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ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Hydro One Networks Inc. For an Order or Orders approving rates for the transmission of electricity.

APPLICATION

1. The Applicant is Hydro One Networks Inc. ("Hydro One Networks"), a subsidiary of Hydro One Inc. Hydro One Networks is an Ontario corporation with its head office in Toronto. The Applicant carries on the business, among other things, of owning and operating transmission facilities in Ontario. The transmission business of Hydro One Networks will be referred to as "Hydro One Transmission".

2. Hydro One Networks hereby applies to the Ontario Energy Board (the "Board"), pursuant to section 78 of the *Ontario Energy Board Act, 1998*, for an Order or Orders approving the revenue requirement and customer rates for the transmission of electricity, to be implemented on January 1, 2013.

3. Hydro One Networks seeks approval of a revenue requirement of $1,464 million and $1,558 million for the test years 2013 and 2014, respectively. The resulting increase in Hydro One Transmission's Rates Revenue Requirement is 0.6% and 9.1%, respectively, reflecting an estimated increase on the average customer's total bill of 0.0% in 2013 and 0.7% in 2014. The estimate of the impact on a customer's total bill assumes commodity costs of 7.2¢/kWh and that transmission represents 7.9% of an average distribution connected customer's total bill.

4. Hydro One Networks seeks approval of regulatory assets totaling ($30.3) million as at December 31, 2012. Hydro One seeks approval to refund this balance over a two year period and to reduce the annual revenue requirement accordingly.

5. Hydro One Networks also requests that the Board amend the Uniform Transmission Rates to allow for recovery of the proposed revenue requirements for 2013 and 2014, effective January 1st of each year.

6. Hydro One Networks also requests approval of the Company's Transmission Green Energy Plan filed as part of this Application in accordance with Section 70, (2.1), 2 of the *OEB Act, 1998*.

7. Hydro One Networks seeks approval to continue the following deferral accounts including, the Excess Export Service Revenue Account, the External Secondary Land Use Revenue Variance Account, the External Station Maintenance and E&CS Revenue Variance Account, the Tax Rate Changes Account, the Rights Payments Variance Account, the Pension Cost Differential Account, the Impact for Changes in US GAAP Account, the US GAAP Incremental Transition Costs Account, and the East-West Tie account.

8. For 2013 and 2014, Hydro One Transmission is requesting that the Board approve the establishment of two new deferral accounts, the External Revenue – Partnership Transmission Projects Account and the Long-Term Transmission Future Corridor Acquisition and Development Account. The intent of the External Revenue – Partnership Transmission Projects Account is to record costs for services provided by Hydro One employees for work they are performing for partnership companies. The establishment of the Long-Term Transmission Future Corridor Acquisition and Development Account is to allow Hydro One Transmission to record transmission planning and study costs

associated with preliminary corridor routing considerations for new transmission infrastructure.

9. Hydro One Transmission is also requesting the discontinuance effective January 1, 2013 of the Deferred Export Service Credit Revenue Account and the Long Term Project Development Costs Account.

10. The evidence to be filed with the Board will include a full description of all costs common to the Applicant's distribution and transmission activities, but the proposed rates are based only upon those costs appropriately allocated to the transmission business.

11. Hydro One Networks also requests the Board approve several proposed modifications to the current Transmission Connection Procedures, which were approved by the Board in EB-2006-0189 to reflect the current electricity market conditions with respect to the connection of renewable generation. The proposed changes relate to a number of sections in Hydro One Transmission's Connection Procedures including: 1) the Customer Connection Process, 2) Security Deposit Procedure, 3) Customer Impact Assessment Procedure, 4) Schedule of Charges and Fees, and 5) Connection Process Timelines.

12. The written evidence filed with the Board may be amended from time to time prior to the Board's final decision on the Application. Further, the Applicant may seek meetings with Board staff and intervenors in an attempt to identify and reach agreements to settle issues arising out of this Application.

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

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

a) The Applicant:

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Regulatory Coordinator – Regulatory Affairs
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DATED at Toronto, Ontario, this 28th day of May, 2012.

HYDRO ONE NETWORKS INC.

By its counsel,

____

D.H. Rogers, Q.C.

SUMMARY OF APPLICATION

Hydro One Networks ("Hydro One" or "Hydro One Transmission") is applying for an Order approving the revenue requirement, cost allocation and rates for Hydro One's Transmission Business for years 2013 and 2014 ("test years") under the assigned Docket Number EB-2012-0031. This summary provides a brief description of the approvals being sought through this Application and a summary of reasons for the increase in revenue requirement.

1.0 SCOPE OF APPLICATION

The scope of this Application includes:

- the review of Hydro One Transmission's evidence in support of the revenue requirements for 2013 and 2014,
- the review of the charge determinants by rate pools to assist in the development of Uniform Transmission Rates, and
- the review of Hydro One's Transmission Green Energy Plan filed as part of this Application in accordance with Section 70, (2.1), 2 of the *OEB Act, 1998*.

This submission reflects Hydro One Transmission's plan to invest in its network assets to meet objectives regarding public and employee safety; regulatory and legislative compliance; maintenance of system security and reliability; system growth requirements; and initiatives to facilitate renewable generation connection. The capital project and program approval and control policy is presented in Exhibit A, Tab 15, Schedule 5. Details of Hydro One Transmission's capital expenditures are provided in schedules filed at Exhibit D2, Tab 2 and discussed in detail in schedules within Exhibit D1, Tab 3. Hydro

One's Transmission Green Energy and Green Economy Plan is filed at Exhibit A, Tab 14, Schedule 1.

Hydro One Transmission's OM&A expenditures have been determined on the basis of an examination of required work programs to ensure the most appropriate, cost-effective solutions are undertaken to meet public and employee safety objectives, maintain transmission reliability at targeted performance levels, and to comply with regulatory requirements, environmental requirements and Government direction. A description of the Company's planning process is provided at Exhibit A, Tab 13, Schedule 1. These expenditures are itemized in Exhibit C2, Tab 2, Schedule 1 and discussed in written direct evidence in Exhibit C1, Tab 3 and Tab 4.

Hydro One assesses the condition of its Transmission assets on an ongoing basis, and the results of these assessments are used to determine the Sustainment OM&A and capital plans set out in Exhibits C and D. Sustainment planning is described at Exhibit C1, Tab 2, and in Exhibits C1, Tab 3, Schedule 2 and D1, Tab 3, Schedule 2.

This Application by Hydro One Transmission is substantively consistent with the Filing Requirements for Transmission and Distribution Applications (the "Filing Requirements") issued by the Board on November 14, 2006 and updated Chapter 2 issued by the Board on June 28, 2012.

This Application addresses all outstanding Board directives with respect to its Transmission Business. A listing of all relevant directives and the corresponding exhibit or a statement of status is provided in Exhibit A, Tab 19, Schedule 1.

Hydro One has used the Corporate Cost Allocation Methodology as accepted by the Board in previous Hydro One Distribution and Transmission Applications and updated for this current filing, to allocate the costs of shared services of OM&A and Common Assets between Transmission and Distribution. The updated study is filed as Attachment 1 to Exhibit C1, Tab 7, Schedule 1. The 2012 Common Asset Allocation Methodology is described at Exhibit C1, Tab 7, Schedule 3 and the updated study is filed as Attachment 1 to the same exhibit.

The 2013-2014 overhead capitalization rate has been calculated consistent with the methodology accepted in previous Hydro One Distribution and Transmission Applications and updated for this current filing. The updated Black & Veatch study is filed at Exhibit C1, Tab 7, Schedule 2, Attachment 1. As directed by the Board in its EB-2011-0268 Decision with Reasons, Hydro One has conducted a review of its current and proposed capitalization practices. The capitalization policy review is filed as Attachment 2 to the same exhibit.

Hydro One has incorporated the methodologies of the Lead Lag study, based on the methodology accepted by the Board in previous Distribution and Transmission Applications and updated for this current filing. The calculation of working capital, filed at Exhibit D1, Tab 1, Schedule 3, reflects the results of an updated lead-lag study completed by Navigant Consulting Inc. and is filed as Attachment 1 to the same exhibit.

Hydro One has applied the deemed capital structure of 60% debt and 40% common equity, approved by the Board in its EB-2010-0002 Hydro One Transmission Decision in determining its 2013 and 2014 revenue requirement. Hydro One is currently requesting an equity return of 9.16 % for the 2013 test year and 9.44 % for 2014, using the latest Board formulaic methodology from the EB-2009-0084 proceeding, issued on December 11, 2009 and using the February 2012 Consensus Forecast. The Company expects that the return on equity (ROE) and other Cost of Capital (CoC) parameters for 2013 and 2014 will be updated to reflect the September 2012 and September 2013 Consensus

Forecasts and Bank of Canada data available in October of 2012 and 2013 as described at Exhibit B1, Tab 1, Schedule 1.

This Application provides information on Hydro One Transmission's revenue requirement and charge determinants by rate pools to assist in the development of provincial uniform transmission rates at Exhibit H1.

2.0 APPROVALS REQUESTED

2.1 Revenue Requirement

Respecting Hydro One's revenue requirement in the years 2013 and 2014 for its Transmission Business, the Company is seeking approvals for:

1. A revenue requirement of $1,464 million and $1,558 million for the 2013 and 2014 test years, respectively, as set out in Exhibit E2, Tab 1, Schedule 1. These revenue requirements increase Hydro One Transmission's Rates Revenue Requirement by 0.6% and 9.1% in 2013 and 2014, respectively, which represent an estimated increase on total customer bills of 0.0% in 2013 and 0.7% in 2014. The estimate of the impact on a customer's total bill assumes commodity costs of 7.2¢/kWh and that transmission represents 7.9% of an average distribution connected customer's total bill.

2. The Company's Transmission Green Energy Plan filed as part of this Application in accordance with Section 70, (2.1), 2 of the *OEB Act*, *1998*. This plan is provided in Exhibit A, Tab 14, Schedule 1.

3 Total capital expenditures of $1,102 million in 2013 and $1,122 million in 2014. Details of Hydro One Transmission's capital expenditures are provided in schedules filed at Exhibit D2, Tab 2 and discussed in detail in schedules within Exhibit D1, Tab 3.

4. An OM&A cost expenditure forecast of $453 million in 2013 and $460 million in 2014, driven by the need to safely deliver transmission reliability at targeted performance levels. These expenditures are itemized in the schedules of Exhibit C2, Tab 2, Schedule 1 and discussed in written direct evidence in the exhibits in Exhibit C1, Tab 3 and Tab 4.

5. The existing Export Transmission Service (ETS) rate of $2/MWh to be continued and disbursed through a decrease in revenue requirement for the Network Pool. The forecast for ETS revenue is $31.0 million for 2013 and $30.1 million for 2014. The ETS rate is discussed in Exhibit H1, Tab 5, Schedule 1. The IESO was directed by the Board to undertake a study to identify a range of proposed ETS rates and the pros and cons associated with each proposed rate in its EB-2010-0002 Decision with Reasons. This study is filed at Exhibit H1, Tab 5, Schedule 2.

6. The recovery of Low Voltage Switch Gear compensation amounts as discussed in Exhibit G1, Tab 6, Schedule 1.

7. Hydro One Networks seeks approval of regulatory assets totaling ($30.3) million as at December 31, 2012. Hydro One seeks approval to refund this balance over a two year period and to reduce the annual revenue requirement accordingly as discussed at Exhibit F1, Tab 1, Schedule 3.

8. Hydro One Transmission's Rate Base of $9,414 million for 2013 and $10,051 million for 2014 is discussed in Exhibit D1, Tab 1, Schedule 1.

9. The submission is based on US Generally Accepted Accounting Principles (USGAAP) for 2013 and 2014 as approved by the Board in its EB-2011-0268 Decision.

2.2 Cost Allocation and Rates

The Company is seeking approvals of:

1. The continuation of the Hydro One Transmission's cost allocation methodology, as described in Exhibit G1, Tab 2, Schedule 1 and supported by the remainder of the G Exhibit.

2. The continuation of a wholesale metering services pool, as discussed in Exhibit G1, Tab 5, Schedule 1.

3. The revenue to be collected by each Rate Pool as discussed in Exhibit G1, Tab 1, Schedule 1.

4. The charge determinant application to each Rate Pool as discussed in Exhibit H1, Tab 3, Schedule 1.

5. Charges for the provision of wholesale metering services and export transmission services performed by the utility as set out at Exhibit H1, Tab 4, Schedule 1 and Exhibit H1, Tab 5, Schedule 1, respectively.

6. The disposition of the balances accumulated in Regulatory Accounts as shown in Exhibit F1, Tab 1, Schedule 3.

7. Hydro One Networks also requests that the Board amend the Uniform Transmission Rates to allow for recovery of the proposed revenue requirements for 2013 and 2014, effective January 1st of each year.

2.3 Other Approvals

1. Hydro One Networks also requests the Board approve several proposed modifications to the current Transmission Connection Procedures, which were approved by the Board in EB-2006-0189 to reflect the current electricity market conditions with respect to the connection of renewable generation. The proposed changes relate to a number of sections in Hydro One Transmission's Connection Procedures including: 1) the Customer Connection Process, 2) Security Deposit Procedure, 3) Customer Impact Assessment Procedure, 4) Schedule of Charges and Fees, and 5) Connection Process Timelines.

2. Hydro One Networks seeks approval to continue the following deferral accounts including the Excess Export Service Revenue Account, the External Secondary Land Use Revenue Variance Account, the External Station Maintenance and E&CS Revenue Variance Account, the Tax Rate Changes account, the Rights Payments Variance Account, the Pension Cost Differential account, the Impact for Changes in US GAAP Account, the US GAAP Incremental Transition Costs Account, and the East-West Tie account.

3. The Company also requests the establishment of two new variance accounts for the 2013 and 2014 test years, the External Revenue – Partnership Transmission Projects

Account and the Long-Term Transmission Future Corridor Acquisition and Development Account. These are discussed in Exhibit F1, Tab 1, Schedule 2.

4. Hydro One Transmission is also requesting the discontinuance effective January 1, 2013 of the Deferred Export Service Credit Revenue Account and the Long Term Project Development Costs Account.

3.0 CAUSES OF THE INCREASE IN REVENUE REQUIREMENT

In 2013, there are a number of key operational and financial factors contributing to the increased revenue requirement over 2012. The increase in total revenue requirement is largely attributable to the impact of rate base growth including Bruce to Milton reflected in the increase in return and depreciation, which is partially offset by the impact of lower depreciation rates per the updated depreciation study filed at Exhibit C1, Tab 8, Schedule 1, Attachment 1. Also contributing to the difference is an increase in OM&A work program requirements, lower return due to decreased interest rates, and higher export credit and the disposition (refund) of Regulatory Accounts.

The increase in 2014 rates revenue requirement is primarily due to the increase in core rate base as reflected in the increase in return and depreciation. Other contributing factors include an increase in OM&A work program requirements, and higher ROE due to an increasing consensus forecast on Government of Canada ten year bonds. Exhibit G1, Tab 1, Schedule 1 provides information on how the rates revenue requirements will be recovered through rates.

The increases identified within the Application will ensure that customers within the Province will continue to be supplied in a secure and reliable manner while supporting the Government's connection of renewable generation initiatives, thereby contributing to the health and competitiveness of the Province's economy.

FINANCIAL SUMMARY

1.0 INTRODUCTION

Hydro One Transmission is making this Application requesting approval of an appropriate revenue requirement in support of just and reasonable transmission rates for 2013 and 2014.

This Application provides information required to support revenue requirement and related transmission rates for the test years 2013 and 2014. The submission also provides historical information for 2009, 2010 and 2011, along with 2012 bridge year information.

The Company is proposing to recover a total revenue requirement of $1,464.5 million from its customers for the 2013 test year and $1,557.7 million for the 2014 test year. Calculation of the revenue requirement for both test years appears in the evidence at Exhibit E2, Tab 1, Schedule 1.

Hydro One Transmission's capital structure was approved by the Board as part of its December 23, 2010 Decision on Hydro One's Transmission Rate Application (EB-2010-0002). This is consistent with the Board's report on the cost of capital: see the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009 (EB-2009-0084). Hydro One Transmission's evidence reflects a return of 9.16% in 2013 and 9.44% in 2014, as specified by the formula in the report above. Hydro One Transmission's evidence in support of its Cost of Capital and Cost of Third Party Long Term Debt appears at Exhibit B1, Tab 1, Schedule 1 and Exhibit B1, Tab 2, Schedule 1.

Hydro One Transmission's OM&A expenditures have been determined through an examination of required work programs to ensure the most appropriate, cost-effective solutions to respond to corporate objectives are met. A description of the Company's planning process is provided at Exhibit A, Tab 13, Schedule 1. The proposed OM&A expenditures are $453.3 million in 2013 and $459.7 million in 2014, driven by the need to safely deliver transmission reliability at targeted performance levels. These expenditures are itemized in the schedules of Exhibit C2, Tab 2, Schedule 1 and discussed in written direct evidence in Exhibit C1, Tabs 3 and 4. Hydro One has used the Corporate Cost Allocation Methodology, based on the methodology accepted in EB-2010-0002 and previous proceedings and updated for this current filing, to allocate the costs of shared services OM&A between Transmission and Distribution. The 2012 update is described in Exhibit C1, Tab 7, Schedule 1.

Depreciation and amortization expense of $346.7 million for 2013 and $374.7 million for 2014 have been determined based on the results of the Foster's methodology accepted by the Board in Hydro One's Transmission's previous proceedings. An update to the depreciation study has been completed in 2012 for Hydro One Transmission in support of its 2013 and 2014 application. These costs are described in written evidence in Exhibit C1, Tab 8, Schedule 1 and shown in detail in Exhibit C2, Tab 4, Schedule 1.

The Company has also incorporated the methodology of the Lead Lag study, submitted and accepted by the Board in previous proceedings, in its derivation of Rate Base in 2013 and 2014. The calculation of working capital, filed in Exhibit D1, Tab 1, Schedule 3, incorporates the methodology of the Lead Lag study.

Hydro One Transmission's forecast Rate Base of $9,413.5 million for 2013 and $10,050.9 million for 2014 is discussed in Exhibit D1, Tab 1, Schedule 1.

This submission reflects Hydro One Transmission's plan to invest its network assets to meet objectives regarding public and employee safety, regulatory and legislative compliance, maintenance of system security and reliability, and meeting system growth requirements. The capital project and program approval and control policy is presented in Exhibit A, Tab 15, Schedule 5. The Company is forecasting total capital expenditures of $1,102.4 million in 2013 and $1,121.5 million in 2014. Details of Hydro One Transmission's capital budget are provided in schedules filed at Exhibit D2, Tab 2 and discussed in detail in schedules within Exhibit D1, Tab 3.

Hydro One Transmission earns approximately 2% of its revenues from sources other than its transmission tariff. As the costs incurred to generate these revenues are included in the Company's cost of service, these external revenues of $31.6 million in 2013 and $31.8 million in 2014 are recorded as an offset to the respective revenue requirement. External revenues are discussed at Exhibit E1, Tab 2, Schedule 1.

In accordance with standard regulatory practice, Hydro One Transmission has incurred prior costs for which it is requesting approval in this submission. Hydro One Transmission is requesting approval of actual Regulatory Asset values of $30.3 million as at December 31, 2012 which includes the principal balances as at December 31, 2011 and forecasted interest for 2012. The Company's submissions regarding these account balances and their proposed disposition appear at Exhibit F1, Tab 1, Schedule 1 and Exhibit F1, Tab 1, Schedule 3, respectively.

Tables 1 and 2 below, summarize the financial highlights for the 2013 and 2014 Test Years.

Table 1
Financial Highlights 2013

Line No.		*Deemed Capital Structure ($ millions)* (a)	*Total Rate Base Percent* (b)	*Cost Rate (%)* (c)	*Exhibit* (d)
1	Total Debt	5,648.1	60.0%	4.75%	B2-1-1
2	Common Equity	3,765.4	40.0%	9.16%	B2-1-1
3	Total Rate Base	9,413.5	100.0%	6.51%	B2-1-1

Line No.		*$ millions*	*Exhibit*
1	Total OM&A Expense	453.3	C2-1-1
2	Depreciation & Amortization	346.7	C2-4-1
3	Capital Expenditures	1,102.4	D2-2-1
4	Rate Base	9,413.5	D2-1-1
5	Revenue Requirement	1,464.5	E2-1-1
6	External Revenues	31.6	E1-2-1
7	Return on Capital	613.2	B2-1-1
8	Regulatory Assets Recovery	(15.1)	F2-1-2

Table 2
Financial Highlights 2014

Line No.		*Deemed Capital Structure ($ millions)* (a)	*Total Rate Base Percent* (b)	*Cost Rate (%)* (c)	*Exhibit* (d)
1	Total Debt	6030.5	60.0%	4.71%	B2-1-1
2	Common Equity	4,020.4	40.0%	9.44%	B2-1-1
3	Total Rate Base	10,050.9	100.0%	6.60%	B2-1-1

Line No.		*$ millions*	*Exhibit*
1	Total OM&A Expense	459.7	C2-1-1
2	Depreciation & Amortization	374.7	C2-4-1
3	Capital Expenditures	1,121.5	D2-2-1
4	Rate Base	10,050.9	D2-1-1
5	Revenue Requirement	1,557.7	E2-1-1
6	External Revenues	31.8	E1-2-1
7	Return on Capital	663.3	B2-1-1
8	Regulatory Assets Recovery	(15.1)	F2-1-2

SUMMARY OF TRANSMISSION BUSINESS

1.0 INTRODUCTION

Hydro One Networks Inc. is licensed by the Ontario Energy Board (the "OEB" or the "Board") to own, operate and maintain transmission facilities in the Province of Ontario. Hydro One's transmission system is one of the largest in North America based on net book value and includes facilities that service connected customers and other transmitters province wide. These facilities comprise approximately 97% of the licensed transmission facilities in Ontario and are used to serve customers province wide.

The purpose of the transmission system is to transmit electricity between supply points (such as generators, interconnections with other jurisdictions, and load customers with sufficient embedded generation to result in injections into the transmission system) and delivery points (load customers, including Local Distribution Companies ("LDCs"), end-use Transmission Customers ("ETCs") and interconnections with other jurisdictions).

This exhibit provides a summary of Hydro One Transmission's (the "company") business in Section 4, a discussion of the business model implemented within the company in Section 5, and the manner in which investment programs are managed is set out in Section 6.

2.0 HYDRO ONE'S VALUES

Hydro One is driven by the values of Health & Safety, Stewardship, Excellence and Innovation. The company works in an environment that can be dangerous for both workers and the public, and so safety is of the utmost importance. The stewardship of critical provincial assets is a serious responsibility. The company demonstrates sound stewardship in a manner that respects both customers' needs, as well as the environment. Excellence is achieved through continuous improvement and staff development to ensure the company is prepared and equipped to deliver high quality and affordable service. The company values innovation and views it as a key success factor for its future, allowing the company to find better ways to meet the needs of our customers.

Customers expect and deserve reliable power at reasonable rates. Hydro One Transmission's strategy and business plan must ensure rates that can balance the financing of investment in infrastructure while maintaining affordable and reliable service. While customer satisfaction with the company's performance remains strong, customers face a growing array of changes and challenges, and they increasingly look to Hydro One Transmission to help them manage use of power, maintain high levels of service reliability and keep prices reasonable. The company is prepared to meet customers' expectations, continue its commitment to asset stewardship, and ensure alignment with new policy objectives brought forth by the Government.

3.0 STRATEGIC GOALS AND PERFORMANCE TARGETS

The company's strategic objectives consist of:

- Creating an injury-free workplace and maintaining public safety;
- Satisfying our customers;
- Focusing on continuous innovation to ensure a modern, flexible and advanced distribution system;
- Building and maintaining reliable, cost-effective transmission and distribution systems.
- Protecting and sustaining the environment for future generations;
- Employee engagement;
- Maintaining a commercial culture that increases value for our shareholder; and

- Achieving productivity improvements and cost-effectiveness.

These strategic objectives are inextricably linked. They drive the fulfillment of the Company's mandate and the achievement of its mission and vision, which is:

> "We will be an innovative and trusted company delivering electricity safely, reliably, and efficiently to create value for our customers".

The company will operate with clear operational and financial performance targets. Where data is available, Hydro One will benchmark its performance against that of other North American utilities and implement plans and programs to achieve the vision of being an innovative and trusted company delivering electricity safely, reliably and efficiently. The five-year goals associated with the company's strategic objectives are shown in Table 1.

Table 1

STRATEGIC OBJECTIVES	FIVE-YEAR VISION
Injury-Free	Achieve world-class standing for medical attention, for utilities.
Satisfying Our Customers	On average, 90% Customer Satisfaction across all segments
Continuous Innovation	Meet 100% of Advanced Distribution System plan
Reliable Transmission and Distribution	Maintain top-quartile transmission reliability and achieve third quartile distribution reliability (relative to comparable utilities).
Protecting the Environment	Reduce our environmental footprint
Employee Engagement	Achieve and maintain employee engagement at top quartile of utility comparables
Shareholder Value	Achieve the ROE allowed by the Ontario Energy Board and maintain "A" credit rating category
Productivity and Cost-Effectiveness	Achieve top-quartile unit costs in transmission and distribution against utility comparables

The strategic objectives identified in Table 1 underpin and drive the Company's business planning process and the fulfillment of our mission and vision.

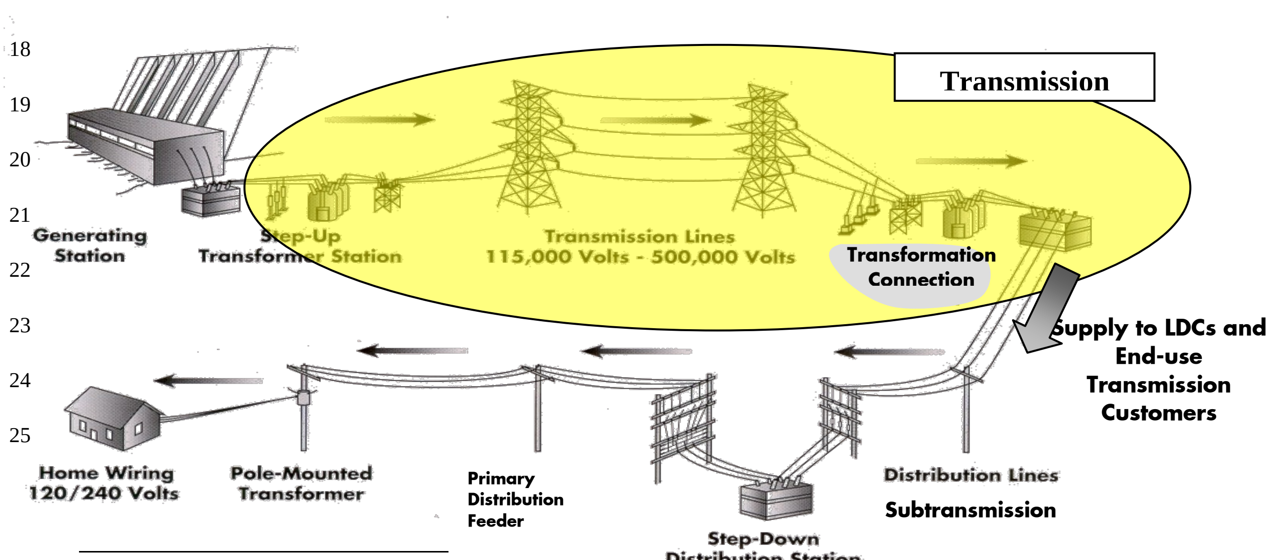
4.0 HYDRO ONE'S TRANSMISSION BUSINESS

4.1 Transmission System Background

Hydro One Transmission's business comprises a high voltage system that operates at 500 kV, 230 kV and 115 kV, with minor lengths operating at 345 kV and 69 kV. There are 99 generating stations, 49 Local Distribution Companies ("LDCs"), and 93[1] end-use transmission customers connected directly to Hydro One's Transmission system, as of the end of February, 2012. In 2011, Hydro One transmitted approximately 141 TWh of electricity, directly or indirectly, to substantially all consumers of electricity in Ontario.

A simplified figure of the Transmission System is provided in Figure 1 below.

Figure 1
Hydro One's Transmission System [2]



[1] In Hydro One Transmission's previous rate filing (EB-2010-0002), the end-use transmission customer count was stated as 89.
[2] For illustrative purposes only, actual configuration may vary from case to case and may include generators within LDCs and end-use transmission customer facilities.

The Hydro One Transmission system includes approximately 29,000 circuit kilometers of high voltage transmission lines and 286 transmission stations. These lines are located in lands owned by the Ontario government, Hydro One Transmission or by other parties with whom Hydro One Transmission has agreements regarding occupancy and access rights. The major components of the transmission lines are overhead conductors, underground cables, wood or steel support structures, foundations, insulators, connecting hardware and grounding systems. The major components of transmission stations are transformers, circuit breakers, switches, bus bars, insulators, reactors, capacitors, connecting hardware, associated protection and control equipment, grounding systems and revenue meters.

A summary of the key physical assets on Hydro One Transmission's system is provided in Table 2.

