calculation of the uniform transmission rates and revenue shares resulting from this Decision.

Attached please find the requested exhibits, as well as documentation providing a clear explanation of all calculations and assumptions used in deriving the amounts used in these exhibits, as specified by the Board. The revenue requirements of \$1345.6 million for 2011 and \$1657.6 million in 2012 are detailed in exhibits 1.0 to 1.9. The calculation of the 2011 UTR’s, wholesale meter rates, low voltage switchgear credit, charge determinants and revenue shares resulting from the Board’s findings in this decision are detailed in exhibits 2.0 to 6.0. The 2011 UTR’s in \$/kW-Month are determined to be 3.22 for Network, 0.79 for Line Connection and 1.77 for Transformation Connection. In addition, a listing of the studies and reports requested by the Board in their Decision and a listing of all variance and deferral accounts as approved by the Board in their Decision are provided in exhibits 7 and 8 respectively.

The attached exhibits reflect all changes as ordered by the Board to Hydro One’s proposed submission as summarized in Hydro One’s prefiled evidence. In summary, Hydro One has:

- Reduced OM&A costs by 3% for 2011 and 4% for 2012

- Applied the cost of capital parameters released by the Board on November 15, 2010 for purposes of establishing Hydro One's cost of capital for 2011. The 2012 test year cost of capital parameters will be set based upon September 2011 data which will be issued by the OEB in due course.
- Updated the average cost of embedded debt for 2011 and 2012 by incorporating the actual principal amount and cost rate for debt issued in 2010, and the forecast coupon rates for 2011 and 2012 as per the September 2010 consensus forecast and October 2010 long-term consensus forecast respectively.
- In 2012, reflected the \$200 million shift of CAPEX to OM&A due to the transition to IFRS capitalization policy. Rate base was also updated to reflect this change.
- Recalculated the resulting HST-related reduction in OM&A to reflect the above changes in the OM&A envelopes and recognized this reduction in the revenue requirement. Recalculated the capital related HST effect in the revenue requirement to reflect the removal of projects D43 and D44 and the 2012 transition to IFRS capitalization policy.
- Recalculated the rate base to reflect the revised AFUDC rates for 2010, 2011 and 2012 and the removal of the accelerated inclusion of CWIP with respect to the Bruce to Milton project.
- Removed the capital expenditures in both test years for Protection and Control Development projects D43 and D44 as identified by the OEB. As these projects are forecast to come into service in 2011 and 2012, the 2011 and 2012 Revenue Requirement was also reduced.
- Revised the Forecast of External Revenues to reflect the increase to the forecast for Station Maintenance.
- Increased the forecast of Export Transmission Service Revenue.
- Applied a 12 month disposition for all variance accounts.
- Due to the reduced 2011 Revenue Requirement from the above changes, Hydro One has also lowered its Low Voltage Switchgear Credit along with its Wholesale Meter Rate.

In the Decision, the Board has outlined its concerns in some specific areas and provided indications as to how Hydro One could improve its next Transmission Business cost of service application. Hydro One accepts and appreciates the guidance the Board has provided and will reflect it in its next Transmission cost of service application.

As directed by the Board, all intervenors, by copy of this letter, are notified of this filing with the Board and of the fact that they have the opportunity to provide comment, if any, to the Board within 7 calendar days from today.

If you have any questions regarding this submission please contact Anne-Marie Reilly at 416 345-6482.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

c. EB-2010-0002 Intervenors (electronic)

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EB-2010-0002 BOARD DECISION WITH REASONS
REVENUE REQUIREMENTS, CHARGE DETERMINANTS & OTHER

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1.1	OM&A Details
1.2	Rate Base and Depreciation Details
1.3	Capital Expenditures Details
1.4	Capital Structure and Return on Capital Details
1.4.1	Cost of Long Term Debt Capital 2011
1.4.2	Cost of Long Term Debt Capital 2012
1.5	Income Tax Summary
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7.0	Studies and Reports
8.0	Deferral and Variance Accounts

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2010-0002

Revenue Requirement Summary

(\$ millions)	Supporting Reference	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
OM&A	Exhibit 1.1	436.3	450.0	(17.6)	177.1	418.8	627.1
Depreciation	Exhibit 1.2	302.9	334.8	(1.0)	(4.1)	301.8	330.8
Return on Debt	Exhibit 1.4	284.8	312.3	(27.3)	(25.1)	257.5	287.1
Return on Equity	Exhibit 1.4	340.5	380.4	(37.0)	(28.3)	303.5	352.1
Income Tax	Exhibit 1.5	80.9	70.0	(17.0)	(9.4)	64.0	60.6
Base Revenue Requirement		1,445.5	1,547.4	(99.9)	110.2	1,345.6	1,657.6
Deduct: External Revenue	Exhibit 1.6	31.3	24.7	2.4	4.0	33.7	28.7
Subtotal		1,414.2	1,522.7	(102.3)	106.2	1,311.8	1,628.9
Deduct: Export Tx Service Revenue	Exhibit 1.7	(10.1)	(10.2)	(5.9)	(5.8)	(16.0)	(16.0)
Deduct: Other Cost Charges	Exhibit 1.8	(10.0)	2.6	2.6	(2.6)	(7.4)	-
Add: Low Voltage Switch Gear	Note 2	11.8	12.5	(0.7)	1.4	11.1	13.9
Rates Revenue Requirement		1,405.8	1,527.5	(106.3)	99.3	1,299.5	1,626.8

Note 1: In 2011, a variance account will be established for property rights payments to track changes from approved amounts. In 2012, IFRS transition variance accounts will be established for the impact of further changes to IFRS; IFRS gains and losses; and the \$200 million impact on 2012 Revenue Requirement of adopting IFRS accounting for overheads capitalized [this is estimated to be \$196.7 million once the rate base impact is taken into account of the shift from capex to OM&A]. Further, the 2012 Revenue Requirement impact if the Bruce to Milton Project in-service date is delayed from 2012 until 2013 will also be tracked in a variance account. Also, variance accounts will continue to be utilized for export revenues, secondary land use, External Station Maintenance and E&CS revenues to track changes from approved amounts.

Note 2: The value of \$13.9M for LVSG in 2012 is an estimate and will be revised once the 2012 Revenue Requirement is finalized in the fall of 2011.

Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2010-0002

OM&A

<i>(\$ millions)</i>	Supporting Reference	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
OM&A	<i>See supporting details below</i>	436.3	450.0	(17.6)	177.1	418.8	627.1

OEB Decision Impact Supporting Details

Adjustments	Reference	2011 OM&A Impacts	2012 OM&A Impacts
Adjustment for HST	Page 11	(4.6)	(5.1)
Envelope Reduction	Page 11	(13.0)	(17.8)
IFRS Accounting for Overheads Capitalized	Page 64	-	200.0
		<u>(17.6)</u>	<u>177.1</u>

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2010-0002

Rate Base and Depreciation

(\$ millions)	Supporting Reference	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
Rate Base	See supporting details below	8,378.5	9,134.6	(526.0)	(408.3)	7,852.6	8,726.3
Depreciation	See supporting details below	302.9	334.8	(1.0)	(4.1)	301.8	330.8

OEB Decision Impact Supporting Details

Working Capital Adjustment

Rate Base Details

Utility plant (average)

Gross plant at cost

Less: Accumulated depreciation

Add: CWIP

Net utility plant

Working capital

Cash working capital

Materials & supplies inventory

Total working capital

Total Rate Base

Working capital as % of OM&A

OM&A Reduction (net of adjustment for HST)

Working capital reduction

Reference	2011 Detailed Computation	2012 Detailed Computation	2011 Rate Base Impact	2012 Rate Base Impact	2011 Depreciation Impact	2012 Depreciation Impact
Pre-filed Evidence Exh D1-1-1	12,297.3	13,509.5				
	(4,429.1)	(4,690.6)				
	485.8	289.0				
	<u>8,354.0</u>	<u>9,107.9</u>				
	7.1	5.0				
	17.4	21.7				
	<u>24.5</u>	<u>26.7</u>				
	<u>8,378.5</u>	<u>9,134.6</u>				
(a)	5.6%	5.9%				
Exhibit 1.1 (b)	(13.0)	182.2				
(c) = (a) x (b)	<u>(0.7)</u>	<u>10.8</u>	(0.7)	10.8		

Capex Adjustments

		2011 Capex	2012 Capex				
Adjustment for HST (includes working capital)	Page 30	(39.2)	(30.6)	(26.7)	(53.3)	(0.8)	(1.7)
Adjustment for AFUDC rate	Page 31	(3.2)	(2.1)	(7.9)	(10.3)	(0.2)	(0.2)
D43 and D44 Adjustment	Page 43	(10.0)	(29.8)	(5.0)	(24.6)	(0.1)	(0.5)
Bruce x Milton CWIP removal	Page 47	-	-	(485.8)	(289.0)	-	-
Bruce x Milton AFUDC add back (Note 1)	Page 47	24.0	35.5	-	18.0	-	0.4
IFRS Accounting for Overheads Capitalized	Page 64	-	(200.0)	-	(60.0)	-	(2.0)
Total		<u>(28.4)</u>	<u>(227.0)</u>	<u>(526.0)</u>	<u>(408.3)</u>	<u>(1.0)</u>	<u>(4.1)</u>

Note 1: The 2012 Rate Base Impact of the Bruce to Milton AFUDC add back is net of a \$23.3 million in-service additions correction. This latter amount will be placed into service in 2013.

Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2010-0002

Capital Expenditures

(\$ millions)	Supporting Reference	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
Capital expenditures	See supporting details below	1,151.8	1,008.3	(28.4)	(227.0)	1,123.4	781.3

OEB Decision Impact Supporting Details

		2011 Capex Impacts	2012 Capex Impacts
Adjustment for HST (includes working capital)	Page 30	(39.2)	(30.6)
Adjustment for AFUDC rate	Page 31	(3.2)	(2.1)
D43 and D44 Adjustment	Page 43	(10.0)	(29.8)
Bruce x Milton AFUDC add back	Page 47	24.0	35.5
IFRS Accounting for Overheads Capitalized	Page 64	-	(200.0)
		<u>(28.4)</u>	<u>(227.0)</u>

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2010-0002

Capital Structure and Return on Capital

(\$ millions)	Supporting Reference	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
Return on Rate Base							Note 3
Rate Base	Exhibit 1.2	\$ 8,378.5	\$ 9,134.6	\$ (526.0)	\$ (408.3)	\$ 7,852.6	\$ 8,726.3
Capital Structure:							
Third-Party long-term debt		54.9%	56.7%	5.0%	3.8%	59.8%	60.5%
Deemed long-term debt		1.1%	-0.7%	(5.0%)	(3.8%)	-3.8%	-4.5%
Short-term debt		4.0%	4.0%	0.0%	0.0%	4.0%	4.0%
Common equity		40.0%	40.0%	0.0%	0.0%	40.0%	40.0%
Capital Structure:							
Third-Party long-term debt	Exhibit 1.4.1 and 1.4.2	4,599.3	5,175.1	100.0	100.0	4,699.3	5,275.2
Deemed long-term debt		92.7	(59.8)	(394.6)	(328.7)	(301.9)	(388.5)
Short-term debt		335.1	365.4	(21.0)	(16.3)	314.1	349.1
Common equity		3,351.4	3,653.8	(210.4)	(163.3)	3,141.0	3,490.5
		8,378.5	9,134.6	\$(526.0)	\$(408.3)	7,852.6	8,726.3
Allowed Return:							
Third-Party long-term debt	Note 1, Exhibit 1.4.1 & 1.4.2	5.67%	5.64%	(0.14%)	(0.24%)	5.52%	5.40%
Deemed long-term debt	Note 1, Exhibit 1.4.1 & 1.4.2	5.67%	5.64%	(0.14%)	(0.24%)	5.52%	5.40%
Short-term debt	Note 2, Page 50	3.99%	5.00%	(1.06%)	0.19%	2.93%	5.19%
Common equity	Note 2, Page 50	10.16%	10.41%	(0.50%)	(0.32%)	9.66%	10.09%
Return on Capital:							
Third-Party long-term debt		260.6	291.7	(1.1)	(7.1)	259.5	284.6
Deemed long-term debt		5.3	(3.4)	(21.9)	(17.6)	(16.7)	(21.0)
Short-term debt		13.4	18.3	(4.2)	(0.2)	9.2	18.1
AFUDC return on Niagara Reinforcement Project	see below	5.6	5.6	(0.1)	(0.3)	5.5	5.3
Total return on debt		\$ 284.8	\$ 312.3	\$(27.3)	\$(25.1)	\$ 257.5	\$ 287.1
Common equity		\$ 340.5	\$ 380.4	\$(37.0)	\$(28.3)	\$ 303.5	\$ 352.1
AFUDC return on Niagara Reinforcement Project							
CWIP		99.1	99.1			99.1	99.1
Deemed long-term debt		5.7%	5.7%			5.52%	5.40%
		<u>5.6</u>	<u>5.6</u>			<u>5.5</u>	<u>5.3</u>

Note 1: Long-term debt rates have been updated to reflect actual 2010 debt issuances (as shown in Exhibit 1.4.1 lines 27 and 28 and Exhibit 1.4.2 lines 26 and 27) and the forecast coupon rates for 2011 and 2012 have been updated as per the September 2010 Consensus Forecast and October 2010 long-term Consensus Forecast respectively.

Note 2: The approved rates follow the OEB's November 15, 2010 guidance on cost of capital parameters to reflect the September 2010 Consensus Forecast.

Note 3: The 2012 cost of capital parameters & impacts are based on the October 2010 long-term Consensus Forecast and are for illustrative purposes only. Hydro One will submit a 2012 draft rate order to the OEB reflecting the cost of capital parameters issued by the Board once the September 2011 Consensus Forecast becomes available. At that point the up-to-date cost of capital parameters will be applied to determine the 2012 amounts.

Hydro One Networks Inc.
Transmission
Cost of Long-Term Debt Capital
Test Year (2011)
Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates	
						Total Amount (\$Millions)	Per \$100 Principal (Dollars)		at 12/31/10 (\$Millions)	at 12/31/11 (\$Millions)				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)		
1	3-Jun-00	7.350%	3-Jun-30	278.4	4.5	273.9	98.37	7.49%	278.4	278.4	278.4	20.8		
2	22-Jun-01	6.400%	1-Dec-11	174.0	(0.5)	174.5	100.28	6.36%	174.0	0.0	160.6	10.2		
3	22-Jun-01	6.930%	1-Jun-32	109.3	1.0	108.2	99.05	7.01%	109.3	109.3	109.3	7.7		
4	17-Sep-02	5.770%	15-Nov-12	87.0	0.4	86.6	99.55	5.83%	87.0	87.0	87.0	5.1		
5	17-Sep-02	6.930%	1-Jun-32	58.0	(2.2)	60.2	103.71	6.64%	58.0	58.0	58.0	3.9		
6	31-Jan-03	5.770%	15-Nov-12	189.0	(0.9)	189.9	100.48	5.70%	189.0	189.0	189.0	10.8		
7	31-Jan-03	6.350%	31-Jan-34	126.0	1.0	125.0	99.21	6.41%	126.0	126.0	126.0	8.1		
8	22-Apr-03	6.590%	22-Apr-43	145.0	1.1	143.9	99.26	6.64%	145.0	145.0	145.0	9.6		
9	25-Jun-04	6.350%	31-Jan-34	72.0	(0.2)	72.2	100.22	6.33%	72.0	72.0	72.0	4.6		
10	20-Aug-04	6.590%	22-Apr-43	39.0	(3.1)	42.1	107.89	6.06%	39.0	39.0	39.0	2.4		
11	24-Aug-04	6.350%	31-Jan-34	39.0	(1.4)	40.4	103.48	6.09%	39.0	39.0	39.0	2.4		
12	19-May-05	5.360%	20-May-36	228.9	8.2	220.7	96.44	5.60%	228.9	228.9	228.9	12.8		
13	3-Mar-06	4.640%	3-Mar-16	210.0	1.0	209.0	99.52	4.70%	210.0	210.0	210.0	9.9		
14	24-Apr-06	5.360%	20-May-36	187.5	2.5	185.0	98.68	5.45%	187.5	187.5	187.5	10.2		
15	22-Aug-06	4.640%	3-Mar-16	60.0	0.8	59.2	98.75	4.80%	60.0	60.0	60.0	2.9		
16	19-Oct-06	5.000%	19-Oct-46	30.0	0.2	29.8	99.29	5.04%	30.0	30.0	30.0	1.5		
17	13-Mar-07	4.890%	13-Mar-37	240.0	1.3	238.7	99.45	4.93%	240.0	240.0	240.0	11.8		
18	18-Oct-07	5.180%	18-Oct-17	225.0	0.8	224.2	99.63	5.23%	225.0	225.0	225.0	11.8		
19	3-Mar-08	5.180%	18-Oct-17	180.0	(3.1)	183.1	101.73	4.95%	180.0	180.0	180.0	8.9		
20	10-Nov-08	5.000%	12-Nov-13	240.0	1.1	238.9	99.53	5.11%	240.0	240.0	240.0	12.3		
21	14-Jan-09	5.000%	12-Nov-13	130.0	(3.7)	133.7	102.87	4.33%	130.0	130.0	130.0	5.6		
22	3-Mar-09	6.030%	3-Mar-39	195.0	1.1	193.9	99.43	6.07%	195.0	195.0	195.0	11.8		
23	16-Jul-09	5.490%	16-Jul-40	210.0	1.3	208.7	99.37	5.53%	210.0	210.0	210.0	11.6		
24	19-Nov-09	3.130%	19-Nov-14	175.0	0.6	174.4	99.64	3.21%	175.0	175.0	175.0	5.6		
25	15-Mar-10	5.490%	16-Jul-40	120.0	(0.7)	120.7	100.59	5.45%	120.0	120.0	120.0	6.5		
26	15-Mar-10	4.400%	1-Jun-20	180.0	0.8	179.2	99.56	4.45%	180.0	180.0	180.0	8.0		
27	13-Sep-10	2.950%	11-Sep-15	150.0	0.5	149.5	99.64	3.03%	150.0	150.0	150.0	4.5	Note 1	
28	13-Sep-10	5.000%	19-Oct-46	150.0	(0.4)	150.4	100.27	4.98%	150.0	150.0	150.0	7.5	Note 1	
29	15-Mar-11	5.370%	15-Mar-41	300.0	1.5	298.5	99.50	5.40%	0.0	300.0	230.8	12.5	Note 2	
30	15-Jun-11	4.460%	15-Jun-21	300.0	1.5	298.5	99.50	4.52%	0.0	300.0	161.5	7.3	Note 2	
31	15-Sep-11	3.410%	15-Sep-16	300.0	1.5	298.5	99.50	3.52%	0.0	300.0	92.3	3.2	Note 2	
32	Subtotal									4228.1	4954.1	4699.3	251.8	
33	Treasury OM&A costs												2.1	
34	Other financing-related fees												5.7	
35	Total									4228.1	4954.1	4699.3	259.5	5.52%

Note 1: Updated to reflect actual 2010 debt issuance

Note 2: Updated to reflect the forecast coupon rates for 2011 as per the September 2010 Consensus Forecast

Hydro One Networks Inc.
Transmission
Cost of Long-Term Debt Capital
Test Year (2012)
Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates
						Total Amount (\$Millions)	Per \$100 Principal Amount (Dollars)		at 12/31/11 (\$Millions)	at 12/31/12 (\$Millions)			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	
1	3-Jun-00	7.350%	3-Jun-30	278.4	4.5	273.9	98.37	7.49%	278.4	278.4	278.4	20.8	
2	22-Jun-01	6.930%	1-Jun-32	109.3	1.0	108.2	99.05	7.01%	109.3	109.3	109.3	7.7	
3	17-Sep-02	5.770%	15-Nov-12	87.0	0.4	86.6	99.55	5.83%	87.0	0.0	73.6	4.3	
4	17-Sep-02	6.930%	1-Jun-32	58.0	(2.2)	60.2	103.71	6.64%	58.0	58.0	58.0	3.9	
5	31-Jan-03	5.770%	15-Nov-12	189.0	(0.9)	189.9	100.48	5.70%	189.0	0.0	159.9	9.1	
6	31-Jan-03	6.350%	31-Jan-34	126.0	1.0	125.0	99.21	6.41%	126.0	126.0	126.0	8.1	
7	22-Apr-03	6.590%	22-Apr-43	145.0	1.1	143.9	99.26	6.64%	145.0	145.0	145.0	9.6	
8	25-Jun-04	6.350%	31-Jan-34	72.0	(0.2)	72.2	100.22	6.33%	72.0	72.0	72.0	4.6	
9	20-Aug-04	6.590%	22-Apr-43	39.0	(3.1)	42.1	107.89	6.06%	39.0	39.0	39.0	2.4	
10	24-Aug-04	6.350%	31-Jan-34	39.0	(1.4)	40.4	103.48	6.09%	39.0	39.0	39.0	2.4	
11	19-May-05	5.360%	20-May-36	228.9	8.2	220.7	96.44	5.60%	228.9	228.9	228.9	12.8	
12	3-Mar-06	4.640%	3-Mar-16	210.0	1.0	209.0	99.52	4.70%	210.0	210.0	210.0	9.9	
13	24-Apr-06	5.360%	20-May-36	187.5	2.5	185.0	98.68	5.45%	187.5	187.5	187.5	10.2	
14	22-Aug-06	4.640%	3-Mar-16	60.0	0.8	59.2	98.75	4.80%	60.0	60.0	60.0	2.9	
15	19-Oct-06	5.000%	19-Oct-46	30.0	0.2	29.8	99.29	5.04%	30.0	30.0	30.0	1.5	
16	13-Mar-07	4.890%	13-Mar-37	240.0	1.3	238.7	99.45	4.93%	240.0	240.0	240.0	11.8	
17	18-Oct-07	5.180%	18-Oct-17	225.0	0.8	224.2	99.63	5.23%	225.0	225.0	225.0	11.8	
18	3-Mar-08	5.180%	18-Oct-17	180.0	(3.1)	183.1	101.73	4.95%	180.0	180.0	180.0	8.9	
19	10-Nov-08	5.000%	12-Nov-13	240.0	1.1	238.9	99.53	5.11%	240.0	240.0	240.0	12.3	
20	14-Jan-09	5.000%	12-Nov-13	130.0	(3.7)	133.7	102.87	4.33%	130.0	130.0	130.0	5.6	
21	3-Mar-09	6.030%	3-Mar-39	195.0	1.1	193.9	99.43	6.07%	195.0	195.0	195.0	11.8	
22	16-Jul-09	5.490%	16-Jul-40	210.0	1.3	208.7	99.37	5.53%	210.0	210.0	210.0	11.6	
23	19-Nov-09	3.130%	19-Nov-14	175.0	0.6	174.4	99.64	3.21%	175.0	175.0	175.0	5.6	
24	15-Mar-10	5.490%	16-Jul-40	120.0	(0.7)	120.7	100.59	5.45%	120.0	120.0	120.0	6.5	
25	15-Mar-10	4.400%	1-Jun-20	180.0	0.8	179.2	99.56	4.45%	180.0	180.0	180.0	8.0	
26	13-Sep-10	2.950%	11-Sep-15	150.0	0.5	149.5	99.64	3.03%	150.0	150.0	150.0	4.5	Note 1
27	13-Sep-10	5.000%	19-Oct-46	150.0	(0.4)	150.4	100.27	4.98%	150.0	150.0	150.0	7.5	Note 1
28	15-Mar-11	5.370%	15-Mar-41	300.0	1.5	298.5	99.50	5.40%	300.0	300.0	300.0	16.2	Note 2
29	15-Jun-11	4.460%	15-Jun-21	300.0	1.5	298.5	99.50	4.52%	300.0	300.0	300.0	13.6	Note 2
30	15-Sep-11	3.410%	15-Sep-16	300.0	1.5	298.5	99.50	3.52%	300.0	300.0	300.0	10.6	Note 2
31	15-Mar-12	6.220%	15-Mar-42	225.0	1.1	223.9	99.50	6.26%	0.0	225.0	173.1	10.8	Note 3
32	15-Jun-12	5.310%	15-Jun-22	225.0	1.1	223.9	99.50	5.38%	0.0	225.0	121.2	6.5	Note 3
33	15-Sep-12	4.260%	15-Sep-17	225.0	1.1	223.9	99.50	4.37%	0.0	225.0	69.2	3.0	Note 3
34	Subtotal								4954.1	5353.2	5275.2	276.8	
35	Treasury OM&A costs											2.1	
36	Other financing-related fees											5.7	
37	Total								<u>4954.1</u>	<u>5353.2</u>	<u>5275.2</u>	<u>284.6</u>	<u>5.40%</u>

Note 1: Updated to reflect actual 2010 debt issuance

Note 2: Updated to reflect the forecast coupon rates for 2011 as per the September 2010 Consensus Forecast

Note 3: Updated to reflect the forecast coupon rates for 2012 as per the October 2010 long-term Consensus Forecast

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2010-0002

Income Tax

(\$ millions)	Supporting Reference	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
Income Taxes	See supporting details below	80.9	70.0	(17.0)	(9.4)	64.0	60.6

Income Tax Supporting Details

		Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
Rate Base	Exhibit 1.2 a	\$ 8,378.5	\$ 9,134.6	\$ (526.0)	\$ (408.3)	\$ 7,852.6	\$ 8,726.3
Common Equity Capital Structure		b 40.0%	40.0%			40.0%	40.0%
Return on Equity	Exhibit 1.4 c	10.16%	10.41%	-0.50%	-0.32%	9.66%	10.09%
Return on Equity	d = a x b x c	340.5	380.4	(37.0)	(28.3)	303.5	352.1
Regulatory Income Tax	e = l	80.9	70.0	(17.0)	(9.4)	64.0	60.6
Regulatory Net Income (before tax)	f = d + e	<u>421.4</u>	<u>450.3</u>	<u>(54.0)</u>	<u>(37.7)</u>	<u>367.4</u>	<u>412.6</u>
Timing Differences (Note 1)	g	(127.3)	(175.6)	(0.1)	8.0	(127.4)	(167.7)
Taxable Income	h = f + g	<u>294.1</u>	<u>274.7</u>	<u>(54.1)</u>	<u>(29.7)</u>	<u>240.0</u>	<u>245.0</u>
Tax Rate	i	28.3%	26.3%			28.3%	26.3%
Income Tax	j = h x i	83.1	72.1	(15.3)	(7.8)	67.8	64.3
less: Income Tax Credits	k	(2.2)	(2.2)	(1.7)	(1.6)	(3.9)	(3.8)
Regulatory Income Tax	l = j + k	<u>80.9</u>	<u>70.0</u>	<u>(17.0)</u>	<u>(9.4)</u>	<u>64.0</u>	<u>60.6</u>

Note 1. Book to Tax Timing Differences

Timing difference adjustments							
less: lower depreciation due to capex reductions	Exhibit 1.2			(1.0)	(4.1)		
add: CCA changes related to capex reductions							
Adjustment for HST	Page 30			2.2	4.6		
Adjustment for AFUDC rate	Page 31			0.3	0.4		
D43 and D44 Adjustment	Page 43			0.2	1.0		
Bruce x Milton AFUDC add back	Page 47			-	(0.7)		
IFRS Accounting for Overheads Capitalized	Page 64			-	6.2		
add: Tax adjustments							
Tax Adjustments to CCA				(3.5)	(1.1)		
Ontario credit addback				1.7	1.6		
				<u>(0.1)</u>	<u>8.0</u>		

Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2010-0002

External Revenue

(\$ millions)

Supporting Reference	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
External Revenue	31.3	24.7	2.4	4.0	33.7	28.7

External Revenue Details
Page 51

	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
Secondary Land Use	12.6	12.5	-	-	12.6	12.5
Station Maintenance	4.6	3.0	2.4	4.0	7.0	7.0
Engineering & Construction	11.0	6.0	-	-	11.0	6.0
Other	3.2	3.2	-	-	3.2	3.2
Total	31.3	24.7	2.4	4.0	33.7	28.7

Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2010-0002

Export Transmission Service Revenue

(\$ millions)

	Supporting Reference	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
Export Transmission Service Revenue	Page 54	(10.1)	(10.2)	(5.9)	(5.8)	(16.0)	(16.0)

Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2010-0002

Deferral and Variance Accounts

(\$ millions)

Supporting Reference	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
Deferral and Variance Accounts Page 55-56	(10.0)	2.6	2.6	(2.6)	(7.4)	-