Table 2

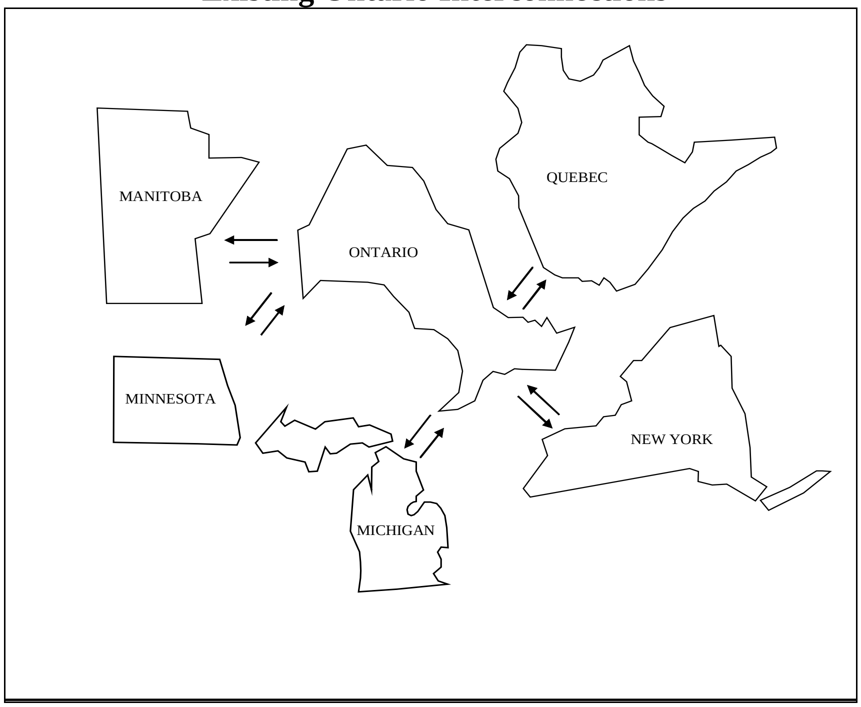
Hydro One Transmission System Assets[3] At December 31, 2011 *(unless where otherwise noted)*	
Fixed Assets (Net Book Value)	$8.0 Billion
Operating Centres[4]	2
Transmission System Voltages (kV)	500, 345, 230, 115, 69
Overhead Transmission Lines (circuit km)	28,636
Underground Transmission Cables (circuit km)	291
Transmission Stations[5]	285
Breakers[6]	4,490
Step-down Power Transformers[6,7]	572
Auto-Transformers[6,7]	134
Other Transformers[6,7,8]	13

[3] Includes 25- and 60-cycle systems for transmission circuit km.
[4] One Ontario Grid Control Centre (OGCC) and one Integrated Telecommunication Management Centre (ITMC).
[5] 250 Transformer Stations & 35 Switching Stations.
[6] The number of transformers and circuit breakers are the equivalent three-phase banks.
[7] Excludes lower voltage station service, grounding, and operating spare transformers.
[8] Other transformers include 5 phase shifters, and 8 high-voltage regulators.

Transmission assets also include facilities required for operation, protection, control, and monitoring functions necessary for the effective and efficient operation of the transmission system. These facilities include an extensive telecommunication system, protection and control equipment, the Ontario Grid Control Centre ("OGCC") and the back-up operating facilities which serve as a fully redundant back-up to the OGCC. The OGCC monitors and controls the operation of the transmission system.

As shown in Figure 2, Hydro One Transmission is linked to five adjoining jurisdictions (Manitoba, Quebec, Minnesota, Michigan and New York) through 26 interconnections, through which we can accommodate imports of about 4,600 MW and exports of approximately 6,000 MW of electricity. These interconnection facilities are designed to facilitate the transfer of electrical energy between Ontario and these jurisdictions. Actual import and export capabilities of the interconnections depend on limitations at the interface as well as within Hydro One Transmission's system and transmission systems in other jurisdictions.

Figure 2
Existing Ontario Interconnections



Hydro One Transmission's system is also connected to other transmitters, namely Great Lakes Power, Canadian Niagara Power, and Five Nations Energy, representing the remaining 3% of licensed transmission facilities in Ontario. Due to a change in policy in Ontario that enabled competitive transmission (see section 4.3.2), a number of new licensed transmitters emerged in Ontario over the last year including: AltaLink Ontario Management Ltd., Iccon Transmission Inc., Oncor Electric Delivery Company LLC, RES Canada Transmission LP, TransCanada Power Transmission Ontario LP, Upper Canada Transmission, and EWT LP (East-West Tie partnership is an equally-shared limited partnership of Great Lakes Transmission, Bamkushwada LP (a number of First Nations in the area of the East-West Tie), and Hydro One).

4.2 Transmission Business Activities

Hydro One Transmission's business activities are regulated and consist of expanding, maintaining, operating and sustaining assets to meet reliability standards and satisfy regulatory, environmental and legal requirements. In particular, Hydro One Transmission implements system expansion to:

- accommodate load growth and new generation;
- accommodate distributed generation resulting from the feed-in tariff program and other green initiatives advocated through the Ontario Government's Green Energy and Green Economy Act, 2009 (GEGEA).
- alleviate internal system constraints,
- increase interconnection capabilities with neighbouring utilities; and
- facilitate the development of a modern and smart grid.

The Company's regulated business activities include the management of its transmission assets, which includes operations, maintenance, construction and engineering services, customer service activities and supporting research, environmental, and public/employee health and safety programs. The costs of all these activities are included in the revenue requirements for Hydro One Transmission.

These activities are performed by a multi-disciplined workforce capable of performing tasks related to operating, maintaining and expanding the transmission business. A number of service centers are located throughout the Province to provide the required operating, maintenance, construction and restoration services.

In order to carry out the work, these service centers provide base locations for the mobile workforce and contain essential infrastructure components such as:

- land and buildings for staff accommodation,
- transport and work equipment, including large work vehicles, off-road vehicles, small vehicles (trucks, cars and vans), and specialized units (snowmobiles, chippers, trailers), and
- minor fixed assets, including computers, test equipment, construction and maintenance tools and office furniture.

Included in the regulated transmission business revenue requirement are expenditures for common services that are shared with the distribution business (for the purpose of cost efficiency), such as internal audit, human resources, asset management, legal, general counsel and secretary, finance, information management, performance management, regulatory, environment, planning and corporate affairs. The nature and costs associated with these corporate functions and services are discussed in Exhibit C1, Tab 4, Schedules 1 to 7.

4.3 Electricity Industry and Regulatory Framework

4.3.1 Industry and Regulatory Environment in Ontario

In the restructured Ontario electricity industry the Ministry of Energy sets legislative and regulatory requirements through changes to the *Electricity Act*, *1998* and the *Ontario Energy Board Act*, *1998*. The OEB sets transmission rates, issues codes and licenses, and grants approval for construction of new transmission lines greater than two kilometers.

The Independent Electricity System Operator ("IESO") administers the electricity market and directs the operation of the power system in Ontario. The transmission assets owned by Hydro One Transmission form approximately 97% of the IESO controlled transmission grid, which is essential for the operation of the IESO administered markets. The IESO controlled grid provides the infrastructure for transmitting large volumes of electrical energy from major generation sources to major load centers. In the restructured Ontario electricity industry, Hydro One Transmission provides transmission capacity. The IESO makes that capacity available to market participants.

The Ontario Power Authority ("OPA") establishes new electricity supply contracts, sets provincial Conservation and Demand Management targets, forecasts long-term demand/supply requirements and identifies the new or upgraded transmission required to incorporate new generation, relieve constraints on the transmission system and accommodate increasing electricity demand on an area supply basis.

The Transmission System Code ("TSC"), issued by the OEB, sets out the obligations of electricity transmitters with respect to their customers. It includes a Connection Agreement which covers the technical and commercial responsibilities of both transmitters and their customers. The Code also addresses standards for the operation, maintenance, management and expansion of transmission systems.

The TSC and the market rules require all customers directly connected to the transmission system to enter into a connection agreement with their transmitter. Accordingly, Hydro One Transmission has established Connection Agreements with its transmission customers. Each Connection Agreement is comprised of two main parts; general information, such as equipment standards, operational and maintenance requirements, reporting protocol, dispute resolution methodology, disconnection process, etc. and; specific information, including connection point description (diagrams, protection requirements, technical specification for customer's equipment), contact data for both the customer and appropriate Hydro One Networks' staff, and description of applicable transmission charges. In addition, the TSC requires Hydro One Transmission to enter into commercial agreements with directly connected load and generation customers to provide new or modified Hydro One Transmission owned connection facilities and to recover the related costs.

Depending on the configuration and ownership of facilities, Hydro One Transmission provides customers with one or more of the four main types of transmission service: network, line connection, transformation connection and wholesale meter service.

4.3.2 Competitive Transmission

On August 26, 2010, the OEB released its new policy entitled "Framework for Transmission Project Development Plans". This policy sets out a framework for new transmission investment in Ontario by introducing competition for transmission development through an open process.

On March 29, 2011, the Minister expressed the Province's interest in the OEB commencing a designation process for the East–West Tie Line. The East-West Tie project is the first network line expansion covered under the new approach. The OPA's proposed route is a 400 km, 230 kV double-circuit line to run beside an existing Hydro One Networks Inc. transmission corridor along the north shore of Lake Superior between Hydro One Networks Inc.'s transformer stations at Wawa in the east and Lakehead in the west. The target in-service date, set by the OPA in its report issued June 30, 2011, is 2017.

Hydro One, at whose facilities the new line will terminate, is also involved in the designation process as a bidder through its one-third interest in the East-West Tie partnership (East-West Tie partnership is an equally-shared limited partnership of Great Lakes Transmission, Bamkushwada LP (a number of First Nations in the area of the East-West Tie), and Hydro One).

4.3.3 North American Reliability Framework

The National Electric Reliability Council ("NERC") was established in the United States in 1968 in response to the 1965 blackout. On January 1, 2007, the National Electric Reliability Council became the North American Electric Reliability Corporation (same acronym). NERC's mission is to ensure the reliability of the bulk power system in North America. To achieve this, NERC develops and enforces reliability standards; monitors the bulk power system; assesses and reports on future transmission and generation adequacy; and offers education and certification programs to industry personnel. NERC is a non-profit, self-regulatory organization that relies on the diverse and collective expertise of industry participants. NERC is subject to oversight by governmental authorities in Canada and the U.S.

NERC works with eight Regional Entities to improve the reliability of the bulk power system, the North East Power Coordinating Council (NPCC) being one of them. Hydro One is a member of NERC and NPCC and is registered with NERC's compliance registry.

The U.S. Energy Policy Act of 2005 authorized the creation of a self-regulatory Electricity Reliability Organization (ERO) that would span North America, with the Federal Energy Regulatory Commission (FERC) oversight in the U.S. The legislation stated that compliance with reliability standards would be mandatory and enforceable. In July 2006 FERC certified NERC as the ERO in the United States. In October 2006 the OEB signed a Memorandum of Understanding with NERC recognizing NERC as the ERO in Ontario.

Voluntary compliance was expected as a matter of good utility practice through the first set of NERC standards (effective January 2005). The standards later became mandatory and enforceable in the United States in June 2007.

As a licensed Transmitter, Hydro One has a regulatory obligation to comply with the reliability standards adopted by NERC and NPCC. The requirement to comply is also stated in the IESO Market Rules, where market participants are subject to monetary sanctions of up to one million dollars for confirmed violations.

According to the regulatory framework in the Province of Ontario, Hydro One is not subject to the Compliance Monitoring and Enforcing Program (CMEP) of NERC and NPCC. The Ontario Market Rules and the Memorandum of Understanding (MOU) signed by the IESO, NERC and NPCC (October 2006), assign the IESO as the only entity in Ontario that is subject to the CMEP. The IESO, by way of its Market Assessment and Compliance Division (MACD), is responsible for monitoring and enforcing the reliability standards in Ontario.

To date, NERC has developed over 120 standards including approximately 1,400 requirements. Over 60 of these standards apply to Hydro One.

5.0 ASSET MANAGEMENT MODEL

Hydro One has adopted an Asset Management model in designing the processes used to plan, approve and implement work. The key principles include having functions primarily responsible for defining the work requirements (Asset Management functions) and functions primarily responsible for delivering asset and customer based services in accordance with the defined work (Work Execution functions). Primary responsibility for planning and decision making associated with the management of transmission and distribution assets falls under the Asset Management functions, whereas primary responsibility for providing engineering, design, estimating, construction, maintenance, operating, and customer care services falls under the Work Execution functions.

Both components of the business actively participate in all phases of work planning and implementation. However, the focus created by this approach allows Hydro One Transmission to better create the competencies and cost-efficiencies to effectively plan and implement the work.

5.1 Asset-Centric Investment Reviews to Improve Investment Planning (IP)

In previous years the IP has relied upon risk assessments and prioritization at the driver level. Drivers are categories that contain similarly natured projects and/or programs intended to fulfill a common purpose.

Continuing improvements in Asset Analytics have improved our ability to consider the needs of an asset fleet in its entirety - especially as it regards the performance and demographics of the fleet providing a comprehensive overview of all work impacting that particular asset fleet. This has facilitated the development of a more comprehensive investment strategy for each asset fleet.

5.2 Asset Management Function

Hydro One's transmission business strives to continually improve the efficiency and effectiveness of the regulated wires assets. The Asset Management function is responsible for effectively operating, maintaining and upgrading existing transmission and distribution assets and ensuring consistent, cost-efficient and effective decision making that balances customer needs and stakeholder expectations with Hydro One objectives for its assets and systems.

In preparing investment plans and prioritizing work activities, the Asset Management function utilizes tools and planning procedures outlined in Exhibit A, Tab 15, Schedules 3 to 6.

In addition to maintaining a strong stewardship role of Hydro One assets, the asset management strategies, processes and policies are evolving to proactively plan for and invest in the necessary system infrastructure to accommodate increased levels of renewable energy development. These objectives align with the green energy initiatives set forth by the GEGEA and ensure that necessary operational and planning flexibilities are in place to respond to changing system needs.

A more detailed account of the roles and responsibilities of the Asset Management function as a shared service can be found in Exhibit C1, Tab 4, Schedule 3.

5.3 Work Execution Functions

The work execution functions provide engineering, design, estimating, construction, maintenance, and operating services. Customer relationship management and support services and supporting research, environmental, and public/employee health and safety programs are also provided by these functions. These activities are performed by a multi-disciplined workforce capable of performing tasks related to operating, maintaining and expanding the transmission business. There are three primary work execution functions within Hydro One: Customer Operations, Grid Operations and Engineering and Construction.

5.3.1 Customer Operations

The Customer Operations function is responsible for line construction and maintenance work, including forestry and customer care support services. As well, the Customer Operations function has accountability for planning and connecting new retail customers to the transmission system and to address local system planning issues.

Lines and Forestry services provide for the maintenance of overhead and underground transmission lines and for vegetation management. The vegetation management program is necessary to ensure that clearances to energized equipment are maintained and that these clearances provide a sustainable level of reliability.

Customer care services can be divided into the following high-level functions: meter reading; billing; settlements; customer contact handling; and collections.

5.3.2 Grid Operations

The Grid Operations function provides maintenance and technical services for stations and protection and control, as well as central operations and services for the transmission operating function which includes operation from the OGCC.

The OGCC monitors the integrity of the transmission system in real time to ensure reliable performance of the network under present conditions while recognizing potential contingencies and providing immediate response to customers. The OGCC also reviews, approves, performs and/or authorizes all switching and control actions on Hydro One's Transmission system and issues work permits in accordance with the Utility Work Protection Code to provide employees with a safe working area. In addition, the OGCC coordinates an extensive outage program with various internal stakeholders and external customers to support Hydro One's distribution expansion and maintenance programs. Required outages are assessed and coordinated to minimize their impact on reliability and customer operation.

Grid Operations also maintains back-up operating facilities which serve as a fully redundant back-up to the OGCC.

5.3.3 Engineering and Construction

The Engineering and Construction function provides services ranging from engineering and design to the construction and commissioning of new or enhanced facilities. These projects include engineering, estimating, project management, and construction of stations, system protection and control, as well as engineering services as required.

6.0 INVESTMENT CATEGORIES

In organizing and planning its work programs, Hydro One Transmission has three main investment categories of work: Sustainment, Development and Operations, which are described below. These categories are used for both the OM&A and Capital components of the investment plan.

6.1 Sustainment

Sustainment work is defined as the work required by the transmission business to maintain the existing infrastructure and facilities at their required performance level. The OM&A component of the sustainment work addresses preventative and breakdown (corrective) maintenance within the useful life span of the asset including mid life overhauls which are required to achieve the expected life span of the equipment. The capital component of the sustainment work deals with replacement of assets at end of life.

Sustainment work is designed to maintain customer delivery reliability system-wide while meeting all legislative, regulatory, safety and environmental requirements. The strategy uses a life cycle management approach, which aims at optimizing performance and cost over the service life of assets.

The Sustainment OM&A and Capital components of the investment plan are described in Exhibit C1, Tab 3, Schedule 2 and Exhibit D1, Tab 3, Schedule 2 respectively. An overview and detailed documentation of Hydro One Transmission sustainment planning is provided Exhibit C1, Tab 2.

6.2 Development

Development work is defined as the work required by the transmission business to increase the capacity and capability of the transmission system by constructing additional transmission facilities or upgrading existing facilities. Development work provides the additional capacity and enhanced capability:

- to meet the needs of load or generation customers, including connecting new loads or new generating plants, adding capacity to supply increases in existing loads or output of existing generating plants;
- to reinforce the transmission networks in Ontario or on the interconnections with neighbouring utilities in order to maintain adequate customer supply and system security and to alleviate restrictions to power transfers in accordance with approved plans and directives; and
- to meet customer reliability/power quality service standards, system security standards, or equipment/facilities design standards in a manner consistent with the transmission business asset management strategy and regulatory obligations.
- to facilitate the modernization of a smart grid in Ontario and enhance transmission infrastructure to effectively deliver renewable power from distributed generation.

The Development OM&A and Capital components of the investment plan are described in Exhibit C1, Tab 3, Schedule 3 and Exhibit D1, Tab 3, Schedule 3 respectively.

6.3 Operations

Transmission operating activities are carried out centrally at the OGCC. The Operations function manages the transmission assets to ensure day to day flow of electricity within the capability of the transmission system, coordinates and schedules planned outages, and monitors and reports on the performance of the transmission system.

Capital investments are required to enhance, refurbish and replace transmission system computer management systems and data acquisition systems, including automatic system controls, which monitor and control the operation of the transmission system.

OM&A expenditures are required to maintain transmission system computer management systems and data acquisition systems, including automatic system controls, and to fund the resources required to perform the activities necessary for centralized operation of the transmission system.

The Operations OM&A and Capital components of the investment plan are described in Exhibit C1, Tab 3, Schedule 4 and Exhibit D1, Tab 3, Schedule 4, respectively.

NOTICE, PROCEDURAL ORDERS, CORRESPONDENCE

The Notice of Motion, Procedural Orders and Correspondence are attached.

Ontario Energy Board **Commission de l'énergie de l'Ontario**

Ontario

EB-2012-0031

NOTICE OF APPLICATION AND HEARING

CHANGE TO ELECTRICITY TRANSMISSION REVENUE REQUIREMENT AND RATES

Hydro One Networks Inc.

Hydro One Networks Inc. ("Hydro One") has filed an application with the Ontario Energy Board (the "Board") on May 28, 2012 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B). Hydro One is seeking approval for changes to its 2013 and 2014 transmission revenue requirement and for approval for changes to the provincial uniform transmission rates charged for electricity transmission to be effective January 1, 2013 and January 1, 2014. The Board has assigned the application File No. EB-2012-0031.

Hydro One has also included its Transmission Green Energy Plan as part of this application.

Hydro One is seeking approval of $1,464 million as the 2013 revenue it requires to provide electricity transmission and $1,557 million as the 2014 revenue it requires to provide electricity transmission. This compares with the Board approved level of $1,418 million for 2012. Hydro One indicates that if the application is approved as filed, the resulting increase in the Hydro One Transmission Revenue Requirement will be 3.2% in 2013 and 6.4% in 2014 which is estimated to make no change to total customer bills in 2013 and 0.7% increase in total customer bills in 2014.

For a residential customer consuming 800 kWh per month, the estimated increase on the customer's total monthly bill is $0.05 in 2013 and $0.80 in 2014. The actual impact on a customer's bill will vary depending on the customer's specific actual monthly kWh usage.

The Board's decision on this application will have an effect on all electricity consumers in Ontario. Any change to the uniform transmission rates will cause the rates charged to consumers through their local distribution companies to change. Retail transmission charges (which are determined by the uniform transmission rates) are part of the delivery line that is one of the four regular items that appear on all Residential and General Service electricity bills. This change to the delivery component of the bill is separate from other potential changes to electricity bills, which could include changes to the "electricity" component charges, changes to distribution charges and changes to other charges included on the bill. This application deals only with the potential increase to the delivery component of the bill that may result from an increase in the uniform transmission rates.

For additional information on billing items visit the Consumer page of the Board's website at www.ontarioenergyboard.ca.

The Board will proceed with this application by way of an oral hearing.

How to see Hydro One Networks Inc.'s Application

Copies of the application are available for inspection at the Board's office in Toronto and on its website, www.oeb.gov.on.ca, at Hydro One Networks Inc.'s website www.HydroOne.com and at the following Hydro One Networks Inc. offices:

Head Office, 8th Floor, South Tower, 483 Bay Street, Toronto
Barrie Field Business Centre, 45 Sarjeant Drive, Barrie
Peterborough Field Business Centre, 913 Crawford Drive, Peterborough
Sudbury Field Business Centre, 957 Falconbridge Road, Sudbury
Merivale Service Centre, 31 Woodfield Drive, Ottawa
Dundas Field Business Centre, 40 Olympic Drive, Dundas
Beachville Field Business Centre, 56 Embro Street, Beachville
Thunder Bay Field Business Centre, 255 Burwood Road, Thunder Bay

How to Participate

Comment

If you wish to give your opinion on the proceeding to the Board Members hearing the application, you are invited to send a written letter of comment to the Board no later than **30 days** after the publication or service date of this notice. A complete copy of your letter of comment, including your name, contact information, and the content of the letter, will be provided to the applicant and the Hearing Panel.

Observe

If you do not wish to actively participate in the proceeding but you do wish to receive documents issued by the Board, you may request observer status. Your written request must be received by the Board no later than **10 days** from the publication or service date of this notice.

Personal Information in Letters of Comment and Observer Requests

All letters of comment or letters requesting observer status will be placed on the public record, which means that the letters can be seen at the Board's office and will be available on the Board's website. Before placing the letters on the public record, the Board will remove any personal (i.e. not business) contact information from the letters (i.e. the address, fax number, phone number, and e-mail address of the individual). However, the name of the individual and the content of the letter will become part of the public record. Please address your letter to the Board Secretary at the address below, and reference file number **EB-2012-0031** at the top of your letter.

Intervene

If you wish to actively participate in the proceeding (e.g., submit questions, file argument), you may request intervenor status from the Board no later than **10 days** after the publication or service date of this notice. Instructions for requesting intervenor status are available on the Board's website at www.ontarioenergyboard.ca/participate. Everything an intervenor files with the Board, including the intervenor's name and contact information, will be placed on the public record, which can be seen at the Board's office and will be available on the Board's website.

If you do not have internet access, please call 1-888-632-2727 to receive information about this proceeding and how to participate.

IMPORTANT

IF YOU DO NOT PARTICIPATE IN THE HEARING IN ACCORDANCE WITH THIS NOTICE, THE BOARD MAY PROCEED WITHOUT YOUR PARTICIPATION AND YOU WILL NOT BE ENTITLED TO ANY FURTHER NOTICE IN THE PROCEEDING.

Addresses

The Board:

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

Filings:
https://www.errr.ontarioenergyboard.ca
E-mail: boardsec@ontarioenergyboard.ca

Tel: 1-888-632-6273 (toll free)
Fax: 416-440-7656

The Applicant:

Hydro One Networks Inc.
8th Floor, South Tower
483 Bay Street
Toronto ON M5G 2P5
Attention: Mr. Pasquale Catalano
Regulatory Coordinator – Regulatory Affairs

Email: regulatory@hydroone.com

Tel: 416-345-6482
Fax: 416-345-5866

Counsel for the Applicant:

Mr. D.H. Rogers, Q.C.
Rogers Partners, LLP
100 Wellington Street West
Suite 500, P.O. Box 255
Toronto, ON M5K 1J5

Email: don.rogers@rogerspartners.com

Tel: 416-594-4500
Fax: 416-594-9100

DATED at Toronto**, June 20, 2012**

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

Ontario Energy Board | **Commission de l'énergie de l'Ontario**

Ontario

EB-2012-0031

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

AND IN THE MATTER OF a review of an application filed 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 2013 and 2014.

PROCEDURAL ORDER NO. 1

Hydro One Networks Inc. ("Hydro One") filed an application, dated May 28, 2012, with the Ontario Energy Board under section 78 of the *Ontario Energy Board Act,* 1998, c.15, Schedule B, seeking approval for changes to its 2013 and 2014 transmission revenue requirement and for changes to the provincial uniform transmission rates charged for electricity transmission, to be effective January 1, 2013 and January 1, 2014. The Board has assigned File Number EB-2012-0031 to the application.

The Board issued a Notice of Application and Hearing dated June 20, 2012. The Board received 21 requests for intervenor status and 3 requests for observer status. On July 6, 2012, the Board received a request for late intervention status from Goldcorp Canada Ltd. and Goldcorp Inc. The Board approves these intervention requests. A list of the intervenors is attached as Appendix A.

The following parties also applied for cost award eligibility: Association of Major Power Consumers in Ontario ("AMPCO"), Consumers Council of Canada ("CCC"), Canadian Manufacturers and Exporters ("CME"), Energy Probe, Pollution Probe, School Energy

Coalition (“SEC”), Vulnerable Energy Consumers Coalition (“VECC”), Association of Power Producers in Ontario (“APPrO”), and London Property Management Association (“LPMA”).

After considering these requests, the Board approves cost eligibility for all the intervenors listed above.

With regard to the APPrO request for cost eligibility, generators are generally not eligible for costs in accordance with section 3.05 of the Practice Direction on Cost Awards. However, section 3.07 allows that “the Board may, in special circumstances, find that a party which falls into one of the categories listed in section 3.05 is eligible for a cost award in a particular process.” The Board finds, as it did in previous Hydro One Transmission hearings, that APPrO is eligible for costs, but only to the extent that APPrO represents customer interests where such customers displace some of their loads and pay transmission rates for relevant services. Generator connection cost issues are addressed under the Transmission Code and are therefore not part of this hearing. When APPrO files its cost claim it will be expected to explain how the issues for which it is seeking cost awards satisfy these conditions.

The Board expects that all cost eligible intervenors will cooperate to the maximum extent possible and avoid duplication wherever possible.

As indicated in the Notice of Application, the Board intends to proceed by way of an oral hearing preceded by written interrogatories.

A draft issues list is attached as Appendix B. Intervenors and Hydro One may make submissions on the draft list and propose changes for the Board’s consideration. Parties are also encouraged to propose which issues should be considered on a written basis and which should be subject to an oral hearing. In proposing additional issues, parties should provide justification and give consideration as to whether the item is already included under one of the proposed issues. Similarly, parties proposing to remove or limit the scope of an issue on the draft list should provide justification. After reviewing these submissions, the Board will issue a final issues list. Only matters that are on the final issues list will be considered in this proceeding.

The Board has not provided for an Issues Day, but may adjust the schedule if it is determined that one is required.

The Board will require intervenors to indicate if they intend to file evidence in this proceeding in advance of the deadline for intervenor evidence. The attached Appendix C includes the timelines for intervenor evidence and interrogatories. In the event that intervenor evidence is not filed the schedule will be adjusted accordingly.

The Board is making provision for written interrogatories. The Board understands that Hydro One intends to file new and updated evidence by August 15, 2012. The deadline for interrogatories will therefore be two weeks after that.

The Board notes that interrogatories must reference the pre-filed evidence and must be filed by issue. The Board also requires that Hydro One file the responses to these interrogatories by issue instead of by intervenor. To facilitate the intervenors' review of the responses to their interrogatories, interrogatory responses for each issue shall be grouped by intervenor within the issue. To make for a more efficient and less costly process, Board staff will file their interrogatories in advance of the intervenor interrogatories, and intervenors are expected to coordinate their interrogatories so as to avoid duplication.

The Board considers it necessary to make provision for the following matters related to this proceeding. Although the date for the oral hearing is not currently specified, it is expected that the oral hearing will take place in October, 2012. The Board will issue further procedural orders from time to time.

THE BOARD ORDERS THAT:

1. Hydro One and intervenors may make submissions on the draft issues list (attached as Appendix B) and shall file any submissions with the Board and deliver them to all parties no later than Monday, July 23, 2012.

2. Hydro One may respond to the submissions of intervenors, and intervenors may respond to the submissions of Hydro One or other intervenors by filing those responses with the Board and delivering them to all parties no later than Friday, July 27, 2012.

3. Board staff seeking information and material that is in addition to Hydro One's pre-filed evidence, and that is relevant to the hearing, shall request the same by

written interrogatories filed with the Board and delivered to the intervenors and Hydro One on or before Wednesday, August 29, 2012.

4. Intervenors seeking information and material that is in addition to Hydro One's evidence, and that is relevant to the hearing, shall request the same by written interrogatories filed with the Board and delivered to the other intervenors and Hydro One on or before Wednesday, September 5, 2012.

5. Any intervenor that intends to file evidence shall notify the Board of its intention, no later than Wednesday, September 5, 2012, and shall copy all parties.

6. Responses by Hydro One to interrogatories shall be filed with the Board and delivered to all parties on or before Thursday, September 20, 2012.

7. Board staff and intervenors who wish to file evidence shall do so, on or before Monday, October 1, 2012.

8. Any party seeking information and material that is in addition to this filed evidence, and that is relevant to the hearing, shall request the same by written interrogatories filed with the Board and delivered to all parties on or before Wednesday, October 10, 2012.

9. Responses to the interrogatories on intervenor/Board staff evidence shall be filed with the Board and delivered to all parties on or before Tuesday, October 16, 2012.

All filings to the Board must quote file number EB-2012-0031, 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. Please 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 you may email your 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.

Address

The Ontario Energy Board:

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

Filings: www.errr.ontarioenergyboard.ca

E-mail: Boardsec@ontarioenergyboard.ca

Tel: 1-888-632-6273 (toll free)

Fax: 416-440-7656

ISSUED at Toronto, July 12, 2012

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

APPENDIX A

HYDRO ONE NETWORKS INC
TRANSMISSION REVENUE REQUIREMENT AND RATE HEARING
FOR
2013 AND 2014 TRANSMISSION RATES

EB-2012-0031

APPLICANT & LIST OF INTERVENORS

Appendix A

Hydro One Networks Inc.
Transmission Revenue Requirement and Rate Hearing
2013 and 2014

EB-2012-0031

APPLICANT & LIST OF INTERVENORS

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APPENDIX B

HYDRO ONE NETWORKS INC
TRANSMISSION REVENUE REQUIREMENT AND RATE HEARING
FOR
2013 AND 2014 TRANSMISSION RATES

EB-2012-0031

Draft

ISSUES LIST

Appendix B
Hydro One Networks Inc.
Transmission Revenue Requirement and Rate Hearing
2013 and 2014

EB-2012-0031

DRAFT ISSUES LIST

1. GENERAL

1.1 Has Hydro One responded appropriately to all relevant Board directions from previous proceedings?

1.2 Is the overall increase in 2013 and 2014 revenue requirement reasonable?

2. LOAD FORECAST and REVENUE FORECAST

2.1 Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?

2.2 Are Other Revenue (including export revenue) forecasts appropriate?

3. OPERATIONS MAINTENANCE & ADMINISTRATION COSTS

3.1 Are the proposed spending levels for Sustaining, Development and Operations OM&A in 2013 and 2014 appropriate, including consideration of factors such as system reliability and asset condition?

3.2 Are the proposed spending levels for Shared Services and Other O&M in 2013 and 2014 appropriate?

3.3 Are the 2013/14 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

3.4 Are the methodologies used to allocate Shared Services and Other O&M costs to the transmission business and to determine the transmission overhead capitalization rate for 2013/14 appropriate?

3.5 Are the amounts proposed to be included in the 2013 and 2014 revenue requirements for income and other taxes appropriate?

3.6 Is Hydro One Networks' proposed depreciation expense for 2013 and 2014 appropriate?

4. CAPITAL EXPENDITURES and RATE BASE

4.1 Are the amounts proposed for rate base in 2013 and 2014 appropriate?

4.2 Are the proposed 2013 and 2014 Sustaining and Development and Operations capital expenditures appropriate, including consideration of factors such as system reliability and asset condition?

4.3 Are the proposed 2013 and 2014 levels of Shared Services and Other Capital expenditures appropriate?

4.4 Are the methodologies used to allocate shared services and other capital expenditures to the transmission business, appropriate?

4.5 Are the inputs used to determine the working capital component of the rate base and the methodology used appropriate?

4.6 Does Hydro One's Asset Condition Assessment information and Investment Planning Process adequately address the condition of the transmission system assets and support the O&MA and Capital expenditures for 2013/14?

5. COST OF CAPITAL/CAPITAL STRUCTURE

5.1 Is the proposed timing and methodology for determining the return on equity and short-term debt prior to the effective date of rates appropriate?

5.2 Is the forecast of long term debt for 2012-2014 appropriate?

6. DEFERRAL/VARIANCE ACCOUNTS

6.1 Are the proposed amounts, disposition and continuance of Hydro One's existing Deferral and Variance accounts appropriate?

6.2 Are the proposed new Deferral and Variance Accounts appropriate?

7. COST ALLOCATION

7.1 Is the cost allocation proposed by Hydro One appropriate?

8. GREEN ENERGY PLAN

8.1 Are the OM&A and capital amounts in the Green Energy Plan appropriate and based on appropriate planning criteria?

9. EXPORT TRANSMISSION SERVICE RATES

9.1 What is the appropriate level for Export Transmission Rates in Ontario?

10. CONNECTION PROCEDURES

10.1 Are the proposed modifications to the Hydro One transmission connection procedures appropriate?

11. ACCOUNTING STANDARDS

11.1 Have all impacts of the conversion of regulatory and financial accounting from CGAAP to USGAAP been identified, and reflected in the appropriate manner in the Application, the revenue requirement for the Test Year, and the proposed rates?

APPENDIX C

HYDRO ONE NETWORKS INC
TRANSMISSION REVENUE REQUIREMENT AND
RATE HEARING
FOR
2013 AND 2014 TRANSMISSION RATES

EB-2012-0031

CASE TIMETABLE

Hydro One Networks Inc.
Transmission Revenue Requirement and Rate Hearing
2013 and 2014

EB-2012-0031

Procedural Order No. 1 - Case Timetable

	Event	**Date**
1.	Hydro One and intervenor submissions on the draft issues list filed	July 23
2.	Hydro One reply to intervenor submissions and intervenor reply to Hydro One or other intervenors' submissions on the draft issues list filed	July 27
3.	Board staff interrogatories filed	August 29
4.	Intervenor interrogatories filed	September 5
5.	Intervenors to notify the Board of intent to file evidence	September 5
6.	Interrogatory responses filed	September 20
7.	Board staff and intervenor evidence filed	October 1
8.	Board staff, intervenors and Hydro One's interrogatories on Board staff and intervenor evidence filed	October 10
9.	Board staff and intervenors' responses to interrogatories filed	October 16

Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2012-0031

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

AND IN THE MATTER OF a review of an application filed 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 2013 and 2014.

ISSUES LIST DECISION AND PROCEDURAL ORDER NO. 2
August 13, 2012

Hydro One Networks Inc. ("Hydro One") filed an application, dated May 28, 2012, with the Ontario Energy Board under section 78 of the *Ontario Energy Board Act, 1998*, c.15, Schedule B, seeking approval for changes to its 2013 and 2014 transmission revenue requirement and for changes to the provincial uniform transmission rates charged for electricity transmission, to be effective January 1, 2013 and January 1, 2014. The Board assigned File Number EB-2012-0031 to the application.

The Board issued a Notice of Application and Hearing dated June 20, 2012. The Board issued Procedural Order No. 1 on July 12, 2012 which approved a number of intervention requests and requests for cost award eligibility, included a draft issues list and provided for written submissions on the issues in this proceeding.

The Board received initial submissions on the draft issues list from Hydro One Networks Inc. (Hydro One), Energy Probe, Consumers Council of Canada (CCC), School Energy Coalition (SEC), the Association of Major Power Consumers in Ontario (AMPCO), Canadian Manufacturers & Exporters (CME) and Goldcorp Canada Limited and Goldcorp Inc. (together, Goldcorp).

The Board then received reply submissions from Hydro One, Board staff, CCC, SEC, AMPCO and CME, primarily regarding the initial Goldcorp submission requesting that the following additional issue regarding bypass compensation be added to the issues list:

> 9.2 Should the Board establish an interim rate for Goldcorp in order to recover any bypass compensation due in an appropriate amount over the remaining life of the Red Lake Transformer Station ("RLTS")?

The Board has reviewed and considered all submissions and reply submissions on the draft issues list.

Board staff and the intervenors that responded generally opposed the inclusion of the Goldcorp issue. Board staff submitted that this rate proceeding is not the appropriate forum in which to hear this issue. Staff pointed out that, under the current regulatory framework, a rate order is not required in order for a transmitter to recover bypass compensation from a customer. Bypass compensation is recoverable by a transmitter under the terms of the Transmission System Code (TSC).

Board staff submitted that the appropriate means of addressing any dispute(s) of this nature (i.e., whether a particular case is one that is covered by the bypass compensation provisions of the TSC or whether the bypass compensation methodology set out in the TSC has been properly applied) is to have the matter addressed under the dispute resolution process described in section 12 of the TSC or in the connection agreement between the transmitter and its customer, as applicable.
Board staff also submitted that the appropriate process to allow Hydro One to calculate bypass compensation in a manner other than that prescribed by the TSC is an application to amend Hydro One's licence to exempt it from the mandatory application of the bypass compensation methodology set out in the TSC. Board staff noted that this is one of the 3 options specifically identified in the Board's January 23, 2012 Decision with Reasons and Order (EB-2011-0361/EB-2011-0376) issued in relation to an earlier application made by Goldcorp.

Hydro One's reply submission was along similar lines. CCC expressed its support for Board staff's reply submissions, and VECC submitted that it would be inappropriate to use this rates case as a forum to determine a non-rate related dispute between Goldcorp and Hydro One.

SEC submitted that the Board should include the issue proposed by Goldcorp only to the extent of addressing the *method* of recovery of any bypass compensation.

AMPCO took no position on this issue.

Findings

Goldcorp Proposal

The Board declines to add the issue of bypass compensation for the Red Lake Transformer Station to the issues list for this proceeding.

Goldcorp is seeking a “fair and transparent process” in which to challenge Hydro One’s calculation of the bypass compensation payable by Goldcorp. Goldcorp submitted that “if it is to pay bypass compensation, it should be entitled to full and transparent disclosure of information and the right to test and challenge Hydro One's estimate”. Goldcorp further submitted that “the best way to provide those rights is to hear the Interim Rate Issue in this proceeding”.

One issue raised by Goldcorp appears to be the appropriate <u>method</u> of paying bypass compensation (lump sum payment versus a transmission rate that would spread the payment over time). On another reading, it appears as though the issue is more that Goldcorp is dissatisfied with the amount of bypass compensation that it has to pay to Hydro One, as determined using the methodology set out in the TSC. Goldcorp goes on to submit that, “the best way to provide those rights is to hear the Interim Rate Issue in this proceeding.”

In its submissions, Goldcorp also asserted that adding the bypass compensation issue to this proceeding would effectively be bringing a licence exemption application, but “without the need to deploy the additional resources required for a new and separate proceeding”.

The Board does not agree that this proceeding, convened to determine a rate application filed under section 78 of the *Ontario Energy Board Act, 1998*, is the appropriate forum for resolving any dispute that Goldcorp may have with Hydro One about Goldcorp’s obligation to pay bypass compensation, whether that dispute relates to the method of payment or its quantum. The matters raised by Goldcorp relate to the operation of the TSC, and a rates case is not the appropriate forum for resolving disputes of this nature. As indicated by Board staff, the matters of concern to Goldcorp may be addressed under the applicable dispute resolution process referred to in section 12 of the TSC. Another approach would be an application to amend Hydro One's licence to exempt it from the mandatory application of the bypass compensation methodology set out in the TSC. These are both appropriate avenues available to Goldcorp for the purposes of addressing its concerns. Therefore the Goldcorp bypass compensation issue will not be added to the issues list for this proceeding.

The Board also takes this opportunity to confirm that neither Goldcorp's liability to pay bypass compensation, nor the quantum of that payment, nor the method by which that payment is to be recovered by Hydro One are contingent on an order of the Board, irrespective of what the CCRA between Goldcorp and Hydro One might say on the matter.

Energy Probe Proposal
The Board notes the submission of Energy Probe which advocated the addition of the issue, "Are Hydro One's economic and business planning assumptions for 2013/2014 appropriate?" on the final issues list. CME supported the Energy Probe submission. The Board regards the additional issue as proposed by Energy Probe to be subsumed in the other general issues and will not include the proposed issue as a separate issue on the Issues List.

Interrogatory Process

As shown in Procedural Order No. 1, the Board has made provision for written interrogatories. The Board reminds parties that interrogatories must reference the pre-filed evidence and, in accordance with *Chapter 2 of the Filing Requirements for Transmission and Distribution Applications* ("Filing Requirements"), parties must sort their interrogatories and responses by issue. The Board encourages parties to use a continuous (sequential) numbering system to facilitate subsequent referencing of the interrogatories. For greater clarity this means that parties should not start at number "1" for each issue but rather have continuous numbering throughout all of the issues.

After its review of interrogatory responses, the Board will determine the next steps.

The Board considers it necessary to make provision for the following matters related to this proceeding. The Board may issue further procedural orders from time to time.

THE BOARD ORDERS THAT:

1. The Issues List for this proceeding, attached as Appendix A to this order, is approved by the Board.

DATED at Toronto, August 13, 2012

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

Appendix ‘A’

To

Procedural Order No. 2

Hydro One Networks Inc.
Transmission

EB-2012-0031

Final Issues List

August 13, 2012

Appendix A
Hydro One Networks Inc.
Transmission Revenue Requirement and Rate Hearing
2013 and 2014
EB-2012-0031
FINAL ISSUES LIST

GENERAL

1) Has Hydro One responded appropriately to all relevant Board directions from previous proceedings?

2) Is the overall increase in 2013 and 2014 revenue requirement reasonable?

LOAD FORECAST and REVENUE FORECAST

3) Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?

4) Are Other Revenue (including export revenue) forecasts appropriate?

OPERATIONS MAINTENANCE & ADMINISTRATION COSTS

5) Are the proposed spending levels for Sustaining, Development and Operations OM&A in 2013 and 2014 appropriate, including consideration of factors such as system reliability and asset condition?

6) Are the proposed spending levels for Shared Services and Other O&M in 2013 and 2014 appropriate?

7) Are the 2013/14 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels appropriate? Has Hydro One demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

8) Are the methodologies used to allocate Shared Services and Other O&M costs to the transmission business and to determine the transmission overhead capitalization rate for 2013/14 appropriate?

9) Are the amounts proposed to be included in the 2013 and 2014 revenue requirements for income and other taxes appropriate?

10) Is Hydro One Networks' proposed depreciation expense for 2013 and 2014 appropriate?

CAPITAL EXPENDITURES and RATE BASE

11) Are the amounts proposed for rate base in 2013 and 2014 appropriate?

12) Are the proposed 2013 and 2014 Sustaining and Development and Operations capital expenditures appropriate, including consideration of factors such as system reliability and asset condition?

13) Are the proposed 2013 and 2014 levels of Shared Services and Other Capital expenditures appropriate?

14) Are the methodologies used to allocate shared services and other capital expenditures to the transmission business, appropriate?

15) Are the inputs used to determine the working capital component of the rate base and the methodology used appropriate?

16) Does Hydro One's Asset Condition Assessment information and Investment Planning Process adequately address the condition of the transmission system assets and support the O&MA and Capital expenditures for 2013/14?

COST OF CAPITAL/CAPITAL STRUCTURE

17) Is the proposed timing and methodology for determining the return on equity and short-term debt prior to the effective date of rates appropriate?

18) Is the forecast of long term debt for 2012-2014 appropriate?

DEFERRAL/VARIANCE ACCOUNTS

19) Are the proposed amounts, disposition and continuance of Hydro One's existing Deferral and Variance accounts appropriate?

20) Are the proposed new Deferral and Variance Accounts appropriate?

COST ALLOCATION

21) Is the cost allocation proposed by Hydro One appropriate?

GREEN ENERGY PLAN

22) Are the OM&A and capital amounts in the Green Energy Plan appropriate and based on appropriate planning criteria?

EXPORT TRANSMISSION SERVICE RATES

23) What is the appropriate level for Export Transmission Rates in Ontario?

CONNECTION PROCEDURES

24) Are the proposed modifications to the Hydro One transmission connection procedures appropriate?

ACCOUNTING STANDARDS

25) Have all impacts of the conversion of regulatory and financial accounting from CGAAP to USGAAP been identified, and reflected in the appropriate manner in the Application, the revenue requirement for the Test Years and the proposed rates?

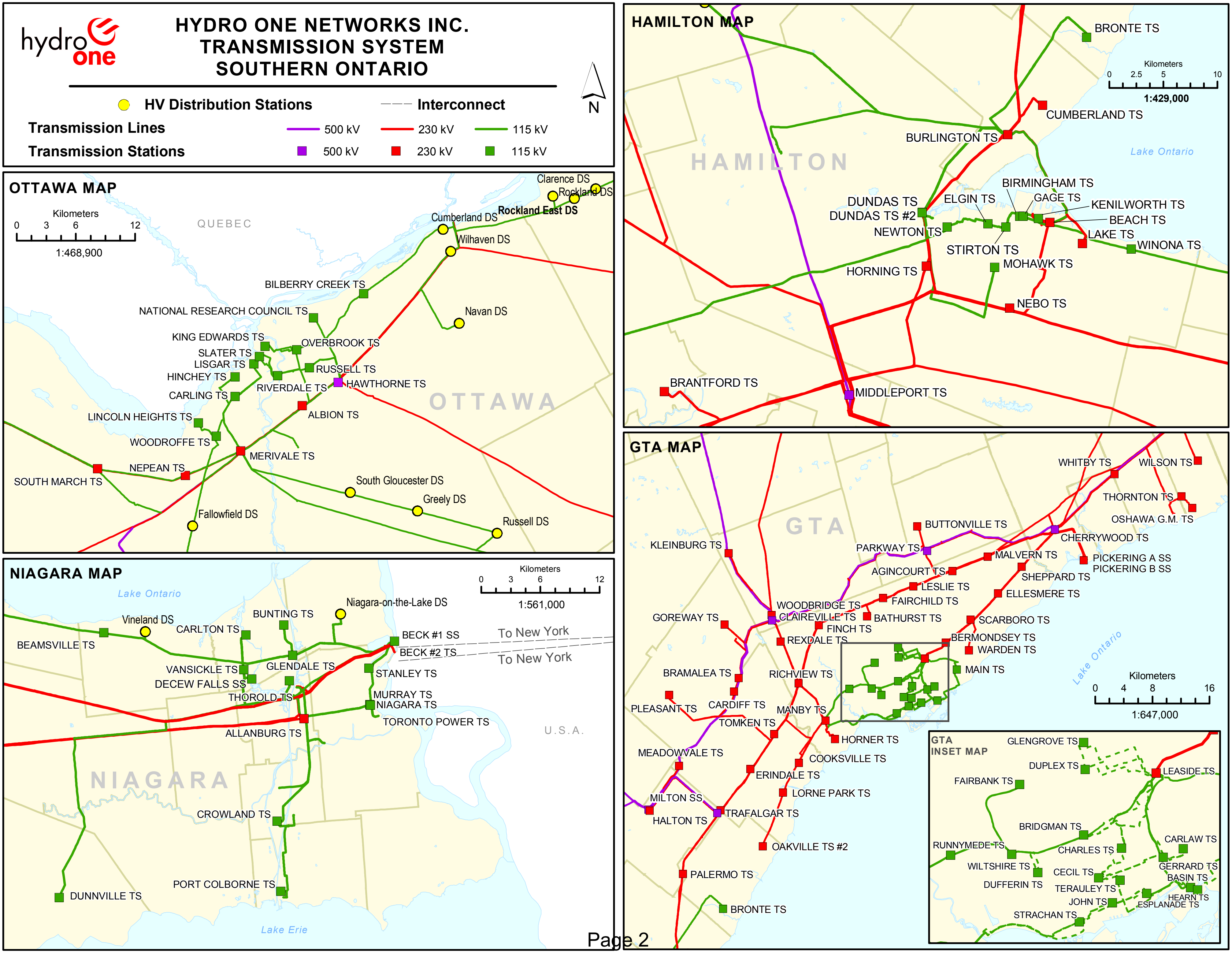
COMPLIANCE WITH OEB FILING REQUIREMENTS FOR ELECTRICITY TRANSMITTERS

1.0 INTRODUCTION

This Application by Hydro One Transmission is substantially consistent with the requirements of Chapter 2 of the Filing Requirements for Transmission and Distribution Applications (the "Filing Requirements") issued by the Board on June 28, 2012.

Hydro One Transmission's Application follows the format used in the previous Transmission Rates proceeding, which was well received by the Board and intervenors, and incorporates improvements made to the filing format. Hydro One's Application satisfies the Filing Requirements and Handbook requirements except where it was not practical or appropriate to do so based on previous comments and direction from the Board, or as a result of specific government regulation. Intervenors have previously requested that the format of Hydro One's Application not change to simplify the comparison with previous applications.

Filed: May 28, 2012
EB-2012-0031
Exhibit A
Tab 7
Schedule 1
Page 1 of 4



Produced by: GIS Services, Inergi LP
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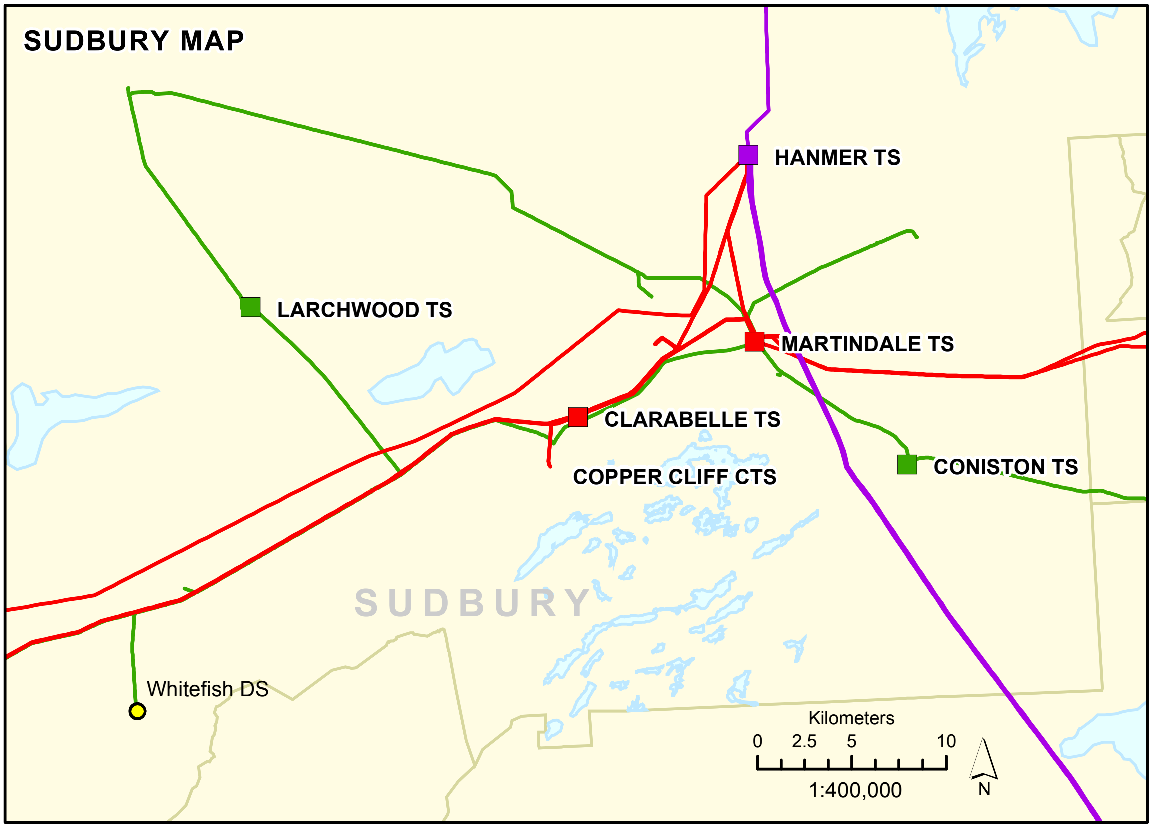
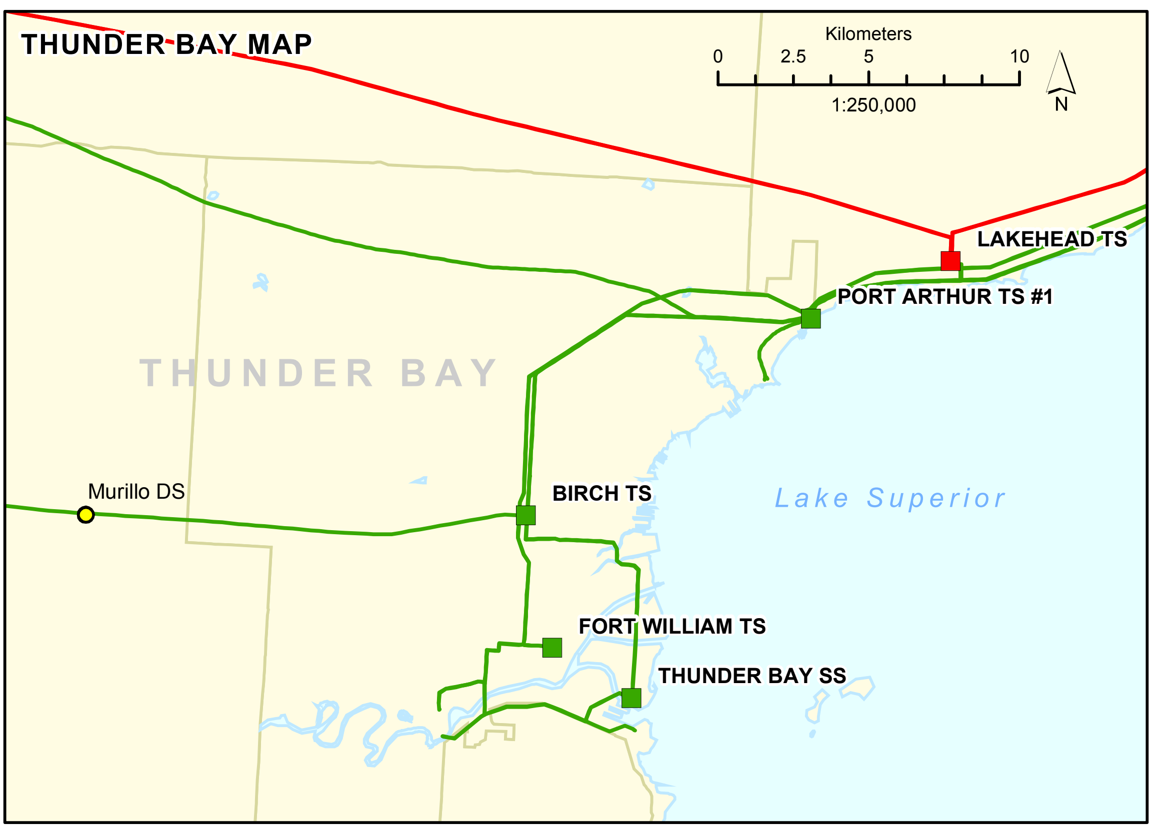
HYDRO ONE NETWORKS INC.
TRANSMISSION SYSTEM
NORTHERN ONTARIO
hydro one
James Bay
MANITOBA
To Manitoba
To Manitoba
To Minnesota
To Quebec
USA
Lake Superior
RED LAKE TS
EAR FALLS TS
Perrault Falls DS
Slate Falls DS
Crow River DS
Minaki DS
Sam Lake DS
Kenora DS
KENORA TS
Vermilion Bay DS
Clearwater Bay DS
Margach DS
Eton DS
DRYDEN TS
Valora DS
Agimak DS
Sioux Narrows DS
Nestor Falls DS
Burleigh DS
FORT FRANCES TS
MACKENZIE TS
MOOSE LAKE TS
Sapawe DS
Shabaqua DS
Murillo DS
See Thunder Bay Map
Beardmore DS #2
Jellicoe DS #3
LONG LAC TS
Nipigon DS
Red Rock DS
Schreiber Winnipeg DS
MARATHON TS
Pic DS
Marathon DS
Manitouwadge DS #1
MANITOUWADGE TS
White River DS
WAWA TS
Chapleau DS
Calstock DS
HEARST TS
KAPUSKASING TS
SPRUCE FALLS TS
Fauquier DS
Smooth Rock Falls DS
Cochrane West DS
PINARD TS
Moosonee DS
Iroquois Falls DS
ANSONVILLE TS
Monteith DS
Laforest Road DS
Hoyle DS
PAMOUR TS
PORCUPINE TS
TIMMINS TS
RAMORE TS
Weston Lake DS
KIRKLAND LAKE TS
DYMOND TS
Shiningtree DS
Temagami DS
Herridge Lake DS
See Sudbury Map
Warren DS
CRYSTAL FALLS TS
OTTO HOLDEN
Verner DS
NORTH BAY TS
TROUT LAKE TS
Whitefish DS
ESPANOLA TS
ELLIOT LAKE TS
MISSISSAGI TS
Wharncliffe DS
Sowerby DS
North Shore DS
Striker DS
Spanish DS
Massey DS
BLIND RIVER TS
BLIND RIVER TS JCT
ALGOMA TS
MANITOULIN TS
Legend
HV Distribution Station
Interconnect
Transmission Stations
500 kV
230 kV
115 kV
Transmission Lines
500 kV
230 kV
115 kV
1:3,000,000
0 25 50 100
km
N
inergi
Produced by: GIS Services, Inergi LP
Date: July 2006, Revised February 2012
2733398_Map06-44_North_TsDs_v7

HYDRO ONE NETWORKS INC.
TRANSMISSION SYSTEM
NORTHERN ONTARIO

	500 kV	230 kV	115 kV
Transmission Lines	500 kV	230 kV	115 kV
Transmission Stations	500 kV	230 kV	115 kV

HV Distribution Stations





Produced by: GIS Services, Inergi LP
Date: July 2008, Revised: Feb 2012
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CORPORATE ORGANIZATION CHARTS

1.0 INTRODUCTION

Hydro One Networks Inc. ("Hydro One Networks") is the electricity transmission and distribution successor to the original Hydro-Electric Power Commission of Ontario, which became Ontario Hydro in 1974.

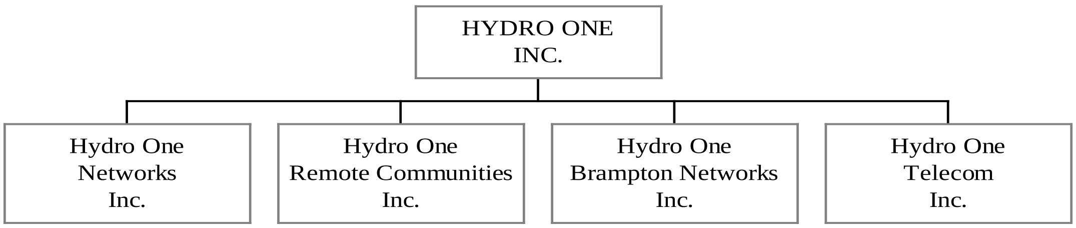
This schedule describes the current organization of Hydro One's electricity Transmission business, beginning with an overview of the parent company (Hydro One Inc.), a discussion of the primary utility subsidiary - Hydro One Networks, the Transmission business and a brief summary of affiliates and related parties.

2.0 A BRIEF OVERVIEW OF HYDRO ONE INC.

Following the enactment of the *Electricity Act, 1998* and the anticipated restructuring of the former Ontario Hydro, Hydro One Inc. was incorporated under Ontario's *Business Corporations Act* on December 1, 1998 as Ontario Hydro Services Company Inc. and commenced carrying on business on May 1, 1999. On May 1, 2000, the company's name was changed to Hydro One Inc. In accordance with Section 48.1 of the *Electricity Act, 1998*, as amended, Hydro One Inc. is a holding company operating through its subsidiaries. Its principal subsidiary, Hydro One Networks is the largest electricity transmitter and distributor to customers within Ontario.

Figure 1 below shows Hydro One Inc.'s principal subsidiaries, each of which is wholly-owned and incorporated under the laws of Ontario. The business functions of Hydro One Networks and of the remaining active subsidiaries are discussed in Sections 3.0 and 5.0 of this Exhibit, respectively.

Figure 1
Hydro One Inc.