Deferral and Variance Accounts Details
Page 55-56

	Hydro One Proposed 2011	Hydro One Proposed 2012	OEB Decision Impact 2011	OEB Decision Impact 2012	OEB Approved 2011	OEB Approved 2012
Export Service Credit Revenue	(4.9)		-	-	(4.9)	
External Secondary Land Use	(3.2)		-	-	(3.2)	
External Station Maint. & E&CS	(4.4)		-	-	(4.4)	
IPSP & Other LT Proj. Planning	1.0	1.0	1.0	(1.0)	2.0	
Pension Cost Differential	1.5	1.6	1.6	(1.6)	3.1	
Total	(10.0)	2.6	2.6	(2.6)	(7.4)	-

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2010-0002

Continuity of Revenue Requirement

	Submission		Remove CWIP		BxM AFUDC		HST		OM&A		AFUDC		Cost of Capital		D43 & D44		Tax Adjustments		IFRS		Total Adjustments		Revenue Requirement		
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	
Revenue Requirement																									
OM&A	436.3	450.0	0.0	0.0	0.0	0.0	(4.6)	(5.1)	(13.0)	(17.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	200.0	(17.6)	177.1	418.8	627.1	
Depreciation	302.9	334.8	0.0	0.0	0.0	0.4	(0.8)	(1.7)	0.0	0.0	(0.2)	(0.2)	0.0	0.0	(0.1)	(0.5)	0.0	0.0	0.0	(2.0)	(1.0)	(4.1)	301.8	330.8	
Return on debt	284.8	312.2	(16.1)	(9.7)	0.0	0.6	(0.9)	(1.8)	(0.0)	(0.0)	(0.3)	(0.3)	(9.9)	(11.5)	(0.2)	(0.8)	0.0	0.0	0.0	(1.6)	(27.3)	(25.1)	257.5	287.1	
Return on common equity	340.5	380.4	(19.7)	(12.0)	0.0	0.7	(1.1)	(2.2)	(0.0)	(0.0)	(0.3)	(0.4)	(15.7)	(11.4)	(0.2)	(1.0)	0.0	0.0	0.0	(1.9)	(37.0)	(28.3)	303.5	352.1	
Income tax	80.9	70.0	(7.8)	(4.3)	0.0	0.1	0.1	0.3	(0.0)	(0.0)	(0.1)	(0.1)	(6.2)	(4.0)	(0.0)	(0.2)	(3.1)	(2.0)	0.0	0.8	(17.0)	(9.4)	64.0	60.6	
	<u>1445.5</u>	<u>1547.4</u>	<u>(43.6)</u>	<u>(26.0)</u>	<u>0.0</u>	<u>1.8</u>	<u>(7.2)</u>	<u>(10.5)</u>	<u>(13.0)</u>	<u>(17.9)</u>	<u>(0.8)</u>	<u>(1.1)</u>	<u>(31.7)</u>	<u>(26.9)</u>	<u>(0.5)</u>	<u>(2.5)</u>	<u>(3.1)</u>	<u>(2.0)</u>	<u>0.0</u>	<u>195.3</u>	<u>(99.9)</u>	<u>110.3</u>	<u>1345.6</u>	<u>1657.6</u>	
Rate Base	8378.5	9134.6	(485.8)	(289.0)	0.0	18.0	(26.7)	(53.3)	(0.7)	(1.1)	(7.9)	(10.3)	0.0	0.0	(5.0)	(24.6)	0.0	0.0	0.0	(48.1)	(526.0)	(408.3)	7852.6	8726.3	
Capex	1151.8	1008.3	0.0	0.0	24.0	35.5	(39.2)	(30.6)	0.0	0.0	(3.2)	(2.1)	0.0	0.0	(10.0)	(29.8)	0.0	0.0	0.0	(200.0)	(28.4)	(227.0)	1123.4	781.3	
OEB Decision Page Reference			Page 47		Page 47		Page 30		Page 11		Page 31		Page 50		Page 43		Page 11		Page 64						

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2010-0002

2011 Revenue Requirement by Rate Pool

	Supporting Exhibit	2011 Rate Pool Revenue Requirement (\$ Million)					
		Network	Line Connection	Transformation Connection	Uniform Rates Sub-Total	Wholesale Meter	Total
OM&A	1.1	203.9	38.9	104.6	347.5	0.5	348.0
Other Taxes (Grants-in-Lieu)	Note 1	43.5	10.9	16.4	70.7	0.0	70.8
Depreciation of Fixed Assets	1.2	167.2	39.5	78.6	285.3	0.1	285.4
Capitalized Depreciation	Note 2	(5.6)	(1.4)	(2.2)	(9.2)	(0.0)	(9.2)
Asset Removal Costs	Note 2	11.2	2.8	4.4	18.4	0.0	18.4
Other Amortization	Note 2	4.5	1.1	1.7	7.2	0.0	7.3
Return on Debt	1.4	158.2	39.5	59.7	257.4	0.1	257.5
Return on Equity	1.4	186.4	46.6	70.4	303.4	0.1	303.5
Income Tax	1.5	39.3	9.8	14.8	63.9	0.0	64.0
Base Revenue Requirement		808.6	187.7	348.5	1344.8	0.8	1345.6
Less Regulatory Asset Credit	1.8	(4.4)	(1.0)	(1.9)	(7.4)	(0.0)	(7.4)
Total Revenue Requirement		804.1	186.7	346.6	1337.4	0.8	1338.2
Less Non-Rate Revenues	1.6	(20.3)	(4.7)	(8.7)	(33.7)	(0.0)	(33.7)
Less Export Revenues	1.7	(16.0)			(16.0)		(16.0)
Plus LVSG Credit	6.0			11.1	11.1		11.1
Total Revenue Requirement for UTR		767.9	182.0	348.9	1298.8	0.8	1299.5
Hydro One Proposed Pool Revenue Requirement	Note 3	839.7	195.6	369.6	1405.0	0.8	1405.8

Note 1: Included with OM&A total in Exhibit 1.1. See EB-2010-0002 Exhibit G2, Tab 5, Schedule 1, Page 1.

Note 2: Included with Depreciation total in Exhibit 1.2. See EB-2010-0002 Exhibit G2, Tab 5, Schedule 1, Page 1.

Note 3: See EB-2010-0002 Exhibit G2, Tab 5, Schedule 1, Page 1.

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2010-0002

Summary Charge Determinants
(for Setting Uniform Transmission Rates for January 1, 2011 to December 31, 2011)

	Total MW *
Network	241,795
Line Connection	233,996
Transformation Connection	202,198

* 2011 charge determinants per Exhibit H1, Tab 3, Schedule 1, Table 1, multiplied by 12.

Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2010-0002

Uniform Transmission Rates and Revenue Disbursement Allocators
 (for Period January 1, 2011 to December 31, 2011)

Transmitter	Revenue Requirement (\$) (Note 3, Note 4)			
	Network	Line Connection	Transformation Connection	Total
FNEI	\$4,306,935	\$1,020,593	\$1,957,135	\$7,284,663
CNPI	\$2,727,030	\$646,211	\$1,239,202	\$4,612,443
GLPL	\$19,900,913	\$4,715,822	\$9,043,268	\$33,660,003
HIN (Note 1)	\$767,870,937	\$181,958,610	\$348,931,864	\$1,298,761,411
All Transmitters	\$794,805,816	\$188,341,236	\$361,171,470	\$1,344,318,521

Transmitter	Total Annual Charge Determinants (MW) (Note 3, Note 4)			
	Network	Line Connection	Transformation Connection	
FNEI	187.120	213.460	76.190	
CNPI	583.420	668.600	668.600	
GLPL	4,019.797	2,939.425	1,057.605	
HIN (Note 2)	241,794.994	233,995.528	202,198.429	
All Transmitters	246,585.331	237,817.013	204,000.824	

Transmitter	Uniform Rates and Revenue Allocators (Note 4)			
	Network	Line Connection	Transformation Connection	
Uniform Transmission Rates (\$/kW-Month)	3.22	0.79	1.77	
	↓	↓	↓	
FNEI Allocation Factor	0.00542	0.00542	0.00542	
CNPI Allocation Factor	0.00343	0.00343	0.00343	
GLPL Allocation Factor	0.02504	0.02504	0.02504	
HIN Allocation Factor	0.96611	0.96611	0.96611	
Total of Allocation Factors	1.00000	1.00000	1.00000	

Note 1: Hydro One Networks (HIN) 2011 UTR Revenue Requirement per Exhibit 2.0

Note 2: Hydro One Networks (HIN) Charge Determinant per Exhibit 3.0

Note 3: Data for Other Transmitters per Exhibit 4.1.

Note 4: Calculated data in shaded cells.

Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2010-0002

Revenue Requirement and Charge Determinant Assumptions for Other Transmitters

Table 1
Approved Annual Revenue Requirement and Charge Determinants

Transmitter	Annual Revenue Requirement (\$)	Annual Charge Determinants (MW)			Approval Reference
		Network	Line Connection	Transformation Connection	
Five Nations Energy Inc. (FNEI)	7,284,663	187.120	213.460	76.190	Note 1
Canadian Niagara Power Inc. (CNPI)	4,612,443	583.420	668.600	668.600	Note 2
Great Lakes Power Transmission (GLPT)	33,660,003	4,019.797	2,939.425	1,057.605	Note 3

Note 1: 2011 Revenue Requirement is based on approved amount of \$6,327,089 effective March 1, 2010 plus forecast 2010 Deferred Rate Impact Amount of \$957,574 (10/12 of annual Revenue Requirement increase of \$1,149,089) per Board Decision and Order on EB-2009-0387 dated December 9, 2010. Charge Determinant per Board Decision on EB-2009-0387 dated November 1, 2010, page 26. Values agreed-to by FNEI per Email from R.King to H.Thiessen dated December 23, 2010.

Note 2: Per Board Decision on RP-2001-0034 dated December 11, 2001, pages 8 and 10.