3.0 HYDRO ONE NETWORKS INC.

Hydro One Networks is the primary subsidiary of Hydro One Inc. Its principal mandate is established by Section 48 (1) of the *Electricity Act, 1998,* which states:

> "The objects of Hydro One Inc. include, in addition to any other objects, owning and operating transmission systems and distribution systems through one or more subsidiaries."

Accordingly, Hydro One Networks, as a subsidiary of Hydro One Inc., is permitted to carry on business related to the ownership, operation and management of both electricity transmission and distribution systems and facilities, under a separate Board-approved licence for each business.

Hydro One Network's business is carried out by two operating divisions (Operations and Strategy). There are also four service groups (General Counsel & Secretariat, Corporate Support, Internal Audit & Risk Management, and Investment & Pension). An organization chart indicating these divisions and the main functions of each is provided in Figure 2.

Figure 2
Hydro One Networks Inc. Organization

President and Chief Executive Officer
L. Formusa

Operations P. Gregg	• Supply Chain Services • Health, Safety and Environment • Facilities and Real Estate • Organizational Alignment • Customer Operations	• Engineering and Construction Services • Grid Operations • Labour Relations
Strategy C. Marcello	• Corporate Affairs • Aboriginal Affairs • Program Management • Major Project Coordination and External Relations	• Asset Management • Project Management/Strategy Alignment • Human Resources
Chief Investment and Pension Officer R. Cultraro	• Pension Investment	
Corporate Support S. Struthers	• Treasury • Corporate Planning and Regulatory Finance • Mergers and Acquisitions	• Corporate Controller • Regulatory Affairs • Pricing Support • Corporate Tax
General Counsel & Secretariat J. Agostino	• Law	• Corporate Secretariat
Internal Audit and Chief Risk Officer J. Fraser	• Environment Health and Safety Audit • Enterprise Risk Management	• Information System Audits • Technical Audits • Financial and Operational Audits

4.0 HYDRO ONE'S TRANSMISSION BUSINESS

As stated earlier, Hydro One Inc., through Hydro One Networks, is mandated and licensed to provide both the transmission and distribution of electricity to customers in Ontario. Operating both businesses from the one company has enabled Hydro One Networks to take advantage of a multi-skilled work force. Efficiencies have been realized through the sharing of certain facilities and equipment, where possible.

Although staff, equipment and facilities may be shared, the definition of work specific to the Transmission Business is undertaken annually and appropriate systems, processes and models provide for the isolation of costs related to this work. High level descriptions of the work to be performed by Hydro One Networks in 2013 and 2014 in relation to Hydro One's Transmission Business or on Transmission assets can be found in the Summary of OM&A Expenses and Summary of Capital Expenditures Exhibits (Exhibit C1, Tab 3, Schedule 1 and Exhibit D1, Tab 3, Schedule 1, respectively), followed by their companion exhibits for Sustainment, Development, Operations and Shared Services. Details of costs are captured in the historic and test year exhibits for OM&A and Capital (C and D families of exhibits, respectively).

Hydro One utilizes a centralized shared services model to deliver its common services. This serves as the most economic approach. Accordingly, common services are provided to the Transmission and Distribution businesses of Hydro One Networks and to other Hydro One subsidiaries on a centralized basis.

The costs of these services and assets are assigned to business units on the basis of cost causation. These costs and assets are directly assigned where it is possible to do so. All other costs are allocated based on cost drivers, direct benefits or other methods as appropriate. Exhibit C1, Tab 7 describes these allocation methods, as well as the derivation of the overhead capitalization rate, which determines the assignment of overhead costs to capital expenditures.

5.0 AFFILIATES AND RELATED PARTIES

5.1 Other Subsidiaries of Hydro One Inc.

As noted in Section 2.0 of this Exhibit, Hydro One Inc. holds three other active subsidiaries - Hydro One Remote Communities Inc., Hydro One Brampton Networks Inc. and Hydro One Telecom Inc. The business function of each is provided below:

a) Hydro One Remote Communities Inc. carries on all business relating to ownership, operation, maintenance and construction of generating and distribution assets used in the supply of electricity to remote communities throughout northern Ontario that are not connected to the transmission grid.
b) Hydro One Brampton Networks Inc. carries on all business relating to the ownership, operation and management of electricity distribution systems and facilities in Brampton, Ontario.
c) Hydro One Telecom Inc. carries on all business relating to leasing dark fibre and providing lit capacity to other telecommunications carriers, large corporations, government, health care and education institutions.

5.2 Related Parties

The Ontario Electricity Financial Corporation (the “OEFC”), the Independent Electricity System Operator (the “IESO”), the Ontario Power Authority (the “OPA”) and Ontario Power Generation Inc. (“OPG”) are related parties of Hydro One Inc., due to their ownership by the Province. Each is described below:

a) The OEFC was established with the passage of the *Electricity Act, 1998*. Its primary responsibility is the management and retirement of Ontario Hydro's outstanding debt and other obligations.

b) The IESO is the centralized independent electricity system operator responsible for maintaining the security and reliability of electricity supply in Ontario and for directing the operations of the IESO-controlled grid. The Board approves the licence, business plan and fees of the IESO.

c) The OPA is mandated to ensure the adequacy and efficiency of electricity supply in the Province through planning of electricity supply and demand.

d) OPG's principal business is the generation and sale of electricity to customers in Ontario and in inter-connected markets. OPG is licensed by the Ontario Energy Board.

HYDRO ONE GOVERNANCE AND CONTROL FRAMEWORK

1.0 OVERVIEW

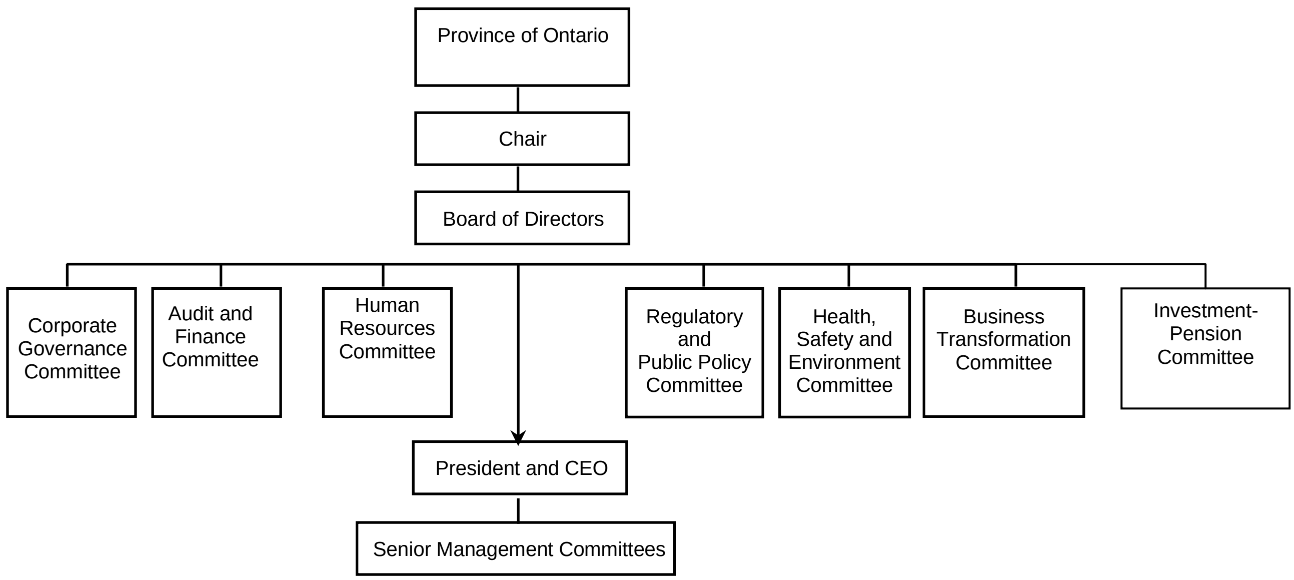
The Corporate Governance structure and Internal Control Framework of Hydro One Inc. provide reasonable assurance regarding Hydro One's effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. In the past few years, federal and provincial governments and regulators have moved decisively to increase the robustness and transparency of corporate governance, as well as expand the requirements for internal control and disclosure (for example, Ontario's Bill 198).

2.0 CORPORATE GOVERNANCE

Corporate governance is the mechanism by which a corporation ensures independent oversight of management activities on behalf of the shareholder(s). For Hydro One Inc., the Board of Directors and its associated committees fulfill this objective, and provide direction and accountability to senior officers to prudently and ethically manage the company's business and affairs, as well as the review and/or approval of mission, goals and business objectives, organizational authorities and business plans.

The company's corporate governance structure is illustrated in Figure 1. Hydro One's Board and Senior Management committees are also described in detail below.

Figure 1
Hydro One Corporate Governance



2.1 The Hydro One Board of Directors

The Board is responsible for the stewardship of our company and the supervision of management of the business and affairs of our company. The Board's accountabilities and responsibilities include development of our company's approach to corporate governance, the adoption of a strategic plan and oversight of risk management, as well as oversight of the company's pension plan.

2.2 Committees of the Board of Directors

The Board has established various committees to address specific areas and responsibilities. However, the Board retains its oversight function and ultimate responsibility for all matters delegated to committees. The Committees of the Board are the Corporate Governance Committee, Audit and Finance Committee, the Human Resources Committee, the Regulatory and Public Policy Committee, the Health, Safety and Environment Committee, the Business Transformation Committee and the Investment-Pension Committee.

2.2.1 Corporate Governance Committee

The Corporate Governance Committee acts as the nominating committee of the Board and recommends director candidates, committee assignments, director compensation and corporate governance policy for Committees and the Board as a whole. The Committee reviews the general and specific criteria applicable to candidates to be considered for nomination to the Board, as well as an annual review of the mandates of each Committee of the Board or subsidiary Boards. Other obligations include recommending issues for discussion at Board meetings, monitoring the quality of management's relationship with the Board and reviewing Board effectiveness. The Committee is composed of independent directors.

2.2.2 Audit and Finance Committee

The Audit and Finance Committee is mainly responsible for overseeing the integrity of accounting policies and financial reporting, internal controls, auditing practices, financial risk exposures, financial compliance and ethics policies for Hydro One Inc. and its subsidiaries. Specifically, the Committee makes recommendations regarding financial objectives and plans and financial risk management strategies of the company. It is also accountable for reviewing and recommending to the Board for approval interim and annual audited consolidated financial statements; management discussion and analysis disclosures; and financial statements in debt securities offering documents and other related matters. In addition, the Committee reviews the internal audit procedures of the company and advises the Board on its auditing practices and procedures, selects and oversees the work of external auditors and obtains assurance that internal controls are adequate. The Committee also reviews, at least annually but more frequently if necessary, specific complaints brought forward under the Code of Business Conduct. All members of the Committee are independent and financially literate.

2.2.3 Human Resources Committee

The Human Resources Committee's responsibilities, include reviewing the appropriateness of current and future organization structures, succession plans for corporate and divisional officers and conducts an annual review of the Code of Business Conduct. The Committee also reviews and approves base salary levels, base salary funding increases and funding for short term incentives. The Committee is composed of independent directors.

2.2.4 Regulatory and Public Policy Committee

The Regulatory and Public Policy Committee monitors the company's compliance with regulatory requirements and related risks and seeks to ensure that management is effectively managing those risks. The Committee is also responsible for reviewing management's regulatory proposals for transmission and distribution rate applications, as well as the status of outstanding applications. The Committee further identifies, assesses and provides advice to the Board on public affairs issues that may have a significant impact on the company. The Committee is composed of a majority of independent directors.

2.2.5 Health, Safety and Environment Committee

The Health, Safety and Environment Committee is responsible for reviewing and ensuring compliance with occupational health, safety and environment legislation, policies, standards and programs. It annually reviews the company's state of readiness to respond to crisis situations, as well as reports of any occupational accidents. It also plays an advisory role with respect to changes or additions to environmental policies, standards, accountabilities and programs, and recommends such to the Board for approval. It may also review such other health, safety and environment matters, including public health and safety, as appropriate. The Committee is composed of a majority of independent directors.

2.2.6 Business Transformation Committee

The Business Transformation Committee is responsible for assisting the Board of Directors in its oversight responsibility on matters related to the company's Cornerstone Project The Committee also assists the Board of Directors in fulfilling its oversight responsibility in all matters related to the Smart Grid and Continuous Innovation Strategy. In 2010, the Committee's mandate was further amended to include oversight responsibility for all matters related to the planning, development and implementation of major transmission system or distribution projects including the projects described in the Corporation's Green Energy Implementation Plan. The Committee is composed of independent directors.

2.2.7 Investment-Pension Committee

The Investment-Pension Committee's primary function is to assist the Board of Directors in fulfilling its oversight responsibilities in all matters related to the Hydro One Pension Plan including the Hydro One Pension Fund. The Committee is composed of independent directors.

3.0 SENIOR MANAGEMENT COMMITTEES

Prudent decision-making and business transparency are supported by three key senior management committees: Executive Committee, Management Pension Committee, and Disclosure Committee.

3.1 Executive Committee

This committee is a decision-making body established to review and approve business plans, capital projects and investments, key operating decisions, regulatory filings, labour strategy, financial performance indicators and other items as required. The Executive Committee also reviews all project approvals prior to going to the Board.

3.2 Management Pension Committee

The Management Pension Committee is responsible for approving appropriate pension policies, standards and programs. It is also responsible for ensuring compliance with all applicable legislation, policies and standards.

3.3 Disclosure Committee

The Disclosure Committee operates under the principle that communications to the public should be timely, factual and accurate and broadly disseminated in accordance with all applicable legal and securities regulatory requirements in Canada. The committee meets quarterly to review consolidated financial statements and management's discussion and analysis disclosures, offering documents for debt securities, as well as risk assessments prepared for credit rating agencies and government.

4.0 INTERNAL CONTROL FRAMEWORK

Internal controls ensure the company achieves its mission and goals, by enabling management to deal with rapidly changing economic and competitive environments, customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the integrity and reliability of financial statements and compliance with laws and regulations.

Hydro One Inc.'s Internal Control Framework has five components, including: the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. The framework further addresses the appropriate elements of each component at the entity (Board) level, corporate (senior management) level and operational (local) level. The framework is consistent with accepted external standards and control criteria set out by such standard setting bodies as the Canadian Institute of Chartered Accountants and the US Committee of Sponsoring Organizations. Key components of the framework are described in more detail below.

The "Control Environment" refers to direction and oversight from the top of the organization. The control environment component in the framework captures the notion of ethical and prudent financial management as established by the Board of Directors and senior management (see Section 2.0 above), and sets the tone for all financial and project management policies and practices established at lower levels. Regular education sessions on policies, processes and practices/procedures are also provided.

Hydro One Inc. has a formal Code of Business Conduct and a Disclosure Policy which have been issued to and must be complied with by all staff. The Code of Business Conduct requires all management employees to sign an annual compliance form to document that they have read, understood and complied with the Code, and that all conflicts or potential conflicts of interest have been disclosed. The Corporate Ethics Officer ensures that this process is performed on a timely basis and that a compliance register is maintained and submitted to the President and CEO of Hydro One Inc. Lastly, individual performance contracts of management employees are intended to capture the understanding between a manager and a direct report as to the results expected and the means by which such performance results will be achieved.

"Risk Assessment" involves the identification and analysis by management of the key risks to achieving the company's business objectives. Such an assessment is performed, at least, annually, and provides the basis for business planning decisions. Programs that mitigate existing risks to acceptable residual levels, or provide mitigation for emerging risks, are captured in business plans. Risk assessment extends to individual investment decisions through the Investment Prioritization process (see Exhibit A, Tab 15, Schedule 4) and its associated Justification for Programs/Projects (Exhibit D2, Tab 2, Schedule 3). This process assesses whether any proposed solutions for a specific operational need will achieve a level of residual risk acceptable to senior management and the company's shareholder. Projects and programs underway are regularly assessed for new and changing risks. Moreover, at the operational level, extensive emergency and contingency plans exist and are regularly tested and updated.

"Control Activities" refers to the systems, policies and procedures that ensure management's objectives are achieved and risk mitigation plans are carried out. Policies and procedures exist to govern annual, monthly and day to day operations at the business unit and local levels. The policies have been updated and focus on the core activities of transmission and distribution. Each revised policy has an issue date and last review date. In most locations, policies and procedures are available on internal web sites. More information on Hydro One's policies may be found in Exhibit A, Tab 12, Schedule 2.

One of the foundations of good control is the establishment of appropriate levels of authority for spending and other business decisions. The delegation and exercise of authorities are governed by 'Guiding Principles', the Code of Business Conduct, and policies and procedures. The approval of the business plans and budgets establish authorized spending levels.

The budgeting and business planning process is also a critical element of effective internal controls. Annually a budget and business plan are prepared and submitted to the Board for approval. The budget and business plan set the parameters of the company's activities for a specific fiscal period. More information on Hydro One's planning process may be found in Exhibit A, Tab 13, Schedule 1. Information on the Company's Investment Prioritization process and Project and Program approval process may be found in Exhibit A, Tab 15, Schedule 4 and Exhibit A, Tab 15, Schedule 5, respectively.

The Executive Authorities Register (EAR) delegates authorities from the Board to senior management. Organizational Authority Registers (OARs) exist at subsidiary and business unit levels to delegate authorities from senior management to business unit and local levels.

The Inergi outsourcing agreement further provides approvals assigned by Hydro One to Inergi LP for specific transactions and spending levels.

"Information and Communication" supports all other control components. Pertinent information must be identified, captured and communicated in a form and timeframe that enables staff to carry out their responsibilities. Communication occurs to all staff from the Executive Vice President and Chief Financial Officer and from the Vice President, Corporate Controller with respect to new or changed policies and procedures. Presentations on various internal control matters also occur regularly. And, as noted previously, policies and procedures can be found on internal websites at most locations or are available in other formats.

"Monitoring" covers the oversight of internal controls by management or independent parties outside the process; or the application of independent methodologies, such as customized procedures or standard checklists, by employees within a process. Monitoring also includes assessing the quality of internal controls over time and implementing required changes.

Management provides assurance with respect to internal controls and the validity of financial statements. This includes information on legal claims, changes in accounting policies, practices, systems, and procedures that have occurred in the period, and financial accounting matters that could have a significant impact on financial statements. Management also provides assurance that internal control systems, policies and procedures are in place and functioning properly and financial statements are a true representation of the business.

Every month, each line of business is required to conduct a detailed review of financial results by comparing operating results to budgets and responding to variances. Project details with major accounts are reconciled monthly to source sub-systems and suspense accounts are also explained and reconciled. Monthly control reports related to key aspects of operations financial and project activity are prepared centrally and delivered to managers for review and follow-up action as appropriate. A month-end close schedule is established to ensure timely production of financial statements. In addition, compliance testing of key financial activities is performed.

Compliance monitoring with respect to codes and policies is performed by multiple groups. Regulatory compliance is monitored by Regulatory Affairs (e.g. Affiliate Relationships Code: see Exhibit A, Tab 8, Schedule 3). Internal Audit uses a risk-based audit approach for prioritizing audits and performs audits of areas of highest risk based on an annual program approved by the Hydro One Board's Audit and Finance committee. Internal controls are reviewed on a recurring cycle, again linked to level of risk. Furthermore, regular review of all outstanding items from past audits is performed. Annual year-end audits are also conducted by Hydro One's external auditor.

The outsourcing contract with Inergi LP requires that Inergi conduct an independent confirmation of the integrity of financial controls for all Hydro One transactions, and allows for auditing of processes and systems by Hydro One Internal Audit. Such audits are designed to assess the appropriate occurrence, proper measurement, completeness and accuracy of transactions and whether they were classified, described and disclosed in accordance with generally accepted accounting principles.

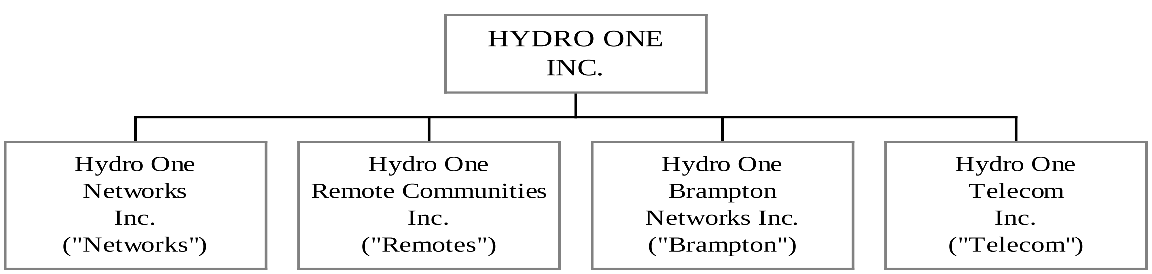
AFFILIATE SERVICE AGREEMENTS

1.0 INTRODUCTION

In accordance with the Affiliate Relationships Code (“ARC”), when Hydro One Transmission, as a business within Hydro One Networks (“Networks”), provides services to or purchases services from affiliates, it does so in accordance with service agreements. This Exhibit discusses the current agreements between Networks and its affiliates. Networks and its affiliates are displayed originally in the corporate organization chart in Exhibit A, Tab 8, Schedule 1 and repeated in Figure 1 below for convenience.

This exhibit does not include Transmission Connection Agreements, Connection and Cost Recovery Agreements, Agreements for Licenced Occupancy of Power Distribution Poles, or any agreements involving the purchase or delivery of power between Hydro One Networks Inc. and its affiliates. Such transactions are regulated separately by the Board and hence do not constitute a form of affiliate contract, as contemplated in section 2.3.1 of the Affiliate Relationships Code.

Figure 1
Hydro One Inc.



2.0 THE DEVELOPMENT OF THE SERVICE AGREEMENTS

As discussed in Exhibit A, Tab 8, Schedule 1, Hydro One's primary Transmission business is "housed" within Networks. Accordingly, representatives from Networks and the various affiliates identify and negotiate the nature of the services being provided or purchased, any specific terms and the prices (or, alternatively, the pricing formula) for these services. This information is then incorporated into legal agreements with commercial terms and conditions, then reviewed and approved by each company's CEO or other accountable officer. Two agreements, which focus on the provision of common administrative services from Hydro One Inc. to its subsidiaries and from Networks to its affiliates, are structured as multi-party agreements and accordingly, are reviewed and signed by all parties.

The current agreements between Networks and its affiliates are listed below, in Table 1, which identifies the service provider and recipient, and briefly describes the services.

Table 1
Service Level Agreements – 2012

Services Provider	***Services Recipient(s)***	***Description of Services***
Hydro One Inc. (Appendix A)	Networks[1] Telecom Remotes Brampton Networks	***a) General Counsel and Secretary services*** – Professional legal advice and input as well as guidance on business ethics and support in the form of a business code of conduct. ***b) President / CEO / Chairman services*** – Strategic direction and management. ***c) Chief Financial Office services*** – Review of policies and procedures, investment decisions, treasury operations and tax planning, financial control and reporting.

[1] Hydro One Inc. also provides certain assets to Hydro One Networks for its use.

Services Provider	***Services Recipient(s)***	***Description of Services***
Networks (Appendix B)	Hydro One Inc. Remotes Telecom Brampton Networks	***a) General Counsel and Secretary Services*** – Professional legal advice and input. ***b) Financial Services*** – Financial information, business planning, budgeting and financial reporting as well as other financial services such as treasury/pension/investor relations, taxation, financial systems and services, cost and inventory accounting, decision support, transaction processing (accounts payable and receivable), and fixed asset and general accounting. ***c) Corporate Services*** – provides services related to human resource and labour relations, protection of assets, Cornerstone support, information management, leadership and consultation support related to First Nations and Metis communities and corporate communications. ***d) Telecommunications-related Services*** – Field and engineering, logistics, corporate, construction, telecommunication and information technology services. ***e) Other Services*** – Supply procurement, customer services operation and information management.
Networks (Appendix C)	Remotes	***CEO / President services*** – Administrative oversight, provision of strategic direction and advice, and advocacy of the services recipient's position regarding operational and budgetary issues.
Telecom (Appendix D)	Networks	***Telecommunications Services*** – Monitoring of power system teleprotection, including analogue and digital microwave, PLC, fibre optic, radio and other systems. Monitoring, management and operation of power system and business system telecom services. Provision of alarm based services, coordinated network management services, systems analysis services and carrier/vendor management services on behalf of both power system and business system telecommunications.
Networks (Appendix E)	Remotes	***Master Agreement*** – Provincial lines, forestry, drafting, environmental land assessment and remediation, fleet management, flight safety, training, safety, station maintenance, meter services, approval of plans, drawings and specification of installation work, and engineering and construction services.
Networks (Appendix F)	Telecom	***Supply Chain Services*** – Implementation of demand planning, management and procurement, process development, data management and warehousing.
Networks (Appendix G)	Remotes	***Supply Chain Services*** – Implementation of demand planning, management and procurement, process development, data management and warehousing.
Remotes (Appendix H)	Networks	***Metering and Lines Services –*** Metering/Technician work including smart meter change-outs, line layout and update of emergency site plans.

Services Provider	***Services Recipient(s)***	***Description of Services***
Telecom (Appendix I)	Networks	***Security Event Management Services*** **–** Update of the current ArcSight to enable it to provide security event management services to the Service Recipient.
Networks (Appendix J)	Brampton	***Conservation Demand Management*** **–** The provision of certain services by Networks to assist Brampton in implementing its Residential and Small Commercial Demand Response Program.
Telecom (Appendix K)	Networks	***Telecommunication Expense Management*** **–** The production, backup, and development environment to support the installation of the Telecommunication Expense Management Software

3.0 TERMS AND CONDITIONS

In accordance with the ARC, the agreements describe the nature of, and the fees payable for, the services they contain. This includes confidentiality, liability, and indemnification provisions. They also describe a dispute resolution process to which the parties must adhere in resolving disputes under the agreements. More details on the key clauses are provided below.

3.1 Description of Services

The agreements address Networks' provision of certain common administrative and corporate services and utility operation and maintenance services to its affiliates as well as the receipt by Networks of operating, certain common administrative and corporate, and telecommunications services from them. The services are described in detail as a schedule to the agreements.

3.2 Fees Payable

Pursuant to the ARC, where a utility provides a service, resource product or use of asset to an affiliate, the utility shall charge no less than the greater of (i) the market price of that service, product, resource or use of asset and (ii) the utility's fully-allocated cost to provide that service, product, resource or use of asset. In purchasing a service, resource, product or use of asset from an affiliate, a utility shall pay no more than the market price for that service, product, resource or use of asset. Where no market exists, a utility shall charge no less than its fully-allocated cost to provide the service, product, resource or use of asset, and shall pay no more than the affiliate's fully-allocated cost to provide the service, product, resource or use of asset.

The annual fees payable to Networks by its affiliates for certain common administrative and corporate services for the years 2012, 2013 and 2014 and the corresponding applicable items are as follows:

Table 2
Fees Payable to Networks for Services Provided

FEES PAYABLE BY AFFILIATES TO NETWORKS FOR SERVICES TO BE PROVIDED BY NETWORKS: (in $Thousands)					
Services	**Hydro One Inc.**	**Remotes**	**Telecom**	**Brampton Networks**	
General Counsel and Secretary Services • **2012** • **2013** • **2014**	87 89 91	217 222 226	87 89 91	174 177 181	• Law • Corporate Secretariat • Regulatory Affairs • Regulatory Affairs - OEB Costs
Financial Services • **2012** • **2013** • **2014**	74 75 77	260 263 270	342 346 356	390 396 408	• Corporate Controller • Treasury • Tax • Decision Support • Internal Audit and Risk Management
Corporate Services • **2012** • **2013** • **2014**	0 0 0	267 274 284	253 261 267	26 27 28	• Human Resources • Labour Relations • Communications • External Relations • Corporate Security • Supply Management • Sr. Vice President • First Nations & Metis Relations • Information Management
Telecommunication Services • **2012** • **2013** • **2014**	0 0 0	128 118 115	279 256 249	0 0 0	• Telecom Services

FEES PAYABLE BY AFFILIATES TO NETWORKS FOR SERVICES TO BE PROVIDED BY NETWORKS: (in $Thousands)					
Services	**Hydro One Inc.**	**Remotes**	**Telecom**	**Brampton Networks**	
Transfer Price Charges for HONI Assets • **2012** • **2013** • **2014**	0 0 0	0 200 200	0 500 500	0 0 0	Service Level Agreements will be prepared in 2013.
Other Services • **2012** • **2013** • **2014**	0 0 0	375 366 348	1,031 1,006 957	0 0 0	Inergi: • Customer Support • Finance • Settlements • Human Resource • IT
CEO/President Services • **2012** • **2013** • **2014**	0 0 0	80 80 80	0 0 0	0 0 0	CEO/President for Remotes; please see Appendix C.
Utility Operation Services • **2012** • **2013** • **2014**	0 0 0	936 929 929	0 0 0	0 0 0	Not classified as Corporate Common Services; please see Appendix E.
Supply Chain Services • **2012** • **2013** • **2014**	0 0 0	77 77 77	200 200 200	0 0 0	Not classified as Corporate Common Services; please see Appendix G&F.
Totals • **2012** • **2013** • **2014**	161 164 168	2,340 2,529 2,529	2,192 2,658 2,620	590 600 617	

The annual fees payable by Networks to Hydro One Inc. for certain common administrative and corporate services and payable by Networks to Hydro One Telecom Inc. for telecommunications services, for the years 2012, 2013 and 2014 and the applicable items are as follows:

Table 3
Fees Payable by Networks for Services Received

FEES PAYABLE BY NETWORKS FOR SERVICES TO BE RECEIVED FROM HYDRO ONE INC. AND TELECOM: **(in $Thousands)**				
Services provided by Hydro One Inc.[2]	**2012**	**2013**	**2014**	
General Counsel & Secretary	850	869	891	• Corporate Secretariat • Corporate Management
President / CEO / Chairman Services	3,349	3,392	3,440	• President/CEO Office • Chair • Board
Chief Financial Office Services	756	772	790	• CFO Office
Totals	4,955	5,033	5,121	
Services provided by Telecom				
Telecommunication Services	12,395	13,086	13,817	Not Classified as a Corporate Common Service; please see Appendix D.
Totals	12,395	13,086	13,817	

[2] Hydro One Inc. also provides certain assets to Hydro One Networks for its use.

3.3 Dispute Resolution Procedure

If the parties have a dispute under the agreement that cannot be resolved by a director or manager from each party, the dispute will be passed to the parties' respective presidents. If, after five business days after receipt of notice of the dispute the dispute is still unresolved, the matter proceeds to the President of Hydro One Inc. for final resolution.

3.4 Confidentiality

Except as required by law and in certain other circumstances (which exceptions are typical in a confidentiality agreement), each party is to maintain in strict confidence the agreement and all information received from the other party and shall not copy or disclose the information to any third party without the prior written consent of the disclosing party. No such consent is required for disclosure to the receiving party's representatives. Such information includes information relating to a smart sub-metering provider, wholesaler, consumer, retailer, or generator. The agreements also include security safeguards to be adhered to by the party receiving such confidential information.

3.5 Intellectual Property

All rights, title and interests, including copyright ownership, to any reports and any other deliverable that is to be produced and delivered to the service recipient by the service provider vests with the service recipient and the recipient may use, disclose or modify such reports or deliverable in any manner it deems appropriate.

3.6 Indemnification

Each party (the "indemnifying party") shall be liable for and shall indemnify the other party from and against all costs or damages attributable to the indemnifying party's performance and/or non-performance of its obligations under agreement, whether arising from or based on breach of contract, tort, negligence, strict liability or otherwise. Notwithstanding any other provision of the agreement, neither party shall be liable for any economic loss, loss of goodwill, loss of profit or for any special, indirect or consequential damages where the said losses or damages are incurred by the other party or by any third party claiming through or under the other party. The obligation to indemnify survives the termination or expiry of the agreement.

4.0 COST-BASED PRICING

Where the fees payable for the services delivered between affiliates are cost-based, such costs may be billed directly and the individual agreement will specify these fees. An alternative is to allocate costs across a number of affiliates, based on the proportion of a given service used by the affiliate or the benefit derived. Where this is done, a cost allocation model is used. The Hydro One cost allocation model is described in Exhibit C1, Tab 7, Schedule 1.

THIS AGREEMENT made in duplicate this 17th day of January, 2012 (the "Effective Date").

BETWEEN:

HYDRO ONE INC.
(the "Services Provider")

- and -

HYDRO ONE REMOTE COMMUNITIES INC., HYDRO ONE NETWORKS INC., HYDRO ONE TELECOM INC. and HYDRO ONE BRAMPTON NETWORKS INC.
(individually, the "Services Recipient" and collectively, the "Services Recipients")

1.0 PREFACE

This Agreement is intended to identify the services that are to be provided to each of the Services Recipients by the Services Provider in accordance with the terms and conditions herein. Except as otherwise specified, the term of this Agreement shall be for a period of 1year commencing on the Effective Date.

2.0 SERVICES

The Services Provider shall provide to each of the Services Recipients (as may be required by each of them respectively from time to time during the term of this Agreement) the following services (the "**Services**"), which Services are more particularly described in Schedule "A" attached hereto:

- General Counsel & Secretary (including Corporate Executive Office) services
- President / CEO / Chairman services
- Chief Financial Office services (including Strategic Financial services)
- Use of certain assets by Hydro One Networks Inc.

3.0 FEES PAYABLE

(a) The price for the performance of the Services for each of the Services Recipients shall be as identified in Schedule "A" attached hereto, exclusive of any sales and use taxes, as may be applicable. The relevant price for the Services shall be paid by each of the Services Recipients to the Services Provider by means of monthly electronic journal transfers which shall be reflected in the applicable books and records of each party. Each electronic journal transfer amount shall include HST (as this term is defined in clause 4.0(a)(iv) below) calculated at the rate applicable at the time such journal transfer is recorded in the books of the Services Provider. In addition, each Services Recipient shall pay for any material costs which the Services Provider, acting reasonably, incurs as a result of resources, services and products that the Services Provider must purchase and that are in addition to the Services Provider's existing resources, services and products, in order to provide the said Services Recipient with specific services it requires and requests.

(b) If at any time during the performance of the Services, a Services Recipient is of the opinion that there are deficiencies in the Services provided to it and/or that the price payable is in any way inaccurate, the said Services Recipient shall pay the entire relevant price payable by it in full and its sole remedy shall be to follow the dispute resolution procedures outlined in Section 6.0 herein to determine what amount, if any, shall be refunded to the said Services Recipient and/or what Services, if any, shall be rectified or redone by the Services Provider.

4.0 REPRESENTATIONS AND WARRANTIES

(a) The Services Provider represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder;
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Provider;
- (iii) all staff employed in the performance of the Services shall have the qualifications, expertise and experience which could reasonably be expected of staff of a services provider performing work similar to the Services; and
- (iv) it is a HST registrant in good standing under the *Excise Tax Act* (Canada), and that its HST registration number is 869994731RT0001. For the purposes of this Agreement, HST means the federal Harmonized Sales Tax chargeable in accordance with Part IX of the *Excise Tax Act* (Canada), as amended, or any similar value-added tax that may be applicable during the term of this Agreement to the Services to be provided hereunder.

(b) Each Services Recipient represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder; and
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Recipient.

5.0 PERFORMANCE OF THE SERVICES

(a) **Compliance with Standards and Applicable Law:** The Services Provider shall perform the Services in a diligent and professional manner and shall comply with the Services Recipient's computer data management and data access protocols contained in the Services Recipient's document entitled "Information Security Policy" (SP 0908 R1) dated January 17, 2012 and any amendments thereto which may be made from time to time by the Services Recipient. The Services Provider shall comply at all times with the statutes, regulations, by-laws, standards and codes, as amended, as may be applicable to the Services Provider in respect of the Services and the performance of its obligations hereunder and it shall, at its own expense, obtain and maintain in good standing all permits and licences required by any authorities having jurisdiction to perform the Services.

(b) **Safety and Security Measures**: When any part of the Services is to be performed at any of the Services Recipients' premises, all of the Services Provider's staff engaged in the performance of the Services at the said premises shall comply with the safety and security requirements and measures in effect at the said premises.

(c) **Meetings**: Each of the Services Recipient and the Services Provider shall, after the Effective Date, meet at least twice during the term of this Agreement to review performance, quality and timeliness of the Services provided by the Services Provider pursuant to this Agreement.

6.0 DISPUTE RESOLUTION PROCEDURES

Any controversy, dispute, difference, question or claim arising between any of the parties in connection with the interpretation, performance, construction or implementation of this Agreement that cannot be resolved by a director or manager from each of the said parties (collectively "Dispute") shall be settled in accordance with this Section. The aggrieved party shall send the other affected party(ies) written notice identifying the Dispute, the amount involved, if any, and the remedy sought, and invoking the procedures of this Section. The Presidents of each affected party shall confer in an effort to resolve the Dispute. If the Presidents are unable to resolve the Dispute within 5 business days after receipt of the written notice of the Dispute, then the affected parties shall submit the Dispute to the President of Hydro One Inc. for resolution.

7.0 CONFIDENTIALITY AND INTELLECTUAL PROPERTY

(a) Confidentiality:

Each party (the "Receiving Party") shall maintain in strict confidence this Agreement and the existence and contents thereof and all information, analysis, conclusions, drawings, reports, specifications or other information, proprietary or otherwise, whether transmitted orally, electronically or in written form, and received in furtherance of this Agreement from any of the other parties (the "Disclosing Party") or any of the Disclosing Party's directors, officers, employees, consultants, agents or legal and other advisors (the "Disclosing Party Representatives") (collectively the "Confidential Information"). Except as permitted herein, the Receiving Party shall not publish, reproduce, or disclose, either directly or indirectly, the said Confidential Information to any third party and shall not use the said Confidential Information for any purpose other than for purposes of this Agreement without the prior written consent of the Disclosing Party. The Receiving Party may disclose the Confidential Information only to its shareholder, directors, officers, employees, consultants, agents or professional advisors (the "Receiving Party Representatives") having a need to know same and who have undertaken a like obligation to maintain its confidentiality.

For greater certainty, Confidential Information includes any and all personal information (as that term is defined in the *Freedom of Information and Protection of Privacy Act* (Ontario) and the *Personal Information Protection and Electronic Documents Act* (Canada), as they may be amended, and any and all information regarding a consumer, retailer, wholesale buyer, wholesale supplier, or a generator, provided by the Disclosing Party to the Receiving Party for purposes of this Agreement, whether or not such information was initially provided prior to the Effective Date.

The Receiving Party undertakes to protect and safeguard all Confidential Information in its possession or under its control and received by the Disclosing Party, in the manner described in Schedule "B" attached hereto. The Disclosing Party may, on reasonable notice, and during regular business hours, audit the information management practices of the Receiving Party to confirm compliance with the terms and conditions of this Section 7.0 and all applicable statutes, regulations, by-laws, standards and codes, as amended.

The Receiving Party undertakes to notify the Disclosing Party immediately upon discovery of any unauthorized use and/or disclosure of any of the Disclosing Party's Confidential Information, to co-operate with the Disclosing Party to help regain possession of such Confidential Information, and to prevent its further unauthorized use and/or disclosure.

The foregoing obligations with respect to confidentiality, use, reproduction, dissemination, publication and non-disclosure herein shall not apply to any information that:

(i) is previously known to or lawfully in the possession of the Receiving Party prior to the date of disclosure as evidenced by the Receiving Party's written record;
(ii) is independently known to or discovered by the Receiving Party, without any reference to the information or material;
(iii) is obtained by the Receiving Party from an arm's length third party having a bona fide right to disclose same and who was not otherwise under an obligation of confidence or fiduciary duty to the Disclosing Party or the Disclosing Party Representatives;
(iv) is or becomes public knowledge through no fault or omission of, or breach of this Agreement by the Receiving Party or the Receiving Party Representatives; or
(v) is required to be disclosed pursuant to a final judicial or governmental order or other legal process.

Confidential Information (other than this Agreement which shall be jointly owned by the parties) shall remain the sole and exclusive property of the Disclosing Party that has disclosed the Confidential Information, and the Disclosing Party shall retain all right, title and interest in and to the said Confidential Information.

The Receiving Party shall keep a record of written Confidential Information furnished to it by the Disclosing Party in a location separate from those locations where the Receiving Party has stored information in respect of other third parties for which it performs work and it shall advise the Disclosing Party of such location.

All Confidential Information furnished by the Disclosing Party (other than this Agreement), including that portion of the Confidential Information which is contained in analyses, compilations, studies or other documents prepared by the Receiving Party or by the Receiving Party Representatives, is the Disclosing Party's property and will be returned immediately to the Disclosing Party upon its request.

(b) Intellectual Property:

Each of the Services Recipients shall obtain all rights, title and interests, including copyright ownership, to any reports and any other deliverable that is to be produced and delivered to it by the Services Provider and, subject to applicable legislation and notwithstanding clause 7.0(a) above, the said Services Recipient may use, disclose or modify such reports or deliverable in any manner it deems appropriate. The Services Provider shall not do any act which may compromise or diminish the said Services Recipient's interest as aforesaid.

(c) Survival of Obligations:

This Section 7.0 shall forever survive the termination or expiration of this Agreement.

8.0 LIABILITY

The Services Provider shall indemnify each of the Services Recipients and the Services Recipient's respective successors and assigns, directors, officers, employees, contractors and agents from and against all costs or damages attributable to the Services Provider's performance and/or non-performance of its obligations under this Agreement and any amendments thereto, whether arising from or based upon breach of contract, tort, negligence, strict liability or otherwise. Each Services Recipient shall indemnify the Services Provider and the Services Provider's successors and assigns, directors, officers, employees, contractors and agents from and against all costs or damages attributable to the said Services Recipient's performance and/or non-performance of its obligations under this Agreement and any amendments thereto, whether arising from or based upon breach of contract, tort, negligence, strict liability or otherwise. Notwithstanding any other provision of this Agreement, no party hereto shall be liable for any economic loss, loss of goodwill, loss of profit or for any special, indirect or consequential damages, where the said losses or damages are incurred by the other parties or any of them or by any third party claiming through or under the other parties or any of them.

This Section 8.0 shall forever survive the termination or expiration of this Agreement.

9.0 AUTHORIZED REPRESENTATIVES

The authorized representatives of the parties hereto for purposes of this Agreement are the following:

HYDRO ONE TELECOM INC.
65 Kelfield Street,
Rexdale, Ontario M9W 5A3

Attention: **Cliff Truax**
Telephone: 416-240-6713
Telecopier: 416-240-6802

HYDRO ONE REMOTE COMMUNITIES INC.
483 Bay Street,
Toronto, Ontario M5G 2P5

Attention: **Una O'Reilly**
TCT8
Telephone: 416-345-6698
Telecopier: 416-345-6356

HYDRO ONE NETWORKS INC.
483 Bay Street,

Toronto, Ontario M5G 2P5

Attention: **Ryan Lee**
TCT 8
Telephone: 416-345-5158
Telecopier: 416-345-6833

HYDRO ONE INC.
483 Bay Street,
Toronto, Ontario M5G 2P5

Attention: **Sandy Struthers**
TCT15
Telephone: 416-345-6140
Telecopier: 416-345-5695

HYDRO ONE BRAMPTON NETWORKS INC.
175 Sandalwood Parkway West,
Brampton, Ontario
L7A 1E8

Attention: **Marc Villett** Telephone: (905) 840-6300 ext. 205
Telecopier: (905) 840-0967

All correspondence, reports, documents and/or other communication concerning this Agreement and the Schedule attached hereto shall be directed to the attention of the authorized representatives noted above and shall be deemed to be sufficiently given if delivered personally, mailed or transmitted by fax to the attention of the authorized representatives at the addresses above, and any notice so given shall be deemed to have been made and received on the date of delivery or on the 5th business day following the day of mailing of same or on the day of transmission if transmitted during normal business hours, otherwise on the next business day, as the case may be.

10.0 CHANGE OF CONTROL

In the event of a change of control of any of the Services Recipients, this Agreement shall immediately terminate as between the said Services Recipient and the Services Provider only. A change of control shall mean, as applicable, a purchase of more than fifty (50) percent of the outstanding capital by a non-affiliate third party.

11.0 ASSIGNMENT

Neither this Agreement nor any rights and obligations shall be assigned by any of the Services Recipients without the prior written consent of the Services Provider and by the Services Provider without the prior written consent of the affected Services Recipient, in either case which consent shall not be unreasonably withheld. Subject to the foregoing, this Agreement shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

12.0 SCHEDULES

Schedules "A" and "B" attached hereto are to be read with and form part of this Agreement.

13.0 COUNTERPARTS

This Agreement may be executed in counterparts and the counterparts together shall constitute an original.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE TELECOM INC.

Name: George Carleton
Title: VP, Supply Chain Services
I have authority to bind the corporation.

HYDRO ONE REMOTE COMMUNITIES INC.

Name: Myles D'Arcey
Title: President and CEO
I have authority to bind the corporation.

HYDRO ONE NETWORKS INC.

Name: Peter Gregg
Title: EVP, Operations
I have authority to bind the corporation.

HYDRO ONE INC.

Name: Laura Formusa
Title: President & CEO

I have authority to bind the corporation.

HYDRO ONE BRAMPTON NETWORKS INC.

R. Fernandes
Name: Remy Fernandes
Title: President and CEO
I have authority to bind the corporation.

Schedule "A"

The annual cost for the performance of the Services to be delivered is summarized as follows:

Services	SERVICES TO BE PROVIDED BY HYDRO ONE INC. TO: (in $Thousands)			
	Hydro One Networks Inc.	Hydro One Remote Communities Inc.	Hydro One Telecom Inc.	Hydro One Brampton Networks Inc.
General Counsel & Secretary (including Corporate Executive Office)	850.0	23	9	18
President / CEO / Chairman Services	3,349	18	28	33
Chief Financial Office Services (including Strategic Financial services)	756	9	23	32
Totals	**4,955.00**	**50.0**	**60.0**	**83.0**

DESCRIPTION OF SERVICES:

General Counsel and Secretary

The Services Provider shall provide the Services Recipient with professional legal advice and input. This advice shall include, but shall not be limited to, interpretation and analysis of legislation and regulations, advice concerning corporate structure and governance, development of regulatory instruments (licences), contracts, and environmental and health and safety issues. The Services Provider will also provide guidance on business ethics and support in the form of a business code of conduct.

President / CEO / Chairman services

The Services Provider shall provide the Services Recipient with strategic direction and management in an attempt to ensure that the Services Recipient's corporate goals are achieved.

Chief Financial Office services (including Strategic Financial services)

The Services Provider shall provide the Services Recipient with strategic direction and management in an attempt to ensure that the Services Recipient's corporate financial goals are achieved.

The Services Provider shall provide the Services Recipient with strategic approval with respect to investment decisions. Services relating to the review of policies and procedures, treasury operations and tax planning, financial control and reporting will also be provided by the Services Provider to the Services Recipient as required by the Services Recipient.

Schedule "B"

Receiving Party Security Safeguards Regarding Confidential Information Received from the Disclosing Party

The Receiving Party shall protect the Confidential Information by security safeguards appropriate to the sensitivity of the information.

1) The Receiving Party shall protect the Confidential Information against such risks as loss or theft, unauthorized access, disclosure, copying, use, modification or destruction, through appropriate security measures, regardless of the format in which it is held.

2) All of the Receiving Party's Representatives with access to the Confidential Information shall be contractually required to respect the confidentiality of that information.

3) The Receiving Party acknowledges and agrees that the nature of the safeguards will vary depending on the sensitivity, amount, distribution and format of the information, and the method of storage. The Receiving Party shall ensure that more sensitive information will be safeguarded by a higher level of protection.

4) The Receiving Party shall ensure that methods of protection will include:

(a) physical measures, for example, locked filing cabinets and restricted access to offices;

(b) organizational measures, for example, controlling entry to data centers and limiting access to information on a "need-to-know" basis;

(c) technological measures, for example, the use of passwords and encryption; and

(d) investigative measures, in cases where the Receiving Party has reasonable grounds to believe that the Confidential Information is being inappropriately collected, used or disclosed by anyone whom in law the Receiving Party is responsible.

THIS AGREEMENT made in duplicate this 17th day of January, 2012 (the "Effective Date").

BETWEEN:

HYDRO ONE NETWORKS INC.
(the "Services Provider")

- and -

HYDRO ONE REMOTE COMMUNITIES INC, HYDRO ONE INC.
HYDRO ONE TELECOM INC., and HYDRO ONE BRAMPTON NETWORKS INC.

(individually, the "Services Recipient" and collectively, the "Services Recipients")

1.0 PREFACE

This Agreement is intended to identify the services that are to be provided to each of the Services Recipients by the Services Provider in accordance with the terms and conditions herein. Except as otherwise specified, the term of this Agreement shall be for a period of 1 year commencing on the Effective Date.

2.0 SERVICES

The Services Provider shall provide to each of the Services Recipients (as may be required by each of them respectively from time to time during the term of this Agreement) the following services (the "**Services**"), which Services are more particularly described in Schedule "A" attached hereto:

- General Counsel and Secretary services
- Financial services
- Corporate services
- Telecommunications Services
- Other services

3.0 FEES PAYABLE

(a) The price for the performance of the Services for each of the Services Recipients shall be as identified in Schedule "A" attached hereto, exclusive of any sales and use taxes, as may be applicable. The relevant price for the Services shall be paid by each of the Services Recipients to the Services Provider by means of monthly electronic journal transfers which shall be reflected in the applicable books and records of each party. In addition, each Services Recipient shall pay for any material costs which the Services Provider, acting reasonably, incurs as a result of resources, services and products that the Services Provider must purchase and that are in addition to the

Services Provider's existing resources, services and products, in order to provide the said Services Recipient with specific services it requires and requests.

(b) If at any time during the performance of the Services, a Services Recipient is of the opinion that there are deficiencies in the Services provided to it and/or that the price payable is in any way inaccurate, the said Services Recipient shall pay the entire relevant price payable by it in full and its sole remedy shall be to follow the dispute resolution procedures outlined in Section 6.0 herein to determine what amount, if any, shall be refunded to the said Services Recipient and/or what Services, if any, shall be rectified or redone by the Services Provider.

(c) The parties acknowledge and agree that, with the exception of Hydro One Inc., they qualify as specified members of a closely related group under subsection 156(1) of the Excise Tax Act (Canada), as amended (the "Act") and have jointly executed a Form GST25, to make an election under subsection 156(2) of the Act to deem the purchase and sale of the Services to be made for nil consideration for purposes of HST. For the purposes of this Agreement, "HST" means the federal Harmonized Sales Tax chargeable in accordance with Part IX of the *Excise Tax Act* (Canada), as amended, or any similar value-added tax that may be applicable during the term of this Agreement to the Services to be provided hereunder.

4.0 REPRESENTATIONS AND WARRANTIES

(a) The Services Provider represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder;
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Provider; and
- (iii) all staff employed in the performance of the Services shall have the qualifications, expertise and experience which could reasonably be expected of staff of a services provider performing work similar to the Services.

(b) Each Services Recipient represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder; and
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Recipient.

5.0 PERFORMANCE OF THE SERVICES

(a) **Compliance with Standards and Applicable Law**: The Services Provider shall perform the Services in a diligent and professional manner and shall comply with the Services Recipient's computer data management and data access protocols contained in the Services Recipient's document entitled "Information Security Policy" (SP 0908 R1) dated January 17, 2012 and any amendments thereto which may be made from time to time by the Services Recipient. The Services Provider shall comply at all times with the statutes, regulations, by-laws, standards and codes, as amended, as may be applicable to the Services Provider in respect of the Services and the performance of its obligations hereunder and it shall, at its own expense, obtain and maintain in good standing all permits and licences required by any authorities having jurisdiction to perform the Services.

(b) <u>**Safety and Security Measures**</u>: When any part of the Services is to be performed at any of the Services Recipients' premises, all of the Services Provider's staff engaged in the performance of the Services at the said premises shall comply with the safety and security requirements and measures in effect at the said premises.

(c) <u>**Meetings**</u>: Each of the Services Recipient and the Services Provider shall, after the Effective Date, meet at least twice during the term of this Agreement to review performance, quality and timeliness of the Services provided by the Services Provider pursuant to this Agreement.

6.0 DISPUTE RESOLUTION PROCEDURES

Any controversy, dispute, difference, question or claim arising between any of the parties in connection with the interpretation, performance, construction or implementation of this Agreement that cannot be resolved by a director or manager from each of the said parties (collectively "Dispute") shall be settled in accordance with this Section. The aggrieved party shall send the other affected party(ies) written notice identifying the Dispute, the amount involved, if any, and the remedy sought, and invoking the procedures of this Section. The Presidents of each affected party shall confer in an effort to resolve the Dispute. If the Presidents are unable to resolve the Dispute within 5 business days after receipt of the written notice of the Dispute, then the affected parties shall submit the Dispute to the President of Hydro One Inc. for resolution.

7.0 CONFIDENTIALITY AND INTELLECTUAL PROPERTY

(a) Confidentiality:

Each party (the "Receiving Party") shall maintain in strict confidence this Agreement and the existence and contents thereof and all information, analysis, conclusions, drawings, reports, specifications or other information, proprietary or otherwise, whether transmitted orally, electronically or in written form, and received in furtherance of this Agreement from any of the other parties (the "Disclosing Party") or any of the Disclosing Party's directors, officers, employees, consultants, agents or legal and other advisors (the "Disclosing Party Representatives") (collectively the "Confidential Information"). Except as permitted herein, the Receiving Party shall not publish, reproduce, or disclose, either directly or indirectly, the said Confidential Information to any third party and shall not use the said Confidential Information for any purpose other than for purposes of this Agreement without the prior written consent of the Disclosing Party. The Receiving Party may disclose the Confidential Information only to its shareholder, directors, officers, employees, consultants, agents or professional advisors (the "Receiving Party Representatives") having a need to know same and who have undertaken a like obligation to maintain its confidentiality.

For greater certainty, Confidential Information includes any and all personal information (as that term is defined in the *Freedom of Information and Protection of Privacy Act* (Ontario) and the *Personal Information Protection and Electronic Documents Act* (Canada), as they may be amended, and any and all information regarding a consumer, retailer, wholesale buyer, wholesale supplier, or a generator provided by the Disclosing Party to the Receiving Party for purposes of this Agreement, whether or not such information was initially provided prior to the Effective Date.

The Receiving Party undertakes to protect and safeguard all Confidential Information in its possession or under its control and received by the Disclosing Party, in the manner described in Schedule "B" attached hereto. The Disclosing Party may, on reasonable notice, and during regular business hours, audit the information management practices of the Receiving Party to confirm compliance with the terms and conditions of this Section 7.0 and all applicable statutes, regulations, by-laws, standards and codes, as amended.

The Receiving Party undertakes to notify the Disclosing Party immediately upon discovery of any unauthorized use and/or disclosure of any of the Disclosing Party's Confidential Information, to co-operate with the Disclosing Party to help regain possession of such Confidential Information, and to prevent its further unauthorized use and/or disclosure.

The foregoing obligations with respect to confidentiality, use, reproduction, dissemination, publication and non-disclosure herein shall not apply to any information that:

(i) is previously known to or lawfully in the possession of the Receiving Party prior to the date of disclosure as evidenced by the Receiving Party's written record;
(ii) is independently known to or discovered by the Receiving Party, without any reference to the information or material;
(iii) is obtained by the Receiving Party from an arm's length third party having a bona fide right to disclose same and who was not otherwise under an obligation of confidence or fiduciary duty to the Disclosing Party or the Disclosing Party Representatives;
(iv) is or becomes public knowledge through no fault or omission of, or breach of this Agreement by the Receiving Party or the Receiving Party Representatives; or
(v) is required to be disclosed pursuant to a final judicial or governmental order or other legal process.

Confidential Information (other than this Agreement which shall be jointly owned by the parties) shall remain the sole and exclusive property of the Disclosing Party that has disclosed the Confidential Information, and the Disclosing Party shall retain all right, title and interest in and to the said Confidential Information.

The Receiving Party shall keep a record of written Confidential Information furnished to it by the Disclosing Party in a location separate from those locations where the Receiving Party has stored information in respect of other third parties for which it performs work and it shall advise the Disclosing Party of such location.

All Confidential Information furnished by the Disclosing Party (other than this Agreement), including that portion of the Confidential Information which is contained in analyses, compilations, studies or other documents prepared by the Receiving Party or by the Receiving Party Representatives, is the Disclosing Party's property and will be returned immediately to the Disclosing Party upon its request.

(b) Intellectual Property:

Each of the Services Recipients shall obtain all rights, title and interests, including copyright ownership, to any reports and any other deliverable that is to be produced and delivered to it by the Services Provider and, subject to applicable legislation and notwithstanding clause 7.0(a) above, the said Services Recipient may use, disclose or modify such reports or deliverable in any manner it deems appropriate. The Services Provider shall not do any act which may compromise or diminish the said Services Recipient's interest as aforesaid.

(c) Survival of Obligations:

The obligations in this Section 7.0 shall forever survive the termination or expiration of this Agreement.

8.0 LIABILITY

The Services Provider shall indemnify each of the Services Recipients and the Services Recipient's respective successors and assigns, directors, officers, employees, contractors and agents from and against all costs or damages attributable to the Services Provider's performance and/or non-performance of its obligations under this Agreement and any amendments thereto, whether arising from or based upon breach of contract, tort, negligence, strict liability or otherwise. Each Services Recipient shall indemnify the Services Provider and the Services Provider's successors and assigns, directors, officers, employees, contractors and agents from and against all costs or damages attributable to the said Services Recipient's performance and/or non-performance of its obligations under this Agreement and any amendments thereto, whether arising from or based upon breach of contract, tort, negligence, strict liability or otherwise. Notwithstanding any other provision of this Agreement, no party hereto shall be liable for any economic loss, loss of goodwill, loss of profit or for any special, indirect or consequential damages, where the said losses or damages are incurred by the other parties or any of them or by any third party claiming through or under the other parties or any of them.

This Section 8.0 shall forever survive the termination or expiration of this Agreement.

9.0 AUTHORIZED REPRESENTATIVES

The authorized representatives of the parties hereto for purposes of this Agreement are the following:

HYDRO ONE TELECOM INC.
65 Kelfield Street,
Rexdale, Ontario M9W 5A3

Attention: **Cliff Truax**
Telephone: 416-240-6713
Telecopier: 416-240-6802

HYDRO ONE REMOTE COMMUNITIES INC.
483 Bay Street,
Toronto, Ontario M5G 2P5

Attention: **Una O'Reilly**
TCT 8
Telephone: 416-345-6698
Telecopier: 416-345-6356

HYDRO ONE NETWORKS INC.
483 Bay Street,
Toronto, Ontario M5G 2P5

Attention: **Ryan Lee**
TCT 8
Telephone: 416-345-5158
Telecopier: 416-345-6833

HYDRO ONE INC.
483 Bay Street,
Toronto, Ontario M5G 2P5

Attention:	**Sandy Struthers**
	TCT 15
Telephone:	416-345-6140
Telecopier:	416-345-5695

HYDRO ONE BRAMPTON NETWORKS INC.
175 Sandalwood Parkway West,
Brampton, Ontario
L7A 1E8

Attention:	**Marc Villett**
Telephone:	(905) 452-5501
Telecopier:	(905) 840-0967

All correspondence, reports, documents and/or other communication concerning this Agreement and the Schedule attached hereto shall be directed to the attention of the authorized representatives noted above and shall be deemed to be sufficiently given if delivered personally, mailed or transmitted by fax to the attention of the authorized representatives at the addresses above, and any notice so given shall be deemed to have been made and received on the date of delivery or on the 5th business day following the day of mailing of same or on the day of transmission if transmitted during normal business hours, otherwise on the next business day, as the case may be.

10.0 CHANGE OF CONTROL

In the event of a change of control of the Services Provider, this Agreement shall immediately terminate as between each of the Services Recipients and the Services Provider. A change of control shall mean, as applicable, a purchase of more than fifty (50) percent of the outstanding capital by a non-affiliate third party.

11.0 ASSIGNMENT

Neither this Agreement nor any rights and obligations shall be assigned by any of the Services Recipients without the prior written consent of the Services Provider and by the Services Provider without the prior written consent of the affected Services Recipient, in either case which consent shall not be unreasonably withheld. Subject to the foregoing, this Agreement shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

12.0 SCHEDULES

Schedules "A" and "B" attached hereto are to be read with and form part of this Agreement.