Note 3: 2011 Revenue Requirement is based on approved amount of \$35,141,618 effective January 1, 2010 plus forecast 2010 Deferred Rate Impact Amount of \$356,196 and disposition of variance and deferral accounts per Board Decision and Order on EB-2009-0408 dated August 31, 2010. Charge Determinants per Settlement Agreement on EB-2009-0408 dated May 17, 2010, page 23. Values agreed-to by GLPT per Email from C.Keizer to H.Thiessen dated December 20, 2010.

HYDRO ONE NETWORKS INC.
Ontario, Canada

WHOLESALE METER SERVICE
And
EXIT FEE SCHEDULE

Rate Schedule: HON-MET
Issued: January 5, 2011
Ontario Energy Board

APPLICABILITY:

This rate schedule is applicable to the *metered market participants** that are transmission customers of Hydro One Networks (“Networks”) and to *metered market participants* that are customers of a Local Distribution Company (“LDC”) that is connected to the transmission system owned by Networks.

* The terms and acronyms that are italicized in this schedule have the meanings ascribed thereto in Chapter 11 of the Market Rules for the Ontario Electricity Market.

a) Wholesale Meter Service

The *metered market participant* in respect of a *load facility* (including customers of an LDC) shall be required to pay an annual rate of \$ 7,700 for each *meter point* that is under the transitional arrangement for a *metering installation* in accordance with Section 3.2 of Chapter 6 of the Market Rules for the Ontario Electricity Market.

The Wholesale Meter Service rate covered by this schedule shall remain in place until such time as the rate is revised by Order of the Ontario Energy Board.

b) Fee for Exit from Transitional Arrangement

The *metered market participant* in respect of a *load facility* (including customers of an LDC) or a *generation facility* may exit from the transitional arrangement for a *metering installation* upon payment of a one-time exit fee of \$ 5,200 per *meter point*.

EFFECTIVE DATE: Date To Come (Date of Issue of Rate Order by Ontario Energy Board)	REPLACING RATE: EB-2008-0272 January 21, 2010	BOARD ORDER: EB-2010-0002	Page 2 of 2 Wholesale Meter Service Rate & Exit Fee Schedule for Hydro One Networks Inc.
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Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2010-0002

Wholesale Meter Rate Calculations

	Charge Determinant (Avg # of Meter Points)	Revenue Requirement (\$ Million)	OEB Approved Rate * (\$/Meter Point/Year)	Hydro One Proposed Rate * (\$/Meter Point/Year)
	<i>Note 1</i>	<i>Note 2</i>		
	(A)	(B)	(B) / (A)	
2011	100	0.8	7,700	8,400

* Rate is rounded down to the nearest \$100

Note 1: Per EB-2010-0002, Exhibit H1, Tab 4, Schedule 1, Table 1.

Note 2: Per Exhibit 2.0

Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2010-0002

Low Voltage Switchgear (LVSG) Credit
 Effective January 1, 2011

Charge Determinant (MW) <i>(Note 1)</i>	Transformation Pool Revenue Requirement Before LVSG Credit (\$M) <i>(Note 2)</i>	Rate Before LVSG Credit (\$/kw/month)	Average Monthly NCP Demand for Toronto Hydro and Hydro Ottawa (MW) <i>(Note 3)</i>	LVS Proportion (%) <i>(Note 4)</i>	Final LSVG Credit (\$M)
(A)	(B)	(C) = (B)/(A)	(D)	(E)	(F) = (C)x(D)x(E)
202,198	337.8	1.671	2912	19.0%	11.1

Note 1: Per Exhibit 3.0

Note 2: Equals Total Revenue Requirement for Transformation Connection Pool less Non-Rate Revenues allocated to Transformation Connection Pool, as per information in Exhibit 2.0.

Note 3: Per Exhibit G1, Tab 4, Schedule 1, Table 1

Note 4: See EB-2010-0002 Exhibit G1, Tab 4, Schedule 1, page 1.

Hydro One Networks Inc
Implementation of EB-2010-0002 Decision with Reasons
Studies and Reports

	Decision Reference	Description	Actions Planned
CDM Measurement Study	Pages 6 & 7	Hydro One directed to work with the OPA in devising a robust effective and accurate means of measuring the expected impacts of CDM programs promulgated by the OPA.	Hydro One will consult with stakeholders and complete the study in time to inform the next rate application
Smart Grid Development Report	Page 14	Hydro One to file a detailed report describing the OM&A activities for Smart Grid undertaken along with an analysis of the results achieved and a description of how they relate to the transmission system.	Hydro One will prepare the report in time for the next transmission rate application
Compensation Benchmarking Study	Page 20	Hydro One directed to revisit its compensation cost benchmarking study in an effort to more appropriately compare compensation costs to those of other regulated transmission and/or distribution utilities in North America.	Hydro One will consult with stakeholders and complete the study in time for the next transmission rate application
<i>ETS Study by IESO</i>	<i>Page 75</i>	<i>The IESO is to undertake a genuinely comprehensive study to identify a range of proposed rates and the pros and cons associated with each proposed rate.</i>	<i>Hydro One understands that IESO will circulate the terms of reference to Hydro One and Intervenors and will complete the study in time for the next transmission rate application</i>

Hydro One Networks Inc.
Decision with Reasons on EB-2010-0002
Deferral and Variance Accounts

The Boards' Decision directed the Company to continue or establish a number of deferral/variance accounts. The following table includes a list of those accounts:

Account Name	Decision Reference
Rights Payments Variance Account - New	Page 21
Bruce to Milton Project In-Service Variance Account - New	Page 28
Impact for Change in IFRS Account (2012 Only) - New	Page 58
IFRS – Gains and Losses Account (2012 Only) - New	Page 58
IFRS Incremental Transition Cost Account	Page 58
Pension Cost Differential Account	Page 59
Long-term Project Development OM&A Account	Page 59
Tax Rate Changes Account	Page 59
Export Service Credit Revenue Variance Account	Page 54 & 60
External Station Maintenance and E&CS Revenue Variance Account	Page 52 & 60
External Secondary Land Use Revenue Variance Account	Page 52 & 60
IFRS Capitalization Policy Variance Account - New	Page 65

In its Decision, the Board denied the continuance of the use of the OEB Cost Differential Account by Hydro One Transmission. Effective January 1, 2011, this account will be closed.

For all new accounts identified above, Hydro One will provide the accounting entries that will be used to record the approved deferral and variance accounts by March 31, 2011.

Hydro One Networks Inc.
 Revised EB-2010-0002
 To Reflect US GAAP

Revenue Requirement Summary

(\$ millions)	Supporting Reference	Hydro One Proposed 2012	OEB Decision Impact 2012	OEB Approved 2012	US GAAP Impact 2012	Revised OEB Approved 2012
				Note 3	Note 4	Note 5
OM&A	Exhibit 1.1	450.0	177.1	627.1	(200.0)	427.1
Depreciation	Exhibit 1.2	334.8	(4.1)	330.8	2.0	332.8
Return on Debt	Exhibit 1.4	312.3	(25.1)	287.1	1.6	288.7
Return on Equity	Exhibit 1.4	380.4	(28.3)	352.1	1.9	354.0
Income Tax	Exhibit 1.5	70.0	(9.4)	60.6	(0.8)	59.8
Base Revenue Requirement		1,547.4	110.2	1,657.6	(195.3)	1,462.3
Deduct: External Revenue	Exhibit 1.6	24.7	4.0	28.7		28.7
Subtotal		1,522.7	106.2	1,628.9	(195.3)	1,433.6
Deduct: Export Tx Service Revenue	Exhibit 1.7	(10.2)	(5.8)	(16.0)		(16.0)
Deduct: Other Cost Charges	Exhibit 1.8	2.6	(2.6)	-		-
Add: Low Voltage Switch Gear	Note 2	12.5	1.4	13.9		13.9
Rates Revenue Requirement		1,527.5	99.3	1,626.8	(195.3)	1,431.5

Note 1: In 2011, a variance account was established for property rights payments to track changes from approved amounts. Further, the 2012 Revenue Requirement impact if the Bruce to Milton Project in-service date is delayed from 2012 until 2013 will also be tracked in a variance account. Also, variance accounts will continue to be utilized for export revenues, secondary land use, External Station Maintenance and E&CS revenues to track changes from approved amounts.

Note 2: The value for \$13.9M for LVSG in 2012 is an estimate and will be revised once the 2012 Revenue Requirement is finalized in the fall of 2011

Note 3: As per K. Walli Jan. 18, 2011 "Revenue Requirement and Charge Determinant Order Arising From The EB-2010-0002 Decision With Reasons of December 23, 2010 and 2011 Uniform Electricity Transmission Rate Order (Revised)", Appendix A [see filed as exhibit C1-2-1]; and as per S. Frank, Jan. 5, 2011 "EB-2010-0002 Hydro One Networks' 2011-2012 Electricity Transmission Revenue Requirement - Final Revenue Requirements & Charge Determinants in Accordance With Decision" [see filed as exhibit C1-2-2].

Note 4: As per S. Frank, Jan. 5, 2011 "EB-2010-0002 Hydro One Networks' 2011-2012 Electricity Transmission Revenue Requirement - Final Revenue Requirements & Charge Determinants in Accordance With Decision", Exhibit 1.9 "Continuity of Revenue Requirement" (see attached as Appendix A to this exhibit).

Note 5: As per the OEB Decision, the 2012 Cost of Capital is to be updated in the Fall 2011 to reflect OEB approved parameters, 2011 actual debt issuances and updated forecast 2012 third-party long-term debt rates.