13.0 COUNTERPARTS

This Agreement may be executed in counterparts and the counterparts together shall constitute an original.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE TELECOM INC.

Name: George Carleton
Title: VP, Supply Chain Services
I have authority to bind the corporation

HYDRO ONE REMOTE COMMUNITIES INC.

Name: Myles D'Arcey
Title: President and CEO
have authority to bind the corporation.

HYDRO ONE NETWORKS INC.

Name: Laura Formusa
Title: President & CEO
I have authority to bind the corporation.

HYDRO ONE INC.

Name: Sandy Struthers
Title: Executive Vice President and Chief Financial Officer
I have authority to bind the corporation.

HYDRO ONE BRAMPTON NETWORKS INC.

Name: Remy Fernandes
Title: President and CEO
I have authority to bind the corporation.

Schedule "A"

The annual cost for the performance of the Services to be delivered is summarized as follows:

	SERVICES TO BE PROVIDED BY HYDRO ONE NETWORKS INC. TO: (in $Thousands)			
SERVICES	**Hydro One Inc.**	**Hydro One Remote Communities Inc.**	**Hydro One Telecom Inc.**	**Hydro One Brampton Networks Inc.**
General Counsel and Secretary Services	87.0	217.0	87.0	174.0
Financial Services	74.0	260.0	342.0	390.0
Corporate Services	-	267.0	253.0	26.0
Telecommunication Services	-	128.0	279.0	-
Other Services	-	375.0	1,031.0	-
Totals	**161.0**	**1,247.0**	**1,992.0**	**590.0**

DESCRIPTION OF SERVICES:

The following provides a generic description of all Services to be provided by the Services Provider.

GENERAL COUNSEL AND SECRETARY SERVICES

The Services Provider shall provide the Services Recipient with professional legal advice and input which shall include, but not be limited to, interpretation and analysis of legislation and regulations, advice concerning corporate structure and governance, development of regulatory instruments (licenses), contracts, and environmental and health and safety issues.

FINANCIAL SERVICES

The Services Provider shall provide financial services support to the Services Recipient by providing timely and reliable financial information. The Services Provider will also provide services relating to business planning, budgeting and financial reporting. As required, services relating to treasury/pension/investor relations, taxation, internal audit and risk management, insurance, financial systems and services, cost and inventory accounting and decision support will also be provided. Other financial services such as transaction processing (accounts payable and receivable), and fixed asset and general accounting will also be provided.

CORPORATE SERVICES

The Services Provider shall provide corporate services in five main areas:

- Human Resources / Labour Relations – provision of human resource policy, strategy and standards to meet legal and other requirements. This includes staff planning, leadership development, succession planning and change management as well as labour relations services, pay equity, diversity, health services and performance management, compensation, health and benefits programs and administration of payroll, benefit plans and incentive plans.
- Business Architecture – provision of information systems support for Cornerstone Phase 1 and 2 as well as the management of legacy tools to support real time operations.
- Information Management – provision of computer and applications management support, internal telecommunications management, IT capital projects and IT strategy management and Inergi applications support management.
- Corporate Security – provision of advice, guidance and investigative support services to ensure the protection of assets and optimize the reliable delivery of electricity.
- First Nations & Métis Relations – provision of leadership and consultation support to address issues with First Nations & Métis communities.
- Corporate Communications – provision of strategy, program and support for corporate communications, public affairs and media relations, as well as corporate and shareholder relations and strategy programs related to internal communications.

TELECOMMUNICATIONS SERVICES

The Services Provider shall provide the Services Recipient with various telecommunications-related services including field and engineering, logistics, corporate, construction, telecommunication and information technology services.

OTHER SERVICES

The Services Provider shall provide the Services Recipient with:

- Customer Services Operation – provision of bill production and dispatch and settlements service, as well as data services related to field-based service orders.
- Information Management – provision of infrastructure operations, including a variety of activities such as system testing and integration, Internet and database management services, as well as services related to mainframe infrastructure operations, end user and desk-top support.

Schedule "B"

Receiving Party Security Safeguards Regarding Confidential Information Received from the Disclosing Party

The Receiving Party shall protect the Confidential Information by security safeguards appropriate to the sensitivity of the information.

1) The Receiving Party shall protect the Confidential Information against such risks as loss or theft, unauthorized access, disclosure, copying, use, modification or destruction, through appropriate security measures, regardless of the format in which it is held.

2) All of the Receiving Party's Representatives with access to the Confidential Information shall be contractually required to respect the confidentiality of that information.

3) The Receiving Party acknowledges and agrees that the nature of the safeguards will vary depending on the sensitivity, amount, distribution and format of the information, and the method of storage. The Receiving Party shall ensure that more sensitive information will be safeguarded by a higher level of protection.

4) The Receiving Party shall ensure that methods of protection will include:

(a) physical measures, for example, locked filing cabinets and restricted access to offices;

(b) organizational measures, for example, controlling entry to data centers and limiting access to information on a "need-to-know" basis;

(c) technological measures, for example, the use of passwords and encryption; and

(d) investigative measures, in cases where the Receiving Party has reasonable grounds to believe that the Confidential Information is being inappropriately collected, used or disclosed by anyone whom in law the Receiving Party is responsible.

THIS AGREEMENT made in duplicate this 17th day of January, 2012 (the "Effective Date").

BETWEEN:

HYDRO ONE NETWORKS INC.
(the "Services Provider")

- and -

HYDRO ONE REMOTE COMMUNITIES INC.
(the "Services Recipient")

1.0 PREFACE

This Agreement is intended to identify the services that are to be provided to the Services Recipient by the Services Provider in accordance with the terms and conditions herein. Except as otherwise specified, the term of this Agreement shall be for a period of 1 year commencing on the Effective Date.

2.0 SERVICES

The Services Provider shall provide chief and executive office and president services to the Services Recipient, which collectively constitute the Services and which are more particularly described in Schedule "A" attached hereto, as may be required by the Services Recipient from time to time during the term of this Agreement.

3.0 FEES PAYABLE

(a) The annual price for the performance of the Services for the Services Recipient shall be $80,000.00, exclusive of any sales and use taxes, as may be applicable. The said annual price for the Services shall be paid by the Services Recipient to the Services Provider by means of monthly electronic journal transfers which shall be reflected in the applicable books and records of each party In addition, each Services Recipient shall pay for any material costs which the Services Provider, acting reasonably, incurs as a result of resources, services and products that the Services Provider must purchase and that are in addition to the Services Provider's existing resources, services and products, in order to provide the said Services Recipient with specific services it requires and requests.

(b) If at any time during the performance of the Services, the Services Recipient is of the opinion that there are deficiencies in the Services provided to it and/or that the price payable is in any way inaccurate, the Services Recipient shall pay the entire relevant price payable by it in full and its sole remedy shall be to follow the dispute resolution procedures outlined in Section 6.0 herein to determine what amount, if any, shall be refunded to the Services Recipient and/or what Services, if any, shall be rectified or redone by the Services Provider.

c) The parties acknowledge and agree that they qualify as specified members of a closely related group under subsection 156(1) of the Excise Tax Act (Canada), as amended (the "Act") and have jointly executed a Form GST25, to make an election under subsection 156(2) of the Act to deem the purchase and sale of the Services to be made for nil consideration for purposes of HST. For the purposes of this Agreement, "HST" means the federal Harmonized Sales Tax chargeable in accordance with Part IX of the *Excise Tax Act* (Canada), as amended, or any similar value-added tax that may be applicable during the term of this Agreement to the Services to be provided hereunder.

4.0 REPRESENTATIONS AND WARRANTIES

(a) The Services Provider represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder;
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Provider; and
- (iii) all staff employed in the performance of the Services shall have the qualifications, expertise and experience which could reasonably be expected of staff of a services provider performing work similar to the Services.

(b) The Services Recipient represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder; and
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Recipient.

5.0 PERFORMANCE OF THE SERVICES

(a) **Compliance with Standards and Applicable Law**: The Services Provider shall perform the services in a diligent and professional manner and shall comply with the Services Recipient's computer data management and data access protocols contained in the Services Recipient's document entitled "Information Security Policy" (SP 0908 R1) dated January 17, 2012 and any amendments thereto which may be made from time to time by the Services Recipient. The Services Provider shall comply at all times with the statutes, regulations, by-laws, standards and codes, as amended, as may be applicable to the Services Provider in respect of the Services and the performance of its obligations hereunder and it shall, at its own expense, obtain and maintain in good standing all permits and licences required by any authorities having jurisdiction to perform the Services.

(b) **Safety and Security Measures**: When any part of the Services is to be performed at any of the Services Recipient's premises, all of the Services Provider's staff engaged in the performance of the Services at the said premises shall comply with the safety and security requirements and measures in effect at the said premises.

(c) **Meetings**: The parties shall, after the Effective Date, meet at least twice a year during the term of this Agreement to review performance, quality and timeliness of the Services provided by the Services Provider pursuant to this Agreement.

6.0 DISPUTE RESOLUTION PROCEDURES

Any controversy, dispute, difference, question or claim arising between any of the parties in connection with the interpretation, performance, construction or implementation of this Agreement that cannot be resolved by a director or manager from each of the said parties (collectively "Dispute") shall be settled in accordance with this Section. The aggrieved party shall send the other affected party(ies) written notice identifying the Dispute, the amount involved, if any, and the remedy sought, and invoking the procedures of this Section. The Presidents of each affected party shall confer in an effort to resolve the Dispute. If the Presidents are unable to resolve the Dispute within 5 business days after receipt of the written notice of the Dispute, then the affected parties shall submit the Dispute to the President of Hydro One Inc. for resolution.

7.0 CONFIDENTIALITY AND INTELLECTUAL PROPERTY

(a) Confidentiality:

Each party (the "Receiving Party") shall maintain in strict confidence this Agreement and the existence and contents thereof and all information, analysis, conclusions, drawings, reports, specifications or other information, proprietary or otherwise, whether transmitted orally, electronically or in written form, and received in furtherance of this Agreement from any of the other parties (the "Disclosing Party") or any of the Disclosing Party's directors, officers, employees, consultants, agents or legal and other advisors (the "Disclosing Party Representatives") (collectively the "Confidential Information"). Except as permitted herein, the Receiving Party shall not publish, reproduce, or disclose, either directly or indirectly, the said Confidential Information to any third party and shall not use the said Confidential Information for any purpose other than for purposes of this Agreement without the prior written consent of the Disclosing Party. The Receiving Party may disclose the Confidential Information only to its shareholder, directors, officers, employees, consultants, agents or professional advisors (the "Receiving Party Representatives") having a need to know same and who have undertaken a like obligation to maintain its confidentiality.

For greater certainty, Confidential Information includes any and all personal information (as that term is defined in the Freedom of Information and Protection of Privacy Act (Ontario) and the Personal Information Protection and Electronic Documents Act (Canada), as they may be amended, and any and all information regarding a consumer, retailer, wholesale buyer, wholesale supplier, or a generator, provided by the Disclosing Party to the Receiving Party for purposes of this Agreement, whether or not such information was initially provided prior to the Effective Date.

The Receiving Party undertakes to protect and safeguard all Confidential Information in its possession or under its control and received by the Disclosing Party, in the manner described in Schedule "B" attached hereto. The Disclosing Party may, on reasonable notice, and during regular business hours, audit the information management practices of the Receiving Party to confirm compliance with the terms and conditions of this Section 7.0 and all applicable statutes, regulations, by-laws, standards and codes, as amended.

The Receiving Party undertakes to notify the Disclosing Party immediately upon discovery of any unauthorized use and/or disclosure of any of the Disclosing Party's Confidential Information, to co-operate with the Disclosing Party to help regain possession of such Confidential Information, and to prevent its further unauthorized use and/or disclosure.

The foregoing obligations with respect to confidentiality, use, reproduction, dissemination, publication and non-disclosure herein shall not apply to any information that:

(i) is previously known to or lawfully in the possession of the Receiving Party prior to the date of disclosure as evidenced by the Receiving Party's written record;
(ii) is independently known to or discovered by the Receiving Party, without any reference to the information or material;
(iii) is obtained by the Receiving Party from an arm's length third party having a bona fide right to disclose same and who was not otherwise under an obligation of confidence or fiduciary duty to the Disclosing Party or the Disclosing Party Representatives;
(iv) is or becomes public knowledge through no fault or omission of, or breach of this Agreement by the Receiving Party or the Receiving Party Representatives; or
(v) is required to be disclosed pursuant to a final judicial or governmental order or other legal process.

Confidential Information (other than this Agreement which shall be jointly owned by the parties) shall remain the sole and exclusive property of the Disclosing Party that has disclosed the Confidential Information, and the Disclosing Party shall retain all right, title and interest in and to the said Confidential Information.

The Receiving Party shall keep a record of written Confidential Information furnished to it by the Disclosing Party in a location separate from those locations where the Receiving Party has stored information in respect of other third parties for which it performs work and it shall advise the Disclosing Party of such location.

All Confidential Information furnished by the Disclosing Party (other than this Agreement), including that portion of the Confidential Information which is contained in analyses, compilations, studies or other documents prepared by the Receiving Party or by the Receiving Party Representatives, is the Disclosing Party's property and will be returned immediately to the Disclosing Party upon its request.

(b) Intellectual Property:

The Services Recipient shall obtain all rights, title and interests, including copyright ownership, to any reports and any other deliverable that is to be produced and delivered to it by the Services Provider and, subject to applicable legislation and notwithstanding clause 7.0(a) above, the said Services Recipient may use, disclose or modify such reports or deliverable in any manner it deems appropriate. The Services Provider shall not do any act which may compromise or diminish the Services Recipient's interest as aforesaid.

(c) Survival of Obligations:

The obligations in this Section 7.0 shall forever survive the termination or expiration of this Agreement.

8.0 LIABILITY

Unless otherwise agreed in writing, each party shall indemnify the other party and that other party's successors and assigns, directors, officers, employees, contractors and agents from and against all direct costs or damages attributable to the indemnifying party's performance and/or non-performance of its obligations under this Agreement and any amendments or additions thereto that are mutually agreed to in writing, whether arising from or based on breach of contract, tort, negligence, strict liability or otherwise. Notwithstanding any other provision of this Agreement, neither party shall be liable for any economic loss, loss of goodwill, loss of profit or for any special, indirect or consequential damages, where the said losses or damages are incurred by the other or by any third party claiming through or under the other.

This Section 8.0 shall forever survive the termination or expiration of this Agreement.

9.0 AUTHORIZED REPRESENTATIVES

The authorized representatives of the parties hereto for purposes of this Agreement are the following:

HYDRO ONE REMOTE COMMUNITIES INC.
483 Bay Street,
South Tower, 8th Floor
Toronto, Ontario M5G 2P5
Attention: **Una O'Reilly**
TCT 8
Telephone: 416-345-6698
Telecopier: 416-345-6356

HYDRO ONE NETWORKS INC.
483 Bay St.
North Tower, 14th Floor B13
Toronto, Ontario M5G 2P5
Attention: **Rob Berardi**
Telephone: (416) 345-4277
Telecopier: (416) 345-6833

All correspondence, reports, documents and/or other communication concerning this Agreement and the Schedule attached hereto shall be directed to the attention of the authorized representatives noted above and shall be deemed to be sufficiently given if delivered personally, mailed or transmitted by fax to the attention of the authorized representatives at the addresses above, and any notice so given shall be deemed to have been made and received on the date of delivery or on the 5th business day following the day of mailing of same or on the day of transmission if transmitted during normal business hours, otherwise on the next business day, as the case may be.

10.0 CHANGE OF CONTROL

In the event of a change of control of the Services Provider, this Agreement shall immediately terminate. A change of control shall mean, as applicable, a purchase of more than fifty (50) percent of the outstanding capital by a non-affiliate third party.

11.0 ASSIGNMENT

Neither this Agreement nor any rights and obligations shall be assigned by either party without the prior written consent of the other party, which consent shall not be unreasonably withheld. Subject to the foregoing, this Agreement shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

12.0 RELATIONSHIP OF PARTIES:

Nothing in this Agreement creates the relationship of principal and agent, employer and employee, partnership or joint venture between the parties. The parties agree that they are and will at all times remain independent and are not and shall not present themselves to be the agent, employee, partner or joint venturer of the other. No representations will be made or acts taken by either party which could establish any apparent relationship of agency, employment, joint venture or partnership and neither party shall be bound in any manner whatsoever by any agreements, warranties or representations made by the other party to any other person nor with respect to any other action of the other party.

13.0 SCHEDULES

Schedules “A” and “B” attached hereto are to be read with and form part of this Agreement.

14.0 COUNTERPARTS

This Agreement may be executed in counterparts and the counterparts together shall constitute an original.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE NETWORKS INC.

Joseph Agostino

Name: Joseph Agostino
Title: Officer
I have authority to bind the corporation

HYDRO ONE REMOTE COMMUNITIES INC.

Maureen Wareham

Name: Maureen Wareham
Title: Officer
have authority to bind the corporation.

Schedule "A"

DESCRIPTION OF SERVICES:

The Services Provider shall provide the Services Recipient with the following services:

- Provide administrative services related to Corporate record-keeping, and signing of contracts and corporate documents that require strategic approval;

- Communicate Hydro One Inc.'s strategic goals, direction and policies to the Services Recipient and ensure that the Services Recipient adheres to these policies, goals and directions; and

- Advocate for the Services Recipient at the Hydro One Inc. level for budgetary items, operational issues and performance goals, and ensure that the Services Recipient's business is understood and communicated at the parent company level.

Schedule "B"

Receiving Party Security Safeguards Regarding Confidential Information Received from the Disclosing Party

The Receiving Party shall protect the Confidential Information by security safeguards appropriate to the sensitivity of the information.

1) The Receiving Party shall protect the Confidential Information against such risks as loss or theft, unauthorized access, disclosure, copying, use, modification or destruction, through appropriate security measures, regardless of the format in which it is held.

2) All of the Receiving Party Representatives with access to the Confidential Information shall be contractually required to respect the confidentiality of that information.

3) The Receiving Party acknowledges and agrees that the nature of the safeguards will vary depending on the sensitivity, amount, distribution and format of the information, and the method of storage. The Receiving Party shall ensure that more sensitive information will be safeguarded by a higher level of protection.

4) The Receiving Party shall ensure that methods of protection will include:

(a) physical measures, for example, locked filing cabinets and restricted access to offices;

(b) organizational measures, for example, controlling entry to data centers and limiting access to information on a "need-to-know" basis;

(c) technological measures, for example, the use of passwords and encryption; and

(d) investigative measures, in cases where the Receiving Party has reasonable grounds to believe that the Confidential Information is being inappropriately collected, used or disclosed by anyone whom in law the Receiving Party is responsible.

TELECOMMUNICATIONS SERVICES AGREEMENT

THIS AGREEMENT made this 1st day of January, 2011 (the "Effective Date").

BETWEEN:

HYDRO ONE TELECOM INC.
("HOTelecom")

- and -

HYDRO ONE NETWORKS INC.
("HONI")

1.0 PREFACE

This Agreement is intended to identify certain telecommunications services that are to be provided to HONI by HOTelecom with respect to HONI's electricity distribution and transmission system (the "Power System") and HONI's business system (the "Business System") in accordance with the terms and conditions herein.

This Agreement, together with Schedules "A", "B" and "C" attached hereto, represents the entire agreement between the parties respecting the subject matter hereto and supersedes all prior agreements, understandings, discussions, negotiations, representations and correspondence made by or between them respecting the subject matter hereto.

2.0 TERM AND SERVICES

(a) Term:

Subject to the termination rights provided elsewhere in this Agreement and except as otherwise specified, this Agreement shall be effective as of the Effective Date and shall continue in full force and effect until December 31, 2012 (the "Term").

(b) Services:

Subject to the terms and conditions of this Agreement, HOTelecom shall provide to HONI and HONI shall acquire from HOTelecom, if and when required by HONI during the Term, the following services, which collectively constitute the Services and which are more particularly described in the following Schedules attached hereto:

- Schedule "A" – Power System – Operation of Telecommunications Services
- Schedule "B" – Business System – Operation of Telecommunications Services

3.0 FEES PAYABLE

(a) The price for the performance of each of the Services shall be as identified in each of the applicable Schedules attached hereto, exclusive of any sales and use taxes, as may be applicable. Except as may be specified otherwise in the applicable Schedules attached hereto, the relevant price for the Services shall be paid by HONI to HOTelecom by means of monthly electronic journal transfers which shall be reflected in the applicable books and records of each party. In addition, HONI shall pay for any material costs which HOTelecom, acting reasonably, incurs as a result of resources, services and products that HOTelecom must purchase and that are in addition to HOTelecom's existing resources, services and products, in order to provide HONI with specific services it requires and requests beyond those specified in applicable Schedules.

(b) The parties shall meet and review the volume and scope of each of the Services identified in the Schedules attached hereto in the second quarter of the second year of the Term in an attempt to arrive at estimated prices for any possible extension or renewal of this Agreement.

(c) If at any time during the performance of the Services, HONI is of the opinion that there are deficiencies in the Services provided to it and/or that the price payable is in any way inaccurate, HONI shall pay the entire relevant price payable by it in full and its sole remedy shall be to follow the dispute resolution procedures outlined in Section 6.0 herein to determine what amount, if any, shall be refunded to HONI and/or what Services, if any, shall be rectified or redone by HOTelecom.

(d) The parties acknowledge and agree that they qualify as specified members of a closely related group under subsection 156(1) of the *Excise Tax Act* (Canada), as amended (the "Act") and have jointly executed a Form GST25, to make an election under subsection 156(2) of the Act to deem the purchase and sale of the Services to be made for nil consideration for purposes of the Harmonized Sales Tax.

4.0 REPRESENTATIONS AND WARRANTIES

(a) HOTelecom represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder;
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of HOTelecom; and
- (iii) all staff employed in the performance of the Services shall have the qualifications, expertise and experience which could reasonably be expected of staff of a services provider performing work similar to the Services.
- (iv) that the prices for the Services to be performed as specified in Schedules "A" and "B" attached hereto are no more than the fair market value of the Services and where a fair market value is not available for any of the Services, the prices are cost-based prices.

(b) HONI represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder; and
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of HONI.

5.0 PERFORMANCE OF THE SERVICES

(a) **Compliance with Standards and Applicable Law:** HOTelecom shall perform the Services in a diligent and professional manner and shall comply with HONI's computer data management and data access protocols contained in HONI's documents entitled "Corporate Security Standard 600-3 – Information Security Policy" dated January 17, 2000 and "Corporate Security Policy 908 – Information Security Policy" dated August 1, 2010 and any amendments thereto which may be made from time to time by the Services Recipient. . HOTelecom shall comply at all times with the statutes, regulations, by-laws, standards and codes, as amended, as may be applicable to HOTelecom in respect of the Services and the performance of its obligations hereunder and it shall, at its own expense, obtain and maintain in good standing all permits and licences required by any authorities having jurisdiction to perform the Services.

(b) **Safety and Security Measures**: When any part of the Services is to be performed at HONI's premises, all of HOTelecom's staff engaged in the performance of the Services at the said premises shall comply with the safety and security requirements and measures in effect at the said premises.

(c) **Meetings**: HONI and HOTelecom shall meet at least once a month to review performance, quality and timeliness of the Services and to discuss operational issues of the Services provided by HOTelecom pursuant to this Agreement.

6.0 DISPUTE RESOLUTION PROCEDURES

Any controversy, dispute, difference, question or claim arising between any of the parties in connection with the interpretation, performance, construction or implementation of this Agreement that cannot be resolved by a director or manager from each of the said parties (collectively "Dispute") shall be settled in accordance with this Section. The aggrieved party shall send the other party written notice identifying the Dispute, the amount involved, if any, and the remedy sought, and invoking the procedures of this Section. One Senior Manager of each party shall confer in an effort to resolve the Dispute. If the Senior Managers are unable to resolve the Dispute within 5 business days after receipt of the written notice of the Dispute, then the parties shall submit the Dispute to the President of Hydro One Inc. for resolution.

7.0 CONFIDENTIALITY AND INTELLECTUAL PROPERTY

(a) Confidentiality:

Each party (the "Receiving Party") shall maintain in strict confidence this Agreement and the existence and contents thereof and all information, analysis, conclusions, drawings, reports, specifications or other information, proprietary or otherwise, whether transmitted orally, electronically or in written form, and received in furtherance of this Agreement from the other party (the "Disclosing Party") or any of the Disclosing Party's directors, officers, employees, consultants, agents or legal and other advisors (the "Disclosing Party Representatives") (collectively the "Confidential Information"). Except as permitted herein, the Receiving Party shall not publish, reproduce or disclose, either directly or indirectly, the said Confidential Information to any third party and shall not use the said Confidential Information for any purpose other than for purposes of this Agreement without the prior written consent of the Disclosing Party. The Receiving Party may disclose the Confidential Information only to its shareholder, directors, officers, employees, consultants, agents or professional advisors (the "Receiving Party Representatives") having a need to know same and who have undertaken a like obligation to maintain its confidentiality.

For greater certainty, Confidential Information includes any and all personal information (as that term is defined in the *Freedom of Information and Protection of Privacy Act* (Ontario) and the *Personal Information Protection and Electronic Documents Act* (Canada), as they may be amended, and any and all information regarding a consumer, retailer, wholesale buyer, wholesale supplier, or a generator provided by the Disclosing Party to the Receiving Party for purposes of this Agreement, whether or not such information was initially provided prior to the Effective Date.

The Receiving Party undertakes to protect and safeguard all Confidential Information in its possession or under its control and received by the Disclosing Party, in the manner described in Schedule "C" attached hereto. The Disclosing Party may, on reasonable notice, and during regular business hours, audit the information management practices of the Receiving Party to confirm compliance with the terms and conditions of this Section 7.0 and all applicable statutes, regulations, by-laws, standards and codes, as amended.

The Receiving Party undertakes to notify the Disclosing Party immediately upon discovery of any unauthorized use and/or disclosure of any of the Disclosing Party's Confidential Information, to co-operate with the Disclosing Party to help regain possession of such Confidential Information, and to prevent its further unauthorized use and/or disclosure.

The foregoing obligations with respect to confidentiality, use, reproduction, dissemination, publication and non-disclosure herein shall not apply to any information that:

(i) is previously known to or lawfully in the possession of the Receiving Party prior to the date of disclosure as evidenced by the Receiving Party's written record;
(ii) is independently known to or discovered by the Receiving Party, without any reference to the information or material;
(iii) is obtained by the Receiving Party from an arm's length third party having a bona fide right to disclose same and who was not otherwise under an obligation of confidence or fiduciary duty to the Disclosing Party or the Disclosing Party Representatives;
(iv) is or becomes public knowledge through no fault or omission of, or breach of this Agreement by the Receiving Party or the Receiving Party Representatives; or
(v) is required to be disclosed pursuant to a final judicial or governmental order or other legal process.

Confidential Information (other than this Agreement which shall be jointly owned by the parties) shall remain the sole and exclusive property of the Disclosing Party that has disclosed the Confidential Information, and the Disclosing Party shall retain all right, title and interest in and to the said Confidential Information.

The Receiving Party shall keep a record of written Confidential Information furnished to it by the Disclosing Party in a location separate from those locations where the Receiving Party has stored information in respect of other third parties for which it performs work and it shall advise the Disclosing Party of such location.

All Confidential Information furnished by the Disclosing Party (other than this Agreement), including that portion of the Confidential Information which is contained in analyses, compilations, studies or other documents prepared by the Receiving Party or by the Receiving Party Representatives, is the Disclosing Party's property and will be returned immediately to the Disclosing Party upon its request.

(b) Intellectual Property:

HONI shall obtain all rights, title and interests, including copyright ownership, to any reports and any other deliverable that is to be produced and delivered to it by HOTelecom and, subject to applicable legislation and notwithstanding clause 7.0(a) above, HONI may use, disclose or modify such reports or deliverable in any manner it deems appropriate. HOTelecom shall not do any act which may compromise or diminish HONI's interest as aforesaid.

(c) Survival of Obligations:

The obligations in this Section 7.0 shall forever survive the termination or expiration of this Agreement.

8.0 LIABILITY

Each party (the "Indemnifying Party") shall indemnify the other party (the "Indemnified Party") and the Indemnified Party's successors and assigns, directors, officers, employees, contractors and agents from and against all costs or damages attributable to the Indemnifying Party's performance and/or non-performance of its obligations under this Agreement and any amendments thereto, whether arising from or based on breach of contract, tort, negligence, strict liability or otherwise. Notwithstanding any other provision of this Agreement, neither party hereto shall be liable for any economic loss, loss of goodwill, loss of profit or for any special, indirect or consequential damages, where the said losses or damages are incurred by the other party or by any third party claiming through or under the other party.

This Section 8.0 shall forever survive the termination or expiration of this Agreement.

9.0 AUTHORIZED REPRESENTATIVES

The authorized representatives of the parties hereto for purposes of this Agreement are the following:

HYDRO ONE TELECOM INC.
65 Kelfield Street
Rexdale, Ontario M9W 5A3
Attention: Paul Marchant
Telephone: (416) 240- 6844
Telecopier: (416) 246-7401

HYDRO ONE NETWORKS INC.

(a) 483 Bay Street
North Tower, 15h Floor
Toronto, Ontario
M5G 2P5
Attention: Janusz Ploski
Telephone: (416) 345-5129
Telecopier: (416) 345-5424

-and-

(b) 483 Bay Street
South Tower, 5^h Floor
Toronto, Ontario
M5G 2P5
Attention: Norm Crook
Telephone: (416) 345-6334
Telecopier: (416) 345-5744

All correspondence, reports, documents and/or other communication concerning this Agreement and the Schedules attached hereto shall be directed to the attention of the authorized representatives noted above and shall be deemed to be sufficiently given if delivered personally, mailed or transmitted by fax to the attention of the authorized representatives at the addresses above, and any notice so given shall be deemed to have been made and received on the date of delivery or on the 5th business day following the day of mailing of same or on the day of transmission if transmitted during normal business hours, otherwise on the next business day, as the case may be.

10.0 ASSIGNMENT AND CHANGE OF CONTROL

Assignment:

(a) Except as otherwise specified in this Agreement, neither this Agreement nor any rights, remedies, liabilities or obligations arising under it or by reason of it shall be assigned by either party without the prior written consent of the other party, which consent may be unreasonably withheld. Subject to the foregoing, this Agreement shall enure to the benefit of the parties hereto ad their respective successor and permitted assigns.