**** Notes 3 and 4 apply to Exhibit C2, Tab 1, Schedules 2 to 10 inclusive****

APPENDIX A
Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2010-0002

Continuity of Revenue Requirement

	Submission		Remove CWIP		BxM AFUDC		HST		OM&A		AFUDC		Cost of Capital		D43 & D44		Tax Adjustments		IFRS		Total Adjustments		Revenue Requirement		
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	
Revenue Requirement																									
OM&A	436.3	450.0	0.0	0.0	0.0	0.0	(4.6)	(5.1)	(13.0)	(17.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	200.0	(17.6)	177.1	418.8	627.1
Depreciation	302.9	334.8	0.0	0.0	0.0	0.4	(0.8)	(1.7)	0.0	0.0	(0.2)	(0.2)	0.0	0.0	(0.1)	(0.5)	0.0	0.0	0.0	0.0	(2.0)	(1.0)	(4.1)	301.8	330.8
Return on debt	284.8	312.2	(16.1)	(9.7)	0.0	0.6	(0.9)	(1.8)	(0.0)	(0.0)	(0.3)	(0.3)	(9.9)	(11.5)	(0.2)	(0.8)	0.0	0.0	0.0	0.0	(1.6)	(27.3)	(25.1)	257.5	287.1
Return on common equity	340.5	380.4	(19.7)	(12.0)	0.0	0.7	(1.1)	(2.2)	(0.0)	(0.0)	(0.3)	(0.4)	(15.7)	(11.4)	(0.2)	(1.0)	0.0	0.0	0.0	0.0	(1.9)	(37.0)	(28.3)	303.5	352.1
Income tax	80.9	70.0	(7.8)	(4.3)	0.0	0.1	0.1	0.3	(0.0)	(0.0)	(0.1)	(0.1)	(6.2)	(4.0)	(0.0)	(0.2)	(3.1)	(2.0)	0.0	0.0	0.8	(17.0)	(9.4)	64.0	60.6
	<u>1445.5</u>	<u>1547.4</u>	<u>(43.6)</u>	<u>(26.0)</u>	<u>0.0</u>	<u>1.8</u>	<u>(7.2)</u>	<u>(10.5)</u>	<u>(13.0)</u>	<u>(17.9)</u>	<u>(0.8)</u>	<u>(1.1)</u>	<u>(31.7)</u>	<u>(26.9)</u>	<u>(0.5)</u>	<u>(2.5)</u>	<u>(3.1)</u>	<u>(2.0)</u>	<u>0.0</u>	<u>0.0</u>	<u>195.3</u>	<u>(99.9)</u>	<u>110.3</u>	<u>1345.6</u>	<u>1657.6</u>
Rate Base	8378.5	9134.6	(485.8)	(289.0)	0.0	18.0	(26.7)	(53.3)	(0.7)	(1.1)	(7.9)	(10.3)	0.0	0.0	(5.0)	(24.6)	0.0	0.0	0.0	0.0	(48.1)	(526.0)	(408.3)	7852.6	8726.3
Capex	1151.8	1008.3	0.0	0.0	24.0	35.5	(39.2)	(30.6)	0.0	0.0	(3.2)	(2.1)	0.0	0.0	(10.0)	(29.8)	0.0	0.0	0.0	0.0	(200.0)	(28.4)	(227.0)	1123.4	781.3
OEB Decision Page Reference			Page 47		Page 47		Page 30		Page 11		Page 31		Page 50		Page 43		Page 11			Page 62					

NOTE: source is as per S. Frank, Jan. 5, 2011 "EB-2010-0002 Hydro One Networks' 2011-2012 Electricity Transmission Revenue Requirement - Final Revenue Requirements & Charge Determinants in Accordance With Decision", Exhibit 1.9 "Continuity of Revenue Requirement" [see filed as C1-2-2].

Hydro One Networks Inc.
 Revised EB-2010-0002
 To Reflect US GAAP

OM&A

(\$ millions)

	Supporting Reference	Hydro One Proposed 2012	OEB Decision Impact 2012	OEB Approved 2012	US GAAP Impact 2012	Revised OEB Approved 2012
OM&A	See supporting details below	450.0	177.1	627.1	(200.0)	427.1

OEB Decision Impact Supporting Details

Adjustments	Reference	2012 OM&A Impacts	US GAAP Impact Adjustment
Adjustment for HST	Page 11	(5.1)	
Envelope Reduction	Page 11	(17.8)	
IFRS Accounting for Overheads Capitalized	Page 62	<u>200.0</u>	<u>(200.0)</u>
		<u>177.1</u>	<u>(200.0)</u>

Hydro One Networks Inc.
 Revised EB-2010-0002
 To Reflect US GAAP

Rate Base and Depreciation

Supporting Reference	Hydro One Proposed 2012	OEB Decision Impact 2012	OEB Approved 2012	US GAAP Impact 2012	Revised OEB Approved 2012
(\$ millions)					
Rate Base	9,134.6	(408.3)	8,726.3	48.1	8,774.4
Depreciation	334.8	(4.1)	330.8	2.0	332.8

OEB Decision Impact Supporting Details

Reference	2012 Detailed Computation	Detailed US GAAP Impact Computation
<u>Working Capital Adjustment</u>		
Rate Base Details		
Utility plant (average)	Pre-filed Evidence Exh D1-1-1	
Gross plant at cost	13,509.5	
Less: Accumulated depreciation	(4,690.6)	
Add: CWIP	289.0	
Net utility plant	<u>9,107.9</u>	
Working capital		
Cash working capital	5.0	
Materials & supplies inventory	<u>21.7</u>	
Total working capital	<u>26.7</u>	
Total Rate Base	<u>9,134.6</u>	
Working capital as % of OM&A	(a) 5.9%	5.9%
OM&A Reduction (net of adjustment for HST)	Exhibit 1.1 (b) <u>182.2</u>	<u>200.0</u>
Working capital reduction	(c) = (a) x (b) <u>10.8</u>	10.8 <u>11.9</u>

Capex Adjustments

Adjustment for HST (includes working capital)	Page 30	(53.3)	
Adjustment for AFUDC rate	Page 31	(10.3)	
D43 and D44 Adjustment	Page 43	(24.6)	
Bruce x Milton CWIP removal	Page 47	(289.0)	
Bruce x Milton AFUDC add back (Note 1)	Page 47	18.0	
IFRS Accounting for Overheads Capitalized	Page 62	(60.0)	60.0
Total		<u>(408.3)</u>	<u>48.1</u>

Note 1: The 2012 Rate Base Impact of the Bruce to Milton AFUDC add back is net of a \$23.3 million in-service additions correction. This latter amount will be placed into service in 2013.

Depreciation Adjustments

Adjustment for HST (includes working capital)	Page 30	(1.7)	
Adjustment for AFUDC rate	Page 31	(0.2)	
D43 and D44 Adjustment	Page 43	(0.5)	
Bruce x Milton CWIP removal	Page 47	-	
Bruce x Milton AFUDC add back (Note 1)	Page 47	0.4	
IFRS Accounting for Overheads Capitalized	Page 62	(2.0)	2.0
Total		<u>(4.1)</u>	<u>2.0</u>

Hydro One Networks Inc.
 Revised EB-2010-0002
 To Reflect US GAAP

Capital Expenditures

<i>(\$ millions)</i>	Supporting Reference	Hydro One Proposed 2012	OEB Decision Impact 2012	OEB Approved 2012	US GAAP Impact 2012	Revised OEB Approved 2012
Capital expenditures	<i>See supporting details below</i>	1,008.3	(227.0)	781.3	200.0	981.3

OEB Decision Impact Supporting Details

Adjustment for HST (includes working capital)
 Adjustment for AFUDC rate
 D43 and D44 Adjustment
 Bruce x Milton AFUDC add back
 IFRS Accounting for Overheads Capitalized

Page 30
 Page 31
 Page 43
 Page 47
 Page 62

Capex Adjustment

(30.6)
 (2.1)
 (29.8)
 35.5
 (200.0)
(227.0)

US GAAP Impact Adjustment

200.0
200.0

Hydro One Networks Inc.
Revised EB-2010-0002
To Reflect US GAAP

Capital Structure and Return on Capital

(\$ millions)	Supporting Reference	Hydro One Proposed 2012	OEB Decision Impact 2012	OEB Approved 2012	US GAAP Impact 2012	Revised OEB Approved 2012
Return on Rate Base						
Rate Base	Exhibit 1.2	\$ 9,134.6	\$ (408.3)	Note 3 \$ 8,726.3	48.1	8,774.4
Capital Structure:						
Third-Party long-term debt		56.7%	3.8%	60.5%	(0.3%)	60.1%
Deemed long-term debt		-0.7%	(3.8%)	-4.5%	0.3%	-4.1%
Short-term debt		4.0%	0.0%	4.0%	0.0%	4.0%
Common equity		40.0%	0.0%	40.0%	0.0%	40.0%
Capital Structure:						
Third-Party long-term debt	Exhibit 1.4.1 and 1.4.2	5,175.1	100.0	5,275.2	-	5,275.2
Deemed long-term debt		(59.8)	(328.7)	(388.5)	27.0	(361.5)
Short-term debt		365.4	(16.3)	349.1	1.9	351.0
Common equity		3,653.8	(163.3)	3,490.5	19.3	3,509.8
		9,134.6	\$ (408.3)	8,726.3	48.1	8,774.4
Allowed Return:						
Third-Party long-term debt	Note 1, Exhibit 1.4.1 & 1.4.2	5.64%	(0.24%)	5.40%	0.00%	5.40%
Deemed long-term debt	Note 1, Exhibit 1.4.1 & 1.4.2	5.64%	(0.24%)	5.40%	0.00%	5.40%
Short-term debt	Note 2	5.00%	0.19%	5.19%	0.00%	5.19%
Common equity	Note 2	10.41%	(0.32%)	10.09%	0.00%	10.09%
Return on Capital:						
Third-Party long-term debt		291.7	(7.1)	284.6	-	284.6
Deemed long-term debt		(3.4)	(17.6)	(21.0)	1.5	(19.5)
Short-term debt		18.3	(0.2)	18.1	0.1	18.2
AFUDC return on Niagara Reinforcement Project	see below	5.6	(0.3)	5.3	-	5.3
Total return on debt		\$ 312.3	\$ (25.1)	287.1	\$ 1.6	288.7
Common equity		\$ 380.4	\$ (28.3)	352.1	\$ 1.9	354.0
AFUDC return on Niagara Reinforcement Project						
CWIP		99.1		99.1		99.1
Deemed long-term debt		5.7%		5.40%		5.40%
		<u>5.6</u>		<u>5.3</u>		<u>5.3</u>

Note 1: Long-term debt rates have been updated to reflect actual 2010 debt issuances

Note 2: The approved rates follow the OEB's November 15, 2010 guidance on cost of capital parameters to reflect per September 2010 Consensus Forecast.