Change of Control:

(b) In the event of a change of control of either party, the parties shall negotiate in good faith for a period of 30 days after the effective date of the change of control with a view to executing a new agreement for the Services that were being performed by HOTelecom hereunder immediately prior to the effective date of said change of control. In the event that the parties cannot agree to a new agreement, this Agreement shall immediately terminate. A change of control shall mean, as applicable, a purchase of more than fifty (50) percent of the outstanding capital by a non-affiliate third party.

11.0 SCHEDULES

Schedules "A", "B" and "C" attached hereto are to be read with and form part of this Agreement.

12.0 AMENDMENTS

This Agreement may be amended only by mutual written agreement of the Parties.

13.0 COUNTERPARTS

This Agreement may be executed in counterparts and the counterparts together shall constitute an original.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE TELECOM INC.	HYDRO ONE NETWORKS INC.
By:_______________	By:_______________
Authorized Signatory	Authorized Signatory
I have authority to bind the corporation.	I have authority to bind the corporation.

POWER SYSTEM - OPERATION OF TELECOMMUNICATION SERVICES

1. BACKGROUND

HOTelecom acknowledges the importance of teleprotection in order for HONI to maintain the reliability and integrity of HONI's electricity transmission and distribution systems (collectively, the "Electrical Network") in Ontario and its interactions with bordering networks. Teleprotection for an electric grid encompasses detailed utility policies and operating procedures which HOTelecom will effectively support. HOTelecom, through the Integrated Technology Management Center (ITMC), shall monitor teleprotection of HONI's Electrical Network and provides various Services, as defined in this Schedule, which Services are also collectively referred to as the "Power System Telecom Services" or "PSTS".

HONI has a vast number of systems that form the overall teleprotection of its Electrical Network. HOTelecom shall perform the Services described herein for the following components of HONI's teleprotection network:

- Digital Microwave System
- Power Line Carrier (PLC) System
- Fibre Optic Transmission System
- HONI's Metallic Cable Systems
- Cable Protection Systems (neutralizing transformers, optical isolators)
- Provincial Mobile Radio System (Excludes mobile radios and control units)
- DOMC Mobile Radio System
- Teleprotection (CPE) Systems
- Telecom Management System (the ITMC operations and the backup ITMC facilities)
- Telemetering and control services
- Leased Power System Telecommunications Facilities
- Smart Metering System (only sections 2.1.1, 2.1.2, 2.2.1, 2.4 of this Schedule "A" apply in respect of this component of HONI's teleprotection network)

The vast number of systems results in hundreds of network elements that must be monitored. When the integrity and/or reliability of the above systems are impacted, the Services provided by HOTelecom as described in this Schedule form an integral part of the restoration effort that is ultimately controlled by HONI's Ontario Grid Control Centre (OGCC).

In performing the Services described in this Schedule, HOTelecom shall comply with HONI's policies and standards as may be applicable to HOTelecom in respect of the said Services and which policies and standards have been provided by HONI to HOTelecom on the Effective Date of the Agreement. In addition, HOTelecom will support HONI in its efforts to maintain compliance with North American Electric Reliability Council (NERC) requirements, specifically in the areas of security and auditability of the Power System Telecom Services. The parties acknowledge and agree that HONI shall be entitled to unilaterally amend the provisions of the said policies and standards or create new policies and standards throughout the Term of the Agreement that may be applicable to the Services described herein and HONI shall provide HOTelecom with 30 days' written notice of any such amendments and/or new policies and standards prior to the implementation of said amendments and/or new policies and standards and such amendments and HOTelecom shall comply with said amendments and/or new policies and standards commencing on the 31st day after the date of the notice referred herein.

2. DESCRIPTION OF SERVICES

HOTelecom shall perform the following Services related to the monitoring, management and operation of PSTS, as may be required by HONI:

1. Alarm Based Services
2. Coordinated Network Management Services
3. Systems Analysis Services
4. Carrier/Vendor Management Services

2.1 ALARM BASED SERVICES

2.1.1 Network Monitoring

- Monitor alarms from PSTS equipment and systems on a 24 hours / 7 day basis utilizing the ITMC or as required through the HOTelecom back-up control centre.
- Create trouble reports for alarms that require corrective action based on the following categorization of alarms:

SEVERITY LEVEL	DEFINITION	TIME DURING WHICH EVENT RESPONSE MUST BE MADE
1	**An incident or problem causing total loss of critical services such as Teleprotection or SCADA service**	7 X 24
2	**An incident or problem causing partial degradation or loss of redundancy for critical services**	7 X 24
3	**An incident or problem causing minor impact on network services**	Business Hours
4	**An incident or problem causing no impact on network services.**	Business Hours

- Restore failed or degraded telecommunications services remotely if possible.
- Assess, troubleshoot or co-ordinate troubleshooting, including engagement of second/third level engineering support, to restore PSTS services, as well as provide status updates to HONI designated personnel with respect to the restoration efforts.

2.1.2 Support for Trouble Calls & Corrective Maintenance

- Provide operational support, on a 24 hour / 7 day basis, for trouble calls and corrective maintenance activities on all failed or degraded telecom services and equipment - this Includes operational acceptance of replacement equipment or systems associated with trouble calls and corrective maintenance activities.
- Provide technical expertise to identify root causes, formulate corrective action plans and take charge of implementing the plan.
- Provide technical support and coordination, to the dispatched (internal or external) technical resources, in restoring failed or degraded services and effectively manage, in concert with HONI, the technical resources to achieve the following HONI designated restoration targets:

Severity Level	Service Restoration Target
1	Less than 4 hours
2	Less than 8 hours
3	More than 8 hours
4	More than 8 hours

- Perform analysis of, and prepare reports for, all PSTS "Severity Level 1 Incidents".

2.1.3 Notification and Reports

- Provide notification to the appropriate regulatory authorities with regard to lamps failures within HONI's microwave tower system.
- Monitor the actions of HONI's various third party telecommunications vendors as well as the broader Canadian and US telecommunications industry and advise HONI of any issues that may impact the PSTS.

2.1.4 Emergency Response Planning & Execution

- Assist, as requested by HONI, in the planning for large scale emergency situations affecting a large portion of or, in a worst case situation, the entire HONI Electrical Network.
- Having regard to HONI's emergency response plans, provide operational support for large scale critical situations which result in HONI activating its Incident Command Centre (ICC) and/or its Emergency Operations Centre (EOC).
- Activate the telecommunications component of the ICC to provide updates to HONI with respect to the resolution of the large scale critical situations until achievement of the resolution.
- Provide HONI with an on-call single point of contact at a senior management level to interact with HONI's ICC and/or EOC.
- Work with HONI to test the various emergency response plans as scheduled by HONI.
- Review the test results of the emergency response plans with HONI, identify any deficiencies and update the said plans as required by HONI.

2.1.5 Additional Deliverables: Alarm Based Service

- Provide real-time email distribution of all Severity 1 incidents trouble tickets to a HONI-provided distribution list.
- Within 5 business days of a Severity 1 incident, draft an "Incident Investigation Report" which will include a description of the incident, sequence of events, root cause analysis and corrective actions taken. In consultation with HONI, the format of this report may be modified as required by HONI.
- Ensure that HOTelecom's Senior Management, including the President, will be available on-call to deal with escalation or emergency situations.
- HOTelecom will notify HONI of any meetings HOTelecom has scheduled with third party carriers to discuss substandard service and assist in developing recommendations to improve the overall reliability of the service delivery to enable HONI to attend if it deems desirable.
- As required by HONI, HOTelecom will participate in HONI meetings to report on ITMC activity levels.

2.2 COORDINATED NETWORK MANAGEMENT SERVICES

2.2.1 Change Management

- Provide HONI with technical expertise to assist HONI in formulating change plans and in implementing the changes.
- Develop and maintain change management processes and measures that facilitate timely and controlled change for PSTS infrastructure.
- Ensure that standard telecommunications industry methods and techniques are used for efficient handling of changes, so that change related problems are prevented. Change management activities include acceptance, classification, assessment and planning, coordination and evaluation.
- Review all changes that are introduced into HONI's environment to ensure they are engineered, tested, commissioned and supported according to jointly defined HONI and HOTelecom standards for quality and performance.
- Review all Firmware Updates, Security Key, and Device Parameter changes that are introduced into HONI's Smart Metering environment to ensure they are supported according to jointly defined HONI and HOTelecom standards for quality and performance.
- Input change records into HONI systems (i.e. NOMS – Network Outage Management System). Review, process, and approve NOMS Telecom slips, including; outage

assessment, writing work plans, outage coordination, updating HONI databases, and managing telecom carrier maintenance.

- Establish and chair regular Change Advisory Board (CAB) meetings with affected stakeholders who want to attend such meeting.
- HOTelecom will document and review with HONI all changes to HONI's teleprotection system. The documentation will specify the reason for the change, impacts of the change, risks associated with the change, testing done, back-out plans, technical assessment, and management/risk assessment.
- Develop and maintain release management processes and measures that facilitate timely and controlled change (through regular meetings).
- Determine release strategies, controls, and co-ordinate the release of network hardware and software into the live environment.
- Coordinate operational acceptance and commissioning of new or replacement equipment/systems associated with minor projects.

2.2.2 Configuration Management

- Maintain and update configuration parameters and elements of each element of the HONI teleprotection network.
- Maintain up-to-date configuration documentation for every change implemented.
- Ensure configuration changes including drawings are documented in order to maintain the capability to enable re- configuration of services to maintain adequate operational control of infrastructure systems and components.
- Provide regular back-ups for the element configuration parameters and elements of the teleprotection network.

2.2.3 ITMC Support for Preventative Maintenance Program

- Provide support for HONI's teleprotection network hardware and software preventative maintenance program, including assistance in supporting business cases to justify expenditures.
- Recommend vendor upgrades and patches, and perform such upgrades and patches as directed by HONI.
- Provide First Level (Incident Management), Second Level (Problem Management) and Third Level (Vendor Management) technical support that includes on- site deployment of staff or management of vendor personnel necessary to resolve problems.
- Manage hardware and software maintenance for PSTS-related applications; work with hardware and software vendors and co-ordinate the installation, upgrade and maintenance of hardware and software; monitor vendors' service and performance to confirm compliance with the vendors' respective SLA; perform hardware and software maintenance outside of vendor support contracts.
- Provide corrective maintenance and repair for warranty and non-warranty components of the PSTS network; take necessary actions to coordinate repair of the failed component of the PSTS network to working order.

2.2.4 Operating Support System (OSS) / HOT IT

- HONI contributed and therefore has access to the development of the HOTelecom Operating Support System (OSS) which has four elements:
  - An inventory management system (Granite) for the BSTS wide-area network (HWAN)
  - Outside Plant (OSP)/fibre inventory system (Telcordia Network Engineer)
  - Network management system for HWAN and voice switches (HP Openview)
  - Service Management system (HP Service Desk) as adopted by PSTS and HOTelecom's commercial network for the HWAN. This includes incident management through trouble tickets, problem management, and change management functions.

- The OSS is vital to support the day-to-day ITMC operational functions including updating of fibre inventory, management and updating of network alarms, management of incidents [trouble tickets], and outage and change requests.
- Provide a reporting platform – Business Objects (BOBJ)

2.2.5 Additional Deliverables: Coordinated Network Management

- Due to the dynamic nature of telecom, coordinate, as required by HONI, meetings with third party service providers and stakeholders in HONI (such as E&CS Telecom Engineering, and Grid Operations) to review overall roles and accountabilities to maximize an integrated approach to power system telecom operations.
- Provide HOTelecom's Change Management process, deliverables and documentation to HONI upon HONI's request.
- Maintain the OSS system applicable to the PSTS with current software releases and provide appropriate access, to designated HONI personnel.

2.3 SYSTEMS ANALYSIS SERVICES

2.3.1 Fibre Restoration Plan Management

- Provide on-going support for HONI's fibre optic network restoration capability plan.
- Participate in annual reviews of this plan with HONI's Engineering Service and Maintenance Service Providers.

2.3.2 Software Release Management

- Recommend software releases on all SONET fibre electronics to HONI
- Manage the upgrade of the software on SONET fibre electronics as required

2.3.3 Asset Performance Assessment

- Provide on-going trend analysis on telecom equipment failures and long duration and chronic outages with analysis and recommendations for corrective action.

2.3.4 NERC System Analysis Service

- Provide ongoing analysis and support in the areas of system security to HONI in response to NERC queries.
- Participate in the implementation of system security features as required by HONI to demonstrate compliance with NERC requirements.

2.3.5 Additional Deliverables: System Analysis Services

- Provide ongoing software release recommendations to the designated HONI contact and upon HONI's acceptance of the recommendations, report on any resulting activity.
- Provide an annual asset performance assessment report in consultation with HONI for the PSTS Severity 1 incidents including historical trend analysis.

2.4 CARRIER/VENDOR MANAGEMENT SERVICES

With the numerous teleprotection systems and the extent of HONI's various networks spread across its vast operating territory, there are numerous third party carriers who provide various telecommunications and equipment services to HONI. HOTelecom will be the single-point of contact for management of the third party providers.

2.4.1 Carrier Contract Management

- HOTelecom will negotiate, on behalf of HONI, best commercial terms and conditions governing all carrier contracts for HONI circuits
- HOTelecom will manage the contracts during the term of the contracts

- HOTelecom will attempt to leverage all of HONI's telecommunications purchases to obtain the best possible price to achieve the desired HONI telecommunication solution. This may include recommendations such as the use of alternative carriers and/or product solutions.

2.4.2 Carrier Circuit Management

- HOTelecom will be HONI's single-point of management for all PSTS requirements for third party telecommunications circuit services. HONI will direct HOTelecom with regard to what circuits are to be procured and HOTelecom will interact with the various HONI approved carriers in an effort to execute the following:
  - Circuit ordering
  - Circuit out-ordering
  - Coordination of the carrier invoice payment and reconciliation
  - Cost allocation and distribution to HONI directed end-accounts/projects
  - Investigating any billing discrepancy and taking corrective action against any errors in billing by third party providers
  - Liaise with third party providers to claim any applicable service credits
  - Maintenance of records of service billing and payment history
  - Provide support for billing and cost inquiries on specific leased circuits when requested by HONI

2.4.3 Provincial Mobile Radio ("PMR") Management

- As directed by HONI, HOTelecom will coordinate the payment of all microwave radio licenses.
- As directed by HONI, HOTelecom will coordinate the payment of all provincial mobile base station frequency licenses.
- Coordinate renewal of tower space lease agreements for the PMR network.
- Negotiate and administer HONI's contracts with third party providers, including resolving billing issues, violations of service level agreements, application for and collection of credits, and monitoring of delivery performance.
- Coordinate "lessons learned" meetings with third party providers to assess performance and make recommendations for service improvement.
- Liaise with the appropriate HONI personnel as designated by HONI in the field to facilitate implementation of work packages.
- Assist HONI in developing policies and procedures to effectively facilitate third party providers' support of HONI's mobile radio network.

2.4.4 Third Party Maintenance Contract Management

- HONI has various third party contracts with vendors of equipment that form the third level of support when resolving incidence that affects HONI's various networks. Some of these contracts include: Significant Event Notifications System, Voice Recorders at the OGCC, and UPS Maintenance contracts.
- As directed by HONI, HOTelecom will negotiate these support contracts and coordinate the payment of the contracts.

2.4.5 Additional Deliverables: Carrier/Vendor Management Services

- HOTelecom will administer meetings with third party carriers when determined necessary by HOTelecom. HOTelecom will draft, and provide to HONI, minutes of the meetings describing invoicing errors under investigation and resolution steps with the third party carrier.
- HOTelecom will provide a monthly report to HONI of the current month and year to date costs of all HONI circuit purchases and identify if any specified HONI account is over a HONI defined variance threshold. HOTelecom shall ensure that such reports will show a

breakdown of costs by services and vendors will and will be distributed to the HONI provided distribution list.

- HOTelecom will provide status reports regarding the third party Maintenance contracts.

3. Pricing

The prices for the performance of the Services to be performed under this Schedule are as follows:

	2011	2012
Alarm Based Services	$2,221,980.72	$2,345,967.25
Coordinated Network Management Services	$2,467,339.41	$2,602,206.36
Systems Analysis Services	$ 484,563.63	$ 511,602.28
Carrier/Vendor Management Services	$ 1,090,967.64	$1,151,843.64
Total PSTS Charge	**$ 6,264,851.40**	**$ 6,611,619.53**

BUSINESS SYSTEM - OPERATION OF TELECOMMUNICATION SERVICES

1. Background

HONI maintains various technical and administrative locations throughout the Province of Ontario. Within HONI, the Corporate Services group is responsible for the connectivity of the various locations. In particular, the CIO's IT department is focused on the information technology needs and information management of HONI. HONI's telecommunications infrastructure provides the linkage for HONI's information needs and HONI has engaged the services of HOTelecom to provide various services in regard to the procurement and monitoring of telecommunication services.

HOTelecom recognizes that HONI's IT department helps form an integral part of HONI's ability to provide a reliable electricity network in the Province of Ontario. The monitoring of HONI's Power System Telecom Services ("PSTS") is dependant on HONI's IT department's voice and data network which is commonly referred to as the "Business System Telecom Services" (or "BSTS"). In addition, the BSTS is essential to maintain a high availability of HONI's mission critical business applications. HOTelecom shall provide the Services described herein through the Integrated Technology Management Center ("ITMC").

In performing the Services described in this Schedule, HOTelecom shall comply with HONI's policies and standards as may be applicable to HOTelecom in respect of the said Services and which policies and standards have been provided by HONI to HOTelecom on the Effective Date of the Agreement. The parties acknowledge and agree that HONI shall be entitled to unilaterally amend the provisions of the said policies and standards or create new policies and standards throughout the Term of the Agreement that may be applicable to the Services described herein and HONI shall provide HOTelecom with 30 days' written notice of any such amendments and/or new policies and standards prior to the implementation of said amendments and/or new policies and standards and such amendments and HOTelecom shall comply with said amendments and/or new policies and standards commencing on the 31st day after the date of the notice referred herein.

2. DESCRIPTION OF SERVICES

HOTelecom shall perform the following Services related to the monitoring, management and operation of BSTS, as may be required by HONI:

1. Alarm Based Services
2. Coordinated Network Management
3. Systems Analysis Services
4. Carrier/Vendor Management Services

2.1 ALARM BASED SERVICES

2.1.1 Network Monitoring

- Monitor alarms from BSTS equipment and systems on a 24 hours / 7 day basis utilizing the ITMC or as required through the HOTelecom back-up control centre.
- Create trouble reports for alarms that require corrective action based on the following categorization of alarms:

SEVERITY LEVEL	DEFINITION	EVENT RESPONSE
1	**An incident or problem causing total loss or severe degradation of network services.**	7 X 24
2	**An incident or problem causing partial degradation to network services**	7 X 24
3	**An incident or problem causing minor impact to network services.**	Business Hours
4	**An incident or problem causing no impact to network services.**	Business Hours

- Restore failed or degraded telecommunications services remotely if possible.

- Assess, troubleshoot or co-ordinate troubleshooting, including engagement of second/third level engineering support, to restore BSTS services, as well as provide status updates to HONI designated personnel with respect to the restoration efforts.

2.1.2 Support for Trouble Calls & Corrective Maintenance

- Provide operational support, on a 24 hour / 7 day basis, for trouble calls and corrective maintenance activities on all failed or degraded telecom services and equipment. Includes operational acceptance of replacement equipment or systems associated with trouble calls and corrective maintenance activities.
- Provide technical expertise to identify root causes, formulate corrective action plans and take charge of implementing the plan.
- Provide technical support and coordination, to the dispatched (internal or external) technical resources, in restoring failed or degraded services and effectively manage the technical resources to achieve the following HONI designated service restoration targets:

Severity Level	Service Restoration Target
1	Less than 4 hours
2	Within 8 business hours
3	Within 5 business days
4	Within 10 business days

- The severity rating of a problem ticket may be increased at the request of an authorized HONI representative in order to support business requirements.
- Perform analysis of, and prepare reports for, all BSTS "Severity Level 1 Incidents".

2.1.3 Notification

- Monitor the actions of HONI's various third party telecommunications vendors as well as the broader Canadian and US telecommunications industry and advise HONI of any issues that may impact the BSTS.

2.1.4 Emergency Response Planning & Execution

- Assist, as requested by HONI, in the planning for large scale emergency situations affecting a large portion of or, in a worst case situation, the entire HONI Electrical Network.
- Having regard to HONI's emergency response plans, provide operational support for large scale critical situations which result in HONI activating its Incident Command Centre (ICC) and/or its Emergency Operations Centre (EOC).
- Activate the telecommunications component of the ICC to provide updates to HONI with respect to the resolution of the large scale critical situations until achievement of the resolution.
- Provide HONI with an on-call single point of contact at a senior management level to interact with HONI's ICC and/or EOC.
- Work with HONI to test the various emergency response plans as scheduled by HONI.
- Review the test results of the emergency response plans with HONI, identify any deficiencies and update the said plans as required by HONI.

2.1.5 Additional Deliverables: Alarm Based Service

- Provide real-time email distribution of all Severity 1 incidents trouble tickets to a HONI-provided distribution list.
- Within 5 business days of a Severity 1 incident, draft an "Incident Investigation Report" which will include a description of the incident, sequence of events, root cause analysis and corrective actions taken. In consultation with HONI, the format of this report may be modified as required by HONI.

- Ensure that HOTelecom's Senior Management, including the President, will be available on-call to deal with escalation or emergency situations.
- HOTelecom will notify HONI of any meetings HOTelecom has scheduled with third party carriers to discuss substandard service and assist in developing recommendations to improve the overall reliability of the service delivery to enable HONI to attend if it deems desirable.
- As required by HONI, HOTelecom will participate in HONI meetings to report on ITMC activity levels.

2.2 COORDINATED NETWORK MANAGEMENT

2.2.1 Change Management

- Provide HONI with technical expertise to assist HONI in formulating change plans and in implementing the changes.
- Develop and maintain change management processes and measures that facilitate timely and controlled change for BSTS infrastructure.
- Ensure that standard telecommunications industry methods and techniques are used for efficient handling of changes, so that change related problems are prevented. Change management activities include acceptance, classification, assessment and planning, coordination and evaluation.
- Review all changes that are introduced into HONI's environment to ensure they are engineered, tested, commissioned and supported according to jointly defined HONI and HOTelecom standards for quality and performance.
- Establish and chair regular Change Advisory Board (CAB) meetings with affected stakeholders who want to attend such meetings.
- HOTelecom will document and review with HONI all changes to HONI's teleprotection system. The documentation will specify the reason for the change, impacts of the change, risks associated with the change, testing done, back-out plans, technical assessment, and management/risk assessment.
- Develop and maintain release management processes and measures that facilitate timely and controlled change (through regular meetings).
- Determine release strategies, controls, and co-ordinate the release of network hardware and software into the live environment.
- Coordinate operational acceptance and commissioning of new or replacement equipment/systems associated with minor projects.
- Perform twenty-four (24) site/network move/add/changes per year in conjunction with Inergi/Bell staff.

2.2.2 Configuration Management

- Maintain and update configuration parameters and elements of each element of the BSTS network.
- Maintain up-to-date configuration documentation for every change implemented.
- Ensure configuration changes including drawings are documented in order to maintain the capability to enable re- configuration of services to maintain adequate operational control of infrastructure systems and components.
- Provide regular back-ups for the element configuration parameters and elements of the BSTS network.

2.2.3 ITMC Support for Preventative Maintenance Program

- Provide support for HONI's BSTS network hardware and software preventative maintenance program, including assistance in writing business cases to justify expenditures.
- Recommend vendor upgrades and patches, and perform such upgrades and patches as directed by HONI.

- Provide First Level (Incident Management), Second Level (Problem Management) and Third Level (Vendor Management) technical support that includes on- site deployment of staff or management of vendor personnel necessary to resolve problems.
- Manage hardware and software maintenance for BSTS-related applications; work with hardware and software vendors and co-ordinate the installation, upgrade and maintenance of hardware and software; monitor vendors' service and performance to confirm compliance with the vendors' respective SLA; perform hardware and software maintenance outside of vendor support contracts.
- Provide corrective maintenance and repair for warranty and non-warranty components of the BSTS network; take necessary actions to coordinate repair of the failed component of the BSTS network to working order.

2.2.4 Operating Support System (OSS)

- HONI contributed and therefore has access to the development of the HOTelecom Operating Support System (OSS) which has four elements:
  - An inventory management system (Granite) for the BSTS wide-area network (HWAN)
  - Outside Plant (OSP)/fibre inventory system (Telcordia Network Engineer)
  - Network management system for HWAN and voice switches (HP Openview)
  - Service Management system (HP Service Desk) as adopted by PSTS and HOTelecom's commercial network for the HWAN. This includes incident management through trouble tickets, problem management, and change management functions.
- The OSS is vital to support the day-to-day ITMC operational functions including management and updating of network alarms, management of incidents [trouble tickets], and outage and change requests.

2.2.5 Additional Deliverables: Coordinated Network Management

- Due to the dynamic nature of telecom, coordinate on an as-need basis meetings with third party service providers and stakeholders in HONI to review overall roles and accountabilities to maximize an integrated approach to BSTS operations.
- Provide Change Management process, deliverables and documentation to HON upon their request.
- Maintain the OSS system applicable to the BSTS (does not include the OSP) with current software releases and provide appropriate access, to designated HONI personnel.

2.3 SYSTEMS ANALYSIS SERVICES

2.3.1 Security Management

- HOTelecom will familiarize itself with the current HONI IT security policies, and any subsequent updates provided by HONI to HOTelecom, and adhere to and follow the said policies.
- Provide security management services that include monitoring, reporting, and support incident resolution and escalation.
- React to, and resolve, network security incidents caused by viruses, hardware and software failures, or hackers.
- Provide HONI Corporate Security with copies of HOTelecom's security reports as requested by HONI, including reports dealing with long distance call records.
- Rectify security incidents or audit reports that identify gaps in security as required by HONI.
- Takes corrective actions with regard to security incidents, as required and directed by HONI.
- Escalates problems as they are identified to HONI's Corporate Security.

- Provide HONI security personnel with access to the BSTS to investigate specific security incidents and or security breaches.
- Carry out virus scanning and anti-spam filtering of incoming internet mail.
- Deploy and/or upgrade security-related network components in accordance with HONI's Infrastructure requirements. This includes enhance port security for Bill 198 Compliance.
- Provide ongoing maintenance and support to HONI deployed VPN concentrators.
- Proactively check vendor WEB sites and download and apply network security patches as provided by vendors.
- Intrusion Detection Service – detect unauthorized network access (e.g. INET)

2.3.2 LAN/WAN Services

- Manage HONI's LAN/WAN infrastructure including: providing support for audits, providing corrective service updates, and interfacing with vendors to ensure service quality.
- Establish operating practices used to support the provision of LAN/WAN services.
- Manage network hardware maintenance; work with hardware vendors and co-ordinate the installation, upgrade and maintenance of (existing) hardware.

2.3.3 Software Release Management

- Make recommendations to HONI with regard to software releases on all routers, switches and firewalls
- Manage the upgrade of the software on all routers, switches and firewalls as directed by HONI.

2.3.4 Performance Management

- Provide operational monitoring of system parameters, such as link capacity, collect performance statistics and system logs to determine historical and trend analysis.
- Assist HONI in developing recommendations and plans with regard to the BSTS capacity and performance issues.
- Provide HONI with a reactive data collection, analysis and make recommendations with respect to the BSTS's capability to deal with unexpected system capacity or performance issues.

2.3.5 Internet Services (IP Address Management)

- Provide Public IP address management
- Provide commissioning, managing, monitoring, and maintenance of firewalls and log files
- Manage external WWW access (blocking and monitoring)
- Operate and administer HONI's network components that provide the Internet Services, LAN/WAN interface, mail relay and WWW proxy services
- Manage hardware maintenance; work with hardware vendors, and co-ordinate the installation, upgrade and maintenance of hardware
- Assist HONI in establishing operating practices and infrastructure used to provide the Internet Services.
- Perform Backup and Recovery services, user account Management, Security and Access Controls, as well as performance management.
- Perform virus scanning for Internet emails and spam blocking

2.3.6 Additional Deliverables: System Analysis Services

- Provide monthly activity reports with regard to the Intrusion Detection System ("IDS") and firewall.

- Provide software release recommendations to the designated HONI contact and upon HONI's acceptance of the recommendations provide HONI with a written report on any resulting activity.
- Provide, as required by HONI, Performance Management reports.
- Perform Quarterly Critical Cyber Asset (CCA) and Critical Cyber Asset Information (CCAI) Access verification as per NERC CIP requirements.

2.4 CARRIER/VENDOR MANAGEMENT SERVICES

With the numerous components in the BSTS system and the extent of HONI's various networks spread across its vast operating territory, there are numerous third party carriers who provide various telecommunications and equipment services to HONI. HOTelecom will be the single-point of contact for management of the third party providers.

2.4.1 Carrier Contract Management

- HOTelecom will negotiate, on behalf of HONI, best commercial terms and conditions governing all carrier contracts for HONI circuits
- HOTelecom will manage the contracts during the term of the contracts
- HOTelecom will attempt to leverage all of HONI's telecommunications purchases to obtain the best possible price to achieve the desired HONI telecommunication solution. This may include recommendations such as the use of alternative carriers and/or product solutions.

2.4.2 Carrier Circuit Management

- HOTelecom will be HONI's single-point of management for all BSTS requirements for third party telecommunications circuit services. HONI will direct HOTelecom with regard to what circuits are to be procured and HOTelecom will interact with the various HONI approved carriers in an effort to execute the following:
  - Circuit ordering
  - Circuit out-ordering
  - Coordination of the carrier invoice payment and reconciliation
  - Cost allocation and distribution to HONI directed end-accounts/projects
  - Investigating any billing discrepancy and taking corrective action against any errors in billing by third party providers
  - Liaise with third party providers to claim any applicable service credits
  - Maintenance of records of service billing and payment history
  - Provide support for billing and cost inquiries on specific leased circuits when requested by HONI

2.4.3 3rd party Maintenance Contract Management

- HONI has various third party contracts with vendors of equipment that form the third level of support when resolving incidence that affects HONI's various networks. Some of these contracts include: Significant Event Notifications System, Voice Recorders at the OGCC, and UPS Maintenance contracts.
- As directed by HONI, HOTelecom will negotiate these support contracts and coordinate the payment of the contracts.