Note 3: The 2012 cost of capital parameters & impacts are based on the October 2010 long-term consensus forecast and for illustrative purposes only. Hydro One will submit a 2012 draft rate order to the OEB reflecting the cost of capital parameters issued by the Board once the September 2011 consensus forecast becomes available. At that point the up-to-date cost of capital parameters will be applied including

HYDRO ONE NETWORKS INC.
TRANSMISSION
Cost of Long-Term Debt Capital
Test Year (2012)
Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates
						Total Amount (\$Millions)	Per \$100 Principal Amount (Dollars)		at 12/31/11 (\$Millions)	at 12/31/12 (\$Millions)			
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1	3-Jun-00	7.350%	3-Jun-30	278.4	4.5	273.9	98.37	7.49%	278.4	278.4	278.4	20.8	
2	22-Jun-01	6.930%	1-Jun-32	109.3	1.0	108.2	99.05	7.01%	109.3	109.3	109.3	7.7	
3	17-Sep-02	5.770%	15-Nov-12	87.0	0.4	86.6	99.55	5.83%	87.0	0.0	73.6	4.3	
4	17-Sep-02	6.930%	1-Jun-32	58.0	(2.2)	60.2	103.71	6.64%	58.0	58.0	58.0	3.9	
5	31-Jan-03	5.770%	15-Nov-12	189.0	(0.9)	189.9	100.48	5.70%	189.0	0.0	159.9	9.1	
6	31-Jan-03	6.350%	31-Jan-34	126.0	1.0	125.0	99.21	6.41%	126.0	126.0	126.0	8.1	
7	22-Apr-03	6.590%	22-Apr-43	145.0	1.1	143.9	99.26	6.64%	145.0	145.0	145.0	9.6	
8	25-Jun-04	6.350%	31-Jan-34	72.0	(0.2)	72.2	100.22	6.33%	72.0	72.0	72.0	4.6	
9	20-Aug-04	6.590%	22-Apr-43	39.0	(3.1)	42.1	107.89	6.06%	39.0	39.0	39.0	2.4	
10	24-Aug-04	6.350%	31-Jan-34	39.0	(1.4)	40.4	103.48	6.09%	39.0	39.0	39.0	2.4	
11	19-May-05	5.360%	20-May-36	228.9	8.2	220.7	96.44	5.60%	228.9	228.9	228.9	12.8	
12	3-Mar-06	4.640%	3-Mar-16	210.0	1.0	209.0	99.52	4.70%	210.0	210.0	210.0	9.9	
13	24-Apr-06	5.360%	20-May-36	187.5	2.5	185.0	98.68	5.45%	187.5	187.5	187.5	10.2	
14	22-Aug-06	4.640%	3-Mar-16	60.0	0.8	59.2	98.75	4.80%	60.0	60.0	60.0	2.9	
15	19-Oct-06	5.000%	19-Oct-46	30.0	0.2	29.8	99.29	5.04%	30.0	30.0	30.0	1.5	
16	13-Mar-07	4.890%	13-Mar-37	240.0	1.3	238.7	99.45	4.93%	240.0	240.0	240.0	11.8	
17	18-Oct-07	5.180%	18-Oct-17	225.0	0.8	224.2	99.63	5.23%	225.0	225.0	225.0	11.8	
18	3-Mar-08	5.180%	18-Oct-17	180.0	(3.1)	183.1	101.73	4.95%	180.0	180.0	180.0	8.9	
19	10-Nov-08	5.000%	12-Nov-13	240.0	1.1	238.9	99.53	5.11%	240.0	240.0	240.0	12.3	
20	14-Jan-09	5.000%	12-Nov-13	130.0	(3.7)	133.7	102.87	4.33%	130.0	130.0	130.0	5.6	
21	3-Mar-09	6.030%	3-Mar-39	195.0	1.1	193.9	99.43	6.07%	195.0	195.0	195.0	11.8	
22	16-Jul-09	5.490%	16-Jul-40	210.0	1.3	208.7	99.37	5.53%	210.0	210.0	210.0	11.6	
23	19-Nov-09	3.130%	19-Nov-14	175.0	0.6	174.4	99.64	3.21%	175.0	175.0	175.0	5.6	
24	15-Mar-10	5.490%	16-Jul-40	120.0	(0.7)	120.7	100.59	5.45%	120.0	120.0	120.0	6.5	
25	15-Mar-10	4.400%	1-Jun-20	180.0	0.8	179.2	99.56	4.45%	180.0	180.0	180.0	8.0	
26	13-Sep-10	2.950%	11-Sep-15	150.0	0.5	149.5	99.64	3.03%	150.0	150.0	150.0	4.5	
27	13-Sep-10	5.000%	19-Oct-46	150.0	(0.4)	150.4	100.27	4.98%	150.0	150.0	150.0	7.5	Note 1
28	15-Mar-11	5.370%	15-Mar-41	300.0	1.5	298.5	99.50	5.40%	300.0	300.0	300.0	16.2	Note 1
29	15-Jun-11	4.460%	15-Jun-21	300.0	1.5	298.5	99.50	4.52%	300.0	300.0	300.0	13.6	
30	15-Sep-11	3.410%	15-Sep-16	300.0	1.5	298.5	99.50	3.52%	300.0	300.0	300.0	10.6	
31	15-Mar-12	6.220%	15-Mar-42	225.0	1.1	223.9	99.50	6.26%	0.0	225.0	173.1	10.8	
32	15-Jun-12	5.310%	15-Jun-22	225.0	1.1	223.9	99.50	5.38%	0.0	225.0	121.2	6.5	
33	15-Sep-12	4.260%	15-Sep-17	225.0	1.1	223.9	99.50	4.37%	0.0	225.0	69.2	3.0	
34		Subtotal							4954.1	5353.2	5275.2	276.8	
35		Treasury OM&A costs										2.1	
36		Other financing-related fees										5.7	
37		Total							4954.1	5353.2	5275.2	284.6	5.40%

Note 1: Updated to reflect actual debt issuance

Hydro One Networks Inc.
 Revised EB-2010-0002
 To Reflect US GAAP

Income Tax

(\$ millions)

	Supporting Reference	Hydro One Proposed 2012	OEB Decision Impact 2012	OEB Approved 2012	US GAAP Impact 2012	Revised OEB Approved 2012
Income Taxes	See supporting details below	70.0	(9.4)	60.6	(0.8)	59.8

Income Tax Supporting Details

			Hydro One Proposed 2012	OEB Decision Impact 2012	Hydro One Submitted 2012	IFRS Impact Adjustment 2012	Hydro One Updated 2012
Rate Base	Exhibit 1.2	a	\$ 9,134.6	\$ (408.3)	\$ 8,726.3	48.1	8774.4
Common Equity Capital Structure		b	40.0%		40.0%	40.0%	40.0%
Return on Equity	Exhibit 1.4	c	10.41%	-0.32%	10.09%	10.09%	10.09%
Return on Equity		d = a x b x c	380.4	(28.3)	352.1	1.9	354.0
Regulatory Income Tax		e = l	70.0	(9.4)	60.6	(0.8)	59.8
Regulatory Net Income (before tax)		f = d + e	450.3	(37.7)	412.6	1.1	413.8
Timing Differences (Note 1)		g	(175.6)	8.0	(167.7)	(4.2)	(171.8)
Taxable Income		h = f + g	274.7	(29.7)	245.0	(3.0)	241.9
Tax Rate		i	26.3%	26.3%	26.3%	26.3%	26.3%
Income Tax		j = h x i	72.1	(7.8)	64.3	(0.8)	63.5
less: Income Tax Credits		k	(2.2)	(1.6)	(3.8)		(3.8)
Regulatory Income Tax		l = j + k	70.0	(9.4)	60.6	(0.8)	59.8

Note 1. Book to Tax Timing Differences

Timing difference adjustments							
less: lower depreciation due to capex reductions	Exhibit 1.2			(4.1)		2.0	
add: CCA changes related to capex reductions							
Adjustment for HST	Page 30			4.6			
Adjustment for AFUDC rate	Page 31			0.4			
D43 and D44 Adjustment	Page 43			1.0			
Bruce x Milton AFUDC add back	Page 47			(0.7)			
IFRS Accounting for Overheads Capitalized	Page 62			6.2		(6.2)	
add: Tax adjustments							
Tax Adjustments to CCA				(1.1)			
Ontario credit addback				1.6			
				8.0		(4.2)	

Hydro One Networks Inc.
 Revised EB-2010-0002
 To Reflect US GAAP

External Revenue

(\$ millions)

Supporting Reference	Hydro One Proposed 2012	OEB Decision Impact 2012	OEB Approved 2012	US GAAP Impact 2012	Revised OEB Approved 2012
External Revenue	24.7	4.0	28.7	-	28.7

External Revenue Details
Page 51

	Hydro One Proposed 2012	OEB Decision Impact 2012	Hydro One Submitted 2012	IFRS Impact Adjustment 2012	Hydro One Updated 2012
Secondary Land Use	12.5	-	12.5	-	12.5
Station Maintenance	3.0	4.0	7.0	-	7.0
Engineering & Construction	6.0	-	6.0	-	6.0
Other	3.2	-	3.2	-	3.2
Total	24.7	4.0	28.7	-	28.7

Hydro One Networks Inc.
 Revised EB-2010-0002
 To Reflect US GAAP

Export Transmission Service Revenue

(\$ millions)

	Supporting Reference	Hydro One Proposed 2012	OEB Decision Impact 2012	OEB Approved 2012	US GAAP Impact 2012	Revised OEB Approved 2012
Export Transmission Service Revenue	Page 54	(10.2)	(5.8)	(16.0)	-	(16.0)

Hydro One Networks Inc.
 Revised EB-2010-0002
 To Reflect US GAAP

Deferral and Variance Accounts

(\$ millions)

Supporting Reference	Hydro One Proposed 2012	OEB Decision Impact 2012	OEB Approved 2012	US GAAP Impact 2012	Revised OEB Approved 2012
Page 55-56	2.6	(2.6)	-	-	-

Deferral and Variance Accounts Details
Page 55-56

	Hydro One Proposed 2012	OEB Decision Impact 2012	Hydro One Submitted 2012	IFRS Impact Adjustment 2012	Hydro One Updated 2012
Export Service Credit Revenue		-			
External Secondary Land Use		-			
External Station Maint. & E&CS		-			
IPSP & Other LT Proj. Planning	1.0	(1.0)			
Pension Cost Differential	1.6	(1.6)			
Total	2.6	(2.6)	-	-	-

Hydro One Networks Inc.
 Revised EB-2010-0002
 To Reflect US GAAP

Continuity of Revenue Requirement

	H1 Proposed	Remove CWIP	BxM AFUDC	HST	OM&A	AFUDC	Cost of Capital	D43 & D44	Tax Adjustments	IFRS	OEB Decision Impact	OEB Approved	US GAAP Impact	Revised OEB Approved
	Submission										Total Adjustments			
	2012	2012	2012	2012	2012	2012	2012	2012	2012	2012	2012	2012	2012	2012
Revenue Requirement														
OM&A	450.0	0.0	0.0	(5.1)	(17.8)	0.0	0.0	0.0	0.0	200.0	177.1	627.1	(200.0)	427.1
Depreciation	334.8	0.0	0.4	(1.7)	0.0	(0.2)	0.0	(0.5)	0.0	(2.0)	(4.1)	330.8	2.0	332.8
Return on debt	312.2	(9.7)	0.6	(1.8)	(0.0)	(0.3)	(11.5)	(0.8)	0.0	(1.6)	(25.1)	287.1	1.6	288.7
Return on common equity	380.4	(12.0)	0.7	(2.2)	(0.0)	(0.4)	(11.4)	(1.0)	0.0	(1.9)	(28.3)	352.1	1.9	354.0
Income tax	70.0	(4.3)	0.1	0.3	(0.0)	(0.1)	(4.0)	(0.2)	(2.0)	0.8	(9.4)	60.6	(0.8)	59.8
	<u>1547.4</u>	<u>(26.0)</u>	<u>1.8</u>	<u>(10.5)</u>	<u>(17.9)</u>	<u>(1.1)</u>	<u>(26.9)</u>	<u>(2.5)</u>	<u>(2.0)</u>	<u>195.3</u>	<u>110.3</u>	<u>1657.6</u>	<u>(195.3)</u>	<u>1462.3</u>
Rate Base	9134.6	(289.0)	18.0	(53.3)	(1.1)	(10.3)	0.0	(24.6)	0.0	(48.1)	(408.3)	8726.3	48.1	8774.4
Capex	1008.3	0.0	35.5	(30.6)	0.0	(2.1)	0.0	(29.8)	0.0	(200.0)	(227.0)	781.3	200.0	981.3
OEB Decision Page Reference		Page 47	Page 47	Page 30	Page 11	Page 31	Page 50	Page 43	Page 11	Page 62				

1 **REGULATORY ASSET ACCOUNTS REQUESTED, CONTINUED**
2 **AND DISCONTINUED DUE TO THE ADOPTION OF US GAAP**

3
4 **1.0 INTRODUCTION**

5
6 Consistent with Hydro One Transmission's request to adopt US GAAP for rate setting,
7 regulatory reporting and regulatory accounting purposes, this Exhibit requests approval to
8 establish, continue or discontinue regulatory assets as follows:

- 9
10 • Impact for Changes in IFRS Account (2012 only) - discontinue
11 • IFRS - Gains and Losses Account (2012 only) – discontinue
12 • IFRS Capitalization Policy Variance Account (2012 only) - discontinue
13 • IFRS Incremental Transition Costs Account – continue (with revised scope)
14 • Impact for US GAAP Account (2012 only) - establish

15
16 The need for these accounts is described in further detail in the remainder of this exhibit.

17
18 **2.0 IMPACT FOR CHANGES IN IFRS ACCOUNT**

19
20 This account was approved to record the aggregate impact on the 2012 revenue
21 requirement resulting from any changes to existing IFRS standards or changes in the
22 interpretation of such standards. With the adoption of US GAAP in place of MIFRS for
23 2012 and subsequent years, there is no longer a need for this account.

24
25 **3.0 IFRS - GAINS AND LOSSES ACCOUNT**

26
27 This account was approved to hold any gains and losses resulting from asset sales, and
28 losses resulting from premature asset component retirements, recorded after January 1,

1 2012. These gains and losses were expected to result from the use of item depreciation
2 under IFRS rather than group depreciation which had previously been used under
3 Canadian GAAP. With approval to use US GAAP in place of MIFRS, Hydro One
4 Transmission will retain group depreciation. As a result, “losses” on premature retirement
5 incurred by Hydro One Transmission will continue to be charged to accumulated
6 depreciation on the balance sheet and will be recovered within future depreciation
7 expense. Given this, the IFRS gains and losses account will no longer be required.

8
9 **4.0 IFRS – CAPITALIZATION POLICY VARIANCE ACCOUNT**

10
11 This account was approved by the Board to include the revenue requirement impact of
12 any differential between estimated costs and actuals for overheads and other indirect
13 costs that were previously capitalized under Board-approved causality and benefit-based
14 independent consultant studies for Canadian GAAP, but which were not expected to be
15 capitalizable under IFRS and therefore under MIFRS. Based on Hydro One
16 Transmission’s preliminary estimates, the Board approved an increase to the 2012
17 revenue requirement of \$200 million to reflect the impact of moving certain overhead and
18 indirect costs that would no longer qualify for capitalization under MIFRS, to OM&A.

19
20 With approval to use US GAAP in place of MIFRS, Hydro One Transmission will retain
21 its legacy practice of capitalizing those overhead and indirect costs that were previously
22 approved as capital under Canadian GAAP based on external special studies. As US
23 GAAP will now replace MIFRS, the \$200 million adjustment to revenue requirement will
24 no longer be required. Therefore, the account to reflect differences between the \$200
25 million estimate and actuals is also not required under US GAAP.

1 **5.0 IFRS - INCREMENTAL TRANSITION COSTS ACCOUNT**
2

3 This account was a continuation of the account established in 2009, as per the Board's
4 guidance in the Accounting Procedures Handbook (APH) FAQ, October 2009. As per
5 the APH FAQ, the Board approved a variance account to use in circumstances where
6 there are Board-approved amounts designated for one-time IFRS transition costs already
7 included in rates. This account was continued by the Board in its EB-2010-0002
8 Decision.

9
10 Hydro One Transmission proposes to continue the account under US GAAP and to track
11 for future review and approval any variances between the actual incremental IFRS and
12 US GAAP transition costs incurred, and the estimated incremental IFRS costs approved
13 by the Board as part of 2011 and 2012 Transmission Rates. Hydro One Transmission
14 will track IFRS and US GAAP transition costs separately. Given the proposed change in
15 the account's scope, Hydro One Transmission also proposes that for Hydro One
16 Transmission, the account's name should be changed to "US GAAP – Incremental
17 Transition Costs Account".

18
19 **6.0 IMPACT FOR US GAAP ACCOUNT**
20

21 When Hydro One Transmission made its EB-2010-0002 application, it stated, as a
22 general assumption, that Canadian GAAP was equivalent to MIFRS with the exception of
23 the capitalization treatment of specific overhead and indirect costs. This sole difference
24 disappears with the adoption of US GAAP in place of MIFRS.

25
26 In addition, Hydro One has carried out an initial review of the differences between
27 Canadian and US GAAP to understand how they impact its business. Many differences
28 are disclosure-related while others relate to specialized areas such as pensions and
29 financial instruments. Given that the adoption of US GAAP may result in additional

1 differences from Canadian GAAP, Hydro One proposes that a symmetrical variance
2 account should be established to record the 2012 impact of such differences in sufficient
3 detail to allow them to be reviewed for future disposition.

4

5 **7.0 ACCOUNTING AND CONTROL PROCESS**

6

7 These accounts requested above will be managed in the same manner as existing Hydro
8 One Transmission variance and deferral accounts. They will be updated monthly and
9 interest applied consistent with the Board-approved rate. Balances will be reported to the
10 Board as part of the quarterly reporting process. The outstanding balances, whether in a
11 debit or credit position, will be submitted for approval by the Board as part of a future
12 Hydro One Transmission filing.

13