2.4.4 Bell Field Services

- Participate on HONI's designated committee's (Operations and Executive) overseeing the implementation of the outsourcing initiative to Bell Canada.
- Negotiate and administer HONI's contracts with third party providers, including resolving billing issues, violations of service level agreements, application for and collection of credits, and monitoring of delivery performance.
- Coordinate "lessons learned" meetings with third party providers to assess performance and make recommendations for service improvement.

- Liaise with the appropriate HONI personnel as designated by HONI in the field to facilitate implementation of work packages.
- Assist HONI in developing policies and procedures to effectively facilitate third party providers' delivery of the contracted services.

2.4.5 Additional Deliverables: Carrier/Vendor Management Services

- HOTelecom will administer meetings with third party carriers when determined necessary by HOTelecom. HOTelecom will draft, and provide to HONI, minutes of the meetings describing invoicing errors under investigation and resolution steps with the third party carrier.
- HOTelecom will provide a monthly report to HONI of the current month and year to date costs of all HONI circuit purchases and identify if any specified HONI account is over a HONI defined variance threshold. HOTelecom shall ensure that such reports will show a breakdown of costs by services and vendors will and will be distributed to the HONI provided distribution list.
- HOTelecom will provide status reports regarding the third party Maintenance contracts.

3. Pricing

The services listed in this Schedule have been priced as follows:

	2011	2012
Alarm Based	$ 1,366,664.47	$ 1,442,924.35
Coordinated Network Management	$ 1,140,499.44	$ 1,204,139.31
Systems Analysis Services	$ 1,921,102,.01	$ 2,028,299.50
Carrier/Vendor Management Services	$ 1,049,470.48	$ 1,108,030.93
Total BSTS Charge	**$ 5,477,736.40**	**$ 5,783,394.09**

Schedule "C"

Receiving Party Security Safeguards Regarding Confidential Information Received from the Disclosing Party

The Receiving Party shall protect the Confidential Information by security safeguards appropriate to the sensitivity of the information.

1) The Receiving Party shall protect the Confidential Information against such risks as loss or theft, unauthorized access, disclosure, copying, use, modification or destruction, through appropriate security measures, regardless of the format in which it is held.

2) All of the Receiving Party's Representatives with access to the Confidential Information shall be contractually required to respect the confidentiality of that information.

3) The Receiving Party acknowledges and agrees that the nature of the safeguards will vary depending on the sensitivity, amount, distribution and format of the information, and the method of storage. The Receiving Party shall ensure that more sensitive information will be safeguarded by a higher level of protection.

4) The Receiving Party shall ensure that methods of protection will include:

(a) physical measures, for example, locked filing cabinets and restricted access to offices;

(b) organizational measures, for example, controlling entry to data centers and limiting access to information on a "need-to-know" basis;

(c) technological measures, for example, the use of passwords and encryption; and

(d) investigative measures, in cases where the Receiving Party has reasonable grounds to believe that the Confidential Information is being inappropriately collected, used or disclosed by anyone whom in law the Receiving Party is responsible.

THIS AGREEMENT made in duplicate as of the 1st day of January, 2012 (the "Effective Date").

BETWEEN:

HYDRO ONE NETWORKS INC.
(the "Services Provider")

- and -

HYDRO ONE REMOTE COMMUNITIES INC.
(the "Services Recipient")

1.0 PREFACE

This Agreement is intended to identify the services that are to be provided to the Services Recipient by the Services Provider in accordance with the terms and conditions herein. Except as otherwise specified, the term of this Agreement shall be for a period of 1 year commencing on the Effective Date.

2.0 SERVICES

The Services Provider shall provide the following types of services to the Services Recipient, which collectively constitute the Services and which are more particularly described in Schedule "A" attached hereto, as may be required by the Services Recipient from time to time during the term of this Agreement:

- Forestry services
- Work Methods and Training services
- Metering services
- Provincial Lines services
- Safety services
- Fleet services
- Environmental services
- Engineering Services
- Flight safety services
- Distribution Planning Technical services
- Joint Use services
- Health and Safety Services

3.0 DEFINITIONS

In this Agreement, including the recitals and Schedules hereto, in addition to terms defined elsewhere in this Agreement, unless there is something in the subject matter or context inconsistent therewith, the following words shall have the following meanings:

(a) "**Agreement**" means this Agreement between the Services Recipient and the Services Provider and shall include Schedules "A", "B", "C", "D", "E" and "F" attached hereto and any amendments to the body of this Agreement and to the Schedules.

(b) **"Substantial Performance of the Services"** means the point at which the Services are ready for use or are being used by the Services Recipient for the purpose intended.

4.0 FEES PAYABLE

(a) The price for the performance of the Services described in Schedule "C" hereto shall be as specified in the said Schedule "C" and shall include any sales and use taxes as may be applicable. In the event that the parties agree that the Services Recipient shall pay the Services Provider for the Services on a time and materials basis, such time and materials basis shall be in accordance with the Services Provider's 2012-2013 hourly rates by job category and fleet rates, which hourly rates and fleet rates may be amended from time to time by mutual agreement of the parties. The parties acknowledge and agree that the Services Recipient has received the Services Provider's 2012-2013 hourly and fleet rates from the Services Provider.

The parties agree that the price for the Services shall be paid by the Services Recipient to the Services Provider by means of monthly electronic journal transfers which shall be reflected in the applicable books and records of each party or by direct time reporting through Hydro One Inc.'s payroll system.

(b) The parties acknowledge and agree that they qualify as specified members of a closely related group under subsection 156(1) of the *Excise Tax Act (Canada)*, as amended (the "Act") and have jointly executed a Form GST25, to make an election under subsection 156(2) of the Act to deem the purchase and sale of the Services to be made for nil consideration for purposes of HST. For the purposes of this Agreement, "HST" means the federal Harmonized Sales Tax chargeable in accordance with Part IX of the *Excise Tax Act* (Canada), as amended, or any similar value-added tax that may be applicable during the term of this Agreement to the Services to be provided hereunder.

5.0 REPRESENTATIONS AND WARRANTIES

(a) The Services Provider represents and warrants that:

(i) it has all the necessary corporate power, authority and capacity to enter into this Agreement and to perform its obligations hereunder;

(ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Provider;

(iii) all staff employed in the performance of the Services shall have the qualifications, expertise and experience which could reasonably be expected of staff of a services provider performing work similar to the Services; and

(iv) all material, tools, machinery and equipment provided by the Services Provider to the Services Recipient as part of the Services shall be new and of a quality best suited to the purpose required and their use subject to the approval of the Services Recipient.

(b) The Services Recipient represents and warrants that:

(i) it has all the necessary corporate power, authority and capacity to enter into this Agreement and to perform its obligations hereunder; and

(ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Recipient.

6.0 PERFORMANCE OF THE SERVICES

(a) **Access to Site:** For each type of Services to be performed, the Services Recipient shall provide the Services Provider with an opportunity to visit and examine the site at which the said type of Services are to be performed prior to commencement of the performance of the said type of Services. Upon commencement of performance of the said type of Services, the Services Provider shall be deemed to have represented and warranted, along with the representations and warranties in Section 5.0(a) above, that the Services Provider has visited and examined the site at which the said type of Services are to be performed and that the Services Provider has satisfied itself as to the form and nature of the site, the quantities and nature of the Services to be performed, the labour conditions existing in the area for the Services involved, facilities present on site, access to the site, the seasonal conditions limiting access to the site, the materials necessary for the performance of the Services, and any restrictions or barriers present at the site that would impact the performance of the Services and which the Services Provider was able to reasonably detect upon examination of the site.

(b) **Compliance with Standards, Specifications and Applicable Law:** The Services Provider shall perform the Services in a diligent and professional manner and shall comply with the Services Recipient's computer data management and data access protocols contained in the Services Recipient's documents entitled document entitled "Information Security Policy" (SP 0908 R1) dated January 17, 2012 and any amendments thereto which may be made from time to time by the Services Recipient. The Services Provider shall comply at all times with all statutes, regulations, by-laws, standards and codes as may be applicable to the Services Provider in respect of the Services and the performance of its obligations hereunder and it shall, at its own expense, obtain and maintain in good standing all permits and licences required by any authorities having jurisdiction to perform the Services.

The Services Provider shall also comply with the General Standards and Specifications set out in Schedule "A" attached hereto and the service levels identified in Schedule "C", as may be applicable, in its performance of the Services.

The Services Provider shall be responsible for coordinating all related work activities to be performed.

(c) **Input from Services Recipient:** The Services Recipient shall cooperate and provide any required input as might be requested by the Services Provider, on a timely basis, to facilitate the performance of the Services by the Services Provider. In addition, the Services Recipient shall disclose to the Services Provider on a timely basis any information within the Services Recipient's possession or control which may reasonably affect the ability of the Services Provider to meet its obligations under this Agreement.

(d) **Constructor:** The parties acknowledge and agree that the Services Provider shall be the "Constructor" of the Services performed within the meaning of the Occupational Health and Safety Act, R.S.O. 1990, c. 0.1, as amended and the regulations thereunder and shall have all of the responsibilities and liabilities of a "Constructor".

(e) **Safety and Security Measures:** When any part of the Services is to be performed at the Services Recipient's premises, all of the Services Provider's staff engaged in the performance of the Services at the said premises shall comply with the safety and security requirements and measures in effect at the said premises.

(f) **Cleanup:** The Services Provider shall maintain the location at which the Services are performed in a tidy condition and free from the accumulation of waste products and debris, other than that caused by the Services Recipient, its contractors or their respective employees. Upon completion of the Services, the Services Provider shall remove the material, tools, machinery and equipment and waste products and debris, other than those resulting from the work of the Services Recipient, its contractors and their respective employees.

(g) **Review and Inspection of the Services:** The Services Recipient shall have access to the Services at all times. The Services Provider shall provide sufficient, safe, and proper facilities at all times for the review of the Services by the Services Recipient. The Services Recipient may order any portion or portions of the Services to be examined to confirm that such work is in accordance with the requirements of this Agreement. If the work is not in accordance with the requirements of this Agreement, the Services Provider shall correct the work and pay the cost of examination and correction. If the work is in accordance with the requirements of this Agreement, the Services Recipient shall pay the cost of examination and restoration. No payment by the Services Recipient shall constitute an acceptance of any portion of the Services which are not in accordance with the requirements of this Agreement.

(h) **Defective Services:** The Services Provider shall promptly remove from the site at which the Services have been performed and replace or re-execute defective work that has been rejected by the Services Recipient as failing to conform to this Agreement whether or not the defective work has been incorporated in the Services and whether or not the defect is the result of poor workmanship, use of defective products, or damage through carelessness or other act or omission of the Services Provider. The Services Provider shall promptly make good other contractors' work destroyed or damaged by such removals or replacements at the Services Provider's expense. If, in the reasonable opinion of the Services Recipient it is not expedient to correct defective work or work not performed as provided in this Agreement, the Services Recipient may deduct from the amount otherwise due to the Services Provider the difference in value between the work as performed and that called for by this Agreement. If the Services Provider and Services Recipient do not agree on the difference in value, they shall follow the dispute resolution procedures outlined in Section 8.0 herein.

(i) **Meetings:** The parties agree to meet quarterly after the Effective Date to review performance, quality and timeliness of the Services provided by the Services Provider.

(j) **Emergency Priority:** Upon determination by the Services Recipient that the Services Recipient is in an emergency situation, the Services Provider shall give first priority to responding to the said emergency, in priority over any emergency response commitments that the Services Provider may have to a third party.

7.0 CHANGES TO SERVICES

Either party may request a change to the scope of work including work already in progress in accordance with this Section.

If either party desires a change in the work described in the Services, it shall complete and submit to the other party, a Change Notification Form (the "CNF") in the form attached hereto as Schedule "B". The CNF shall identify the reasons and impact (cost and schedule) of the change. The other party shall respond to the CNF no later than 10 business days after receipt thereof. In the event that the parties agree with the change in the scope of work, price and/or time for completion, the parties shall execute the CNF and the executed CNF shall be attached to this Agreement.

In the event that the parties agree on the change in the scope of work but do not agree on a revised price for the changed scope of work, the price shall be fixed on a time and materials basis in accordance with the Services Provider's 2012/2013 hourly rates as may be amended pursuant to this Agreement and the CNF shall be executed by the parties accordingly. The Services Provider shall provide the Services Recipient with an invoice for the said changed scope of work that is payable on a time and materials basis and the invoice shall include a description of the work performed, a breakdown of the number of hours worked and applicable hourly rates. The Services Provider shall also provide to the Services Recipient such other information and supporting documentation as the Services Recipient may reasonably require. Such invoices, information and supporting documentation shall at all reasonable times be open to audit, inspection and copying by the Services Recipient and shall be preserved and kept available by the Services Provider for audit by the Services Recipient until the expiration of two years from the completion date of the changed scope of work.

The Services Provider shall not be obligated to carry out any change in the scope of work and the Services Recipient shall not be obligated to pay for any change in the scope of work unless and until the relevant CNF has been executed.

8.0 DISPUTE RESOLUTION PROCEDURES

Any controversy, dispute, difference, question or claim arising between the parties in connection with the interpretation, performance, construction or implementation of this Agreement that cannot be resolved by a Director from each party (collectively "Dispute"), other than a Dispute regarding any change to the scope of work activities processed under Section 7.0 above, shall be settled in accordance with this Section. The aggrieved party shall send the other party written notice identifying the Dispute, the amount involved, if any, and the remedy sought, and invoking the procedures of this Section. The Presidents from each party shall confer in an effort to resolve the Dispute. If the Presidents are unable to resolve the Dispute within 5 business days after receipt of the written notice of the Dispute, then the parties shall submit the Dispute in writing to the President of Hydro One Inc. for resolution.

9.0 CONFIDENTIALITY AND INTELLECTUAL PROPERTY

(a) **Confidentiality**: Each party (the "Receiving Party") shall maintain in strict confidence this Agreement and the existence and contents thereof and all information, analysis, conclusions, drawings, reports, specifications or other information, proprietary or otherwise, whether transmitted orally, electronically or in written form, and received in furtherance of this Agreement from the other party (the "Disclosing Party") or any of the Disclosing Party's directors, officers, employees, consultants, agents or legal, financial or professional advisors (the "Disclosing Party Representatives") (collectively the "Confidential Information"). Except as permitted herein, the Receiving Party shall not publish, reproduce, or disclose, either directly or indirectly, the said Confidential Information to any third party and shall not use the said Confidential Information for any purpose other than for purposes of this Agreement without the prior written consent of the Disclosing Party. The Receiving Party may disclose the Confidential Information only to its shareholder, directors, officers, employees, consultants, agents or professional advisors (the "Receiving Party Representatives") having a need to know same and who have undertaken a like obligation to maintain its confidentiality.

For greater certainty, Confidential Information includes any and all personal information (as that term is defined in the Freedom of Information and Protection of Privacy Act (Ontario) and the Personal Information Protection and Electronic Documents Act (Canada), as they may be amended) and any and all information regarding a consumer, retailer, wholesale buyer, wholesale supplier, or a generator, provided by the Disclosing Party to the Receiving Party for purposes of this Agreement, whether or not such information was initially provided prior to the Effective Date.

The Receiving Party undertakes to protect and safeguard all Confidential Information in its possession or under its control and received by the Disclosing Party, in the manner described in Schedule "F" attached hereto. The Disclosing Party may, on reasonable notice, and during regular business hours, audit the information management practices of the Receiving Party to confirm compliance with the terms and conditions of this Section 9.0 and all applicable statutes, regulations, by-laws, standards and codes, as amended.

The Receiving Party undertakes to notify the Disclosing Party immediately upon discovery of any unauthorized use and/or disclosure of any of the Disclosing Party's Confidential Information, to co-operate with the Disclosing Party to help regain possession of such Confidential Information, and to prevent its further unauthorized use and/or disclosure.

The foregoing obligations with respect to confidentiality, use, reproduction, dissemination, publication and non-disclosure herein shall not apply to any information that:

(i) is previously known to or lawfully in the possession of the Receiving Party prior to the date of disclosure as evidenced by the Receiving Party's written record;

(ii) is independently known to or discovered by the Receiving Party, without any reference to the information or material;

(iii) is obtained by the Receiving Party from an arm's length third party having a bona fide right to disclose same and who was not otherwise under an obligation of confidence or fiduciary duty to the Disclosing Party or the Disclosing Party Representatives;

(iv) is or becomes public knowledge through no fault or omission of, or breach of this Agreement by, the Receiving Party or the Receiving Party Representatives; or

(v) is required to be disclosed pursuant to a final judicial or governmental order or other legal process, including, without limitation, an order of or legal process involving a regulatory authority such as the Ontario Energy Board.

The parties acknowledge and agree that the Confidential Information (other than this Agreement which shall be jointly owned by the parties) shall remain the sole and exclusive property of the Disclosing Party that has disclosed the Confidential Information, and the Disclosing Party shall retain all right, title and interest in and to the Confidential Information it has disclosed to the Receiving Party.

The Receiving Party agrees that it shall keep a record of written Confidential Information furnished to it by the Disclosing Party in a location separate from those locations where the Receiving Party has stored information in respect of other third parties for which it performs work and it shall advise the Disclosing Party of such location.

All Confidential Information furnished by the Disclosing Party (other than this Agreement), including that portion of the Confidential Information which is contained in analyses, compilations, studies or other documents prepared by the Receiving Party or by the Receiving Party Representatives, is the Disclosing Party's property and will be returned immediately to the Disclosing Party upon its request.

(b) **Intellectual Property:** Unless otherwise agreed, the Services Recipient shall obtain all rights, title and interests, including copyright ownership, to any reports and any other deliverable that is to be produced and delivered to the Services Recipient by the Services Provider in accordance with this Agreement and, subject to applicable legislation, and notwithstanding clause 9.0(a) above, the Services Recipient may use, disclose or modify such reports or deliverable in any manner it deems appropriate. The Services Provider shall not do any act which may compromise or diminish the Services Recipient's interest as aforesaid.

(c) **Survival of Obligations:** The obligations in this Section 9.0 shall forever survive the termination or expiration of this Agreement.

10.0 INSURANCE

The Services Provider shall maintain in full force and effect during the term of this Agreement and with financially responsible insurance carriers, the following insurance coverage and the insurance coverage specified in Schedule "E" attached hereto as may be applicable for any and all Services:

(i) Workers Compensation as required by *the Ontario Workplace Safety and Insurance Act, 1997,* S.O. 1997, c.16, Schedule A, as amended or similar applicable legislation covering all persons employed by the Services Provider for the Services performed under this Agreement. For U.S. employees, appropriate State Workers Compensation must be carried including Employer's Liability for a minimum limit of $5,000,000 U.S., with a Foreign Coverage Endorsement and, to the extent applicable, Jones Act and U.S. Longshoreman's and Harbor Workers coverage and FELA. To achieve the desired limit, umbrella or excess liability insurance may be used. A waiver of subrogation shall be provided by the insurers to the Services Recipient.

(ii) Automobile Liability Insurance, covering all licensed motor vehicles owned, rented or leased and used in connection with the Services to be performed by the Services Provider under this Agreement covering Bodily Injury and Property Damage Liability to a combined inclusive minimum limit of $5,000,000 and mandatory Accident Benefits. To achieve the desired limit, umbrella or excess liability insurance may be used.

(iii) Commercial General and Excess Liability Insurance with limits of $5,000,000 inclusive for both bodily injury, including death, personal injury and damage to property, including loss of use thereof, for each occurrence. To achieve the desired limit, umbrella or excess liability insurance may be used. This coverage shall specifically include, but not be limited to, the following:

a. Blanket Contractual Liability;
b. Damage to property of the Owner including loss of use thereof;
c. Pollution Liability coverage on at least a Sudden and Accidental basis;
d. Products & Completed Operations to be continuously maintained through the operational liability insurance.
e. Employer's Liability;
f. Non-Owned Automobile Liability; and
g. Broad Form Property Damage

Prior to the commencement of the performance of the Services under this Agreement, the Services Provider shall provide to the Services Recipient's representative and address noted immediately below, evidence of the minimum coverages required under this Section 10.0 in the form attached hereto as Schedule "D", noting the policy number and term and executed by a duly authorized representative of their respective insurers.

Manager, Risk and Insurance, Hydro One Networks Inc. 483 Bay Street, South Tower TCT 08, Toronto, Ontario M5G 2P5

With the exception of subparagraph (ii) above, all insurance coverages noted above shall specify that it is primary coverage and not contributory with or in excess of any other insurance that may be maintained by the Services Recipient.

The Services Recipient shall be included as a Named Insured subject to the Sole Agent provision under coverages noted in subparagraph (iii) above, but only to the extent to which the Services

Provider is liable to the Services Recipient for breach of its obligations under this Agreement. In addition, the parties acknowledge and agree that the insurance coverages noted in subparagraph (iii) above shall contain a cross liability clause and a severability of interests clause.

The parties further acknowledge and agree that the Insurance coverage described in this Section and provided for the Services Provider shall not be invalidated by actions or inactions of others.

11.0 LIABILITY

Unless otherwise agreed in writing, each party shall indemnify the other party and that other party's successors and assigns, directors, officers, employees, contractors and agents from and against all direct costs or damages attributable to the indemnifying party's performance and/or non-performance of its obligations under this Agreement and any amendments or additions thereto that are mutually agreed to in writing, whether arising from or based on breach of contract, tort, negligence, strict liability or otherwise. Notwithstanding any other provision of this Agreement, neither party shall be liable for any special, indirect or consequential damages or for economic loss, incurred by the other or by any third party claiming through or under the other.

The foregoing paragraph shall forever survive the termination or expiration of this Agreement.

12.0 AUTHORIZED REPRESENTATIVES

The authorized representatives of the parties hereto for purposes of this Agreement are the following:

HYDRO ONE REMOTE COMMUNITIES INC.
483 Bay St.
South Tower, 8th Floor
Toronto, Ontario
M5G 2P5
Attention: Una O'Reilly
Telephone: (416) 345-6698

HYDRO ONE NETWORKS INC.
483 Bay St.
South Tower, 8th Floor
Toronto, Ontario
M5G 2P5
Attention: Deb Vines
Telephone: (416) 345-5592

All correspondence, reports, documents and/or other communication concerning this Agreement, the Schedules attached hereto or any of the Services shall be directed to the attention of the authorized representatives noted above. Any notice permitted or required to be given hereunder shall be deemed to be sufficiently given if delivered personally, mailed or transmitted by fax to the attention of the authorized representatives at the addresses above, and any notice so given shall be deemed to have been made and received on the date of delivery or on the 5th business day following the day of mailing of same or on the day of transmission if transmitted during normal business hours, otherwise on the next business day, as the case may be.

13.0 FORCE MAJEURE

Except for the payment of any monies required hereunder, neither party shall be deemed to be in default of this Agreement where the failure to perform or the delay in performing any obligation is due to a cause beyond its reasonable control, including, but not limited to, an act of God, act of any federal, provincial, municipal or government action, or order of court or administrative or regulatory authority, civil commotion, strikes, lockouts and other labour disputes, fires, floods, sabotage, earthquakes, storms, ice storms and epidemics. As soon as a party anticipates that a force majeure event may occur which will delay or prevent it from performing any of its obligations under this Agreement, it shall promptly notify the other party and shall exercise all reasonable efforts to mitigate or limit the effect on the other party.

Once a party becomes subject to such an event of force majeure, it shall promptly notify the other party of its inability to perform, or of any delay in performing, due to an event of force majeure and shall provide an estimate, as soon as practicable, as to when the obligation will be performed. The party subject to the force majeure event shall also continue to furnish timely reports to the other party with respect to the force majeure event during the continuation of the said event and the said party shall exercise all reasonable efforts to mitigate or limit damages to the other party. The party subject to the force majeure event shall use its best efforts to continue to perform its obligations under this Agreement, as the case may be, and to correct or cure the event or condition excusing performance and when the said party is able to resume performance of its obligations thereunder, it shall give the other party written notice to that effect and shall promptly resume performance thereunder. The time for performing the obligation shall be extended for a period equal to the time during which the party was subject to the event of force majeure. The parties shall explore all reasonable avenues available to avoid or resolve events of force majeure in the shortest time possible.

Notwithstanding the two preceding paragraphs, the settlement of any strike, lockout, restrictive work practice or other labour disturbance constituting a force majeure event shall be within the sole discretion of the party involved in such strike, lockout, restrictive work practice or other labour disturbance and nothing in the two preceding paragraphs shall require the said party to mitigate or alleviate the effects of such strike, lockout, restrictive work practice or other labour disturbance.

14.0 ASSIGNMENT

Neither this Agreement nor any the rights and obligations hereunder may be assigned by either party hereto without the prior written consent of the other, which consent shall not be unreasonably withheld. Subject to the foregoing, this Agreement shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

15.0 AMENDMENTS

Any amendment, modification or supplement to this Agreement shall not be valid or binding unless set out in writing and executed by the parties with the same degree of formality as the execution of this Agreement. Notwithstanding the foregoing, the parties acknowledge and agree that the Services Recipient shall be entitled to unilaterally change the General Standards and Specifications attached hereto as Schedule "A" provided however that the parties shall negotiate in good faith the effect of any such changes to the scope of work, time for completion of the said scope of work and the price therefor, in accordance with the process outlined in Section 7.0 above.

16.0 ENTIRE AGREEMENT

This Agreement, together with Schedules "A", "B", "C", "D", "E" and "F" attached hereto, represents the entire agreement between the parties hereto respecting the subject matter hereto and supersedes all prior agreements, understandings, discussions, negotiations, representations and correspondence made by or between them respecting the subject matter hereto.

17.0 CONFLICTS

In the event of any conflict between this Agreement and Schedules "A", "B", "C", "D", "E" and "F", the provisions of the former shall prevail. In the event of any conflict amongst the Schedules, then the Schedules shall take precedence in the following order: (i) Schedule "C", (ii) Schedule "D"; (iii) Schedule "B"; (iv) Schedule "A"; (v) Schedule "E" and (vi) Schedule "F".

18.0 GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

19.0 SCHEDULES

Schedules "A", "B", "C", "D", "E" and "F" attached hereto are to be read with and form part of this Agreement.

20.0 RELATIONSHIP OF PARTIES

Nothing in this Agreement creates the relationship of principal and agent, employer and employee, partnership or joint venture between the parties. The parties agree that they are and will at all times remain independent and are not and shall not present themselves to be the agent, employee, partner or joint venturer of the other. No representations will be made or acts taken by either party which could establish any apparent relationship of agency, employment, joint venture or partnership and neither party shall be bound in any manner whatsoever by any agreements, warranties or representations made by the other party to any other person nor with respect to any other action of the other party.

21.0 COUNTERPARTS

This Agreement may be executed in counterparts and the counterparts together shall constitute an original.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE REMOTE COMMUNITIES INC.

Name: Peter Gregg
Title: Director
I have authority to bind the corporation.

HYDRO ONE NETWORKS INC.

Name: Sandy Struthers
Title: Director
I have authority to bind the corporation.

Schedule "A"

GENERAL STANDARDS AND SPECIFICATIONS

REVISION HISTORY

Date	Revision No.	Modification	Comments

TABLE OF CONTENTS

GSS #1 USED, REUSABLE AND WASTE MATERIALS

1.1 DEFINITIONS

1.1.1 Reusable Material

Where practical, the Services Provider shall reuse and re-deploy all material that is removed from service, provided such material is still in good operating condition and satisfies the criteria indicated in this GSS #1.

1.1.2 Waste Material

All other material that is removed from service will be considered to be waste material.

1.1.3 Recycling

Recycling means using waste material for purposes other than those for which the material was originally intended: it does not include destruction (such as incineration or burning as a supplementary fuel) or use as land fill.

1.2 EXPECTATIONS

Costs for the management of used material that is associated with capital projects, including the disposition of such material for re-deployment, re-use and/or disposal, shall be identified in Schedule "C", where applicable (e.g. the cost to pickup, transport and dispose of PCB fluids and contaminated waste).

The Services Provider shall handle all reusable material removed from service in a manner that is consistent with Schedule "C" (where identified) and in accordance with applicable legislation, statutes, by-laws, codes, guidelines, regulations, and Hydro One procedures. Such material shall be stored in a safe and secure manner to minimize any risk of physical damage and/or of environmental or health and safety impacts associated with such damage, pending re-deployment or shipment to storage.

The Services Provider shall manage and dispose of waste material in a manner that is consistent with Schedule "C" (where identified) and in accordance with applicable legislation, statutes, by-laws, codes, guidelines, regulations, and Hydro One procedures. Preference will be given, where practical, to disposal options that maximize the potential for recycling.

1.3 CRITERIA FOR USED MATERIALS

Material	Criteria and Action
Poles	• Distribution poles shall be less than 16 years old • Transmission poles shall be less than 12 year old • Penta-treated poles shall not be reused • All wood poles no longer required by the Services Recipient shall be returned to the appropriate service/operations centre. • All wood poles no longer required by the Services Recipient shall be disposed of appropriately.

Material	Criteria and Action
Pole-Mounted Transformers	• Must be no older than 1974 • If less than 200ppm PCB, a pole-mounted transformer shall be drained, refilled and re-tested after 2 years • If bushings are side-mounted they shall be recycled • Pole-Mounted Transformers shall be visually inspected (remove cover). If the inspection indicates no damage to the coil, they shall be returned for repair • If a transformer fails inspection and is over 50ppm PCB, it shall be scrapped as PCB-contaminated waste
Pad-mount Transformers	• All such transformers shall be returned for repair • If less than 200ppm PCB, a pad-mounted transformer shall be drained, refilled and re-tested after 2 years • Pad-mounted transformers shall be visually inspected. If the inspection indicates no damage to the coil, they shall be returned for repair • If a transformer fails inspection and is over 50ppm PCB, it shall be scrapped as PCB-contaminated waste
Line Voltage Regulators	• This includes any 50A line regulator retained for parts; all others shall be returned for repair • If less than 200ppm PCB, line voltage regulators shall be drained, refilled and re-tested after 2 years • Line voltage regulators shall be visually inspected (remove cover). If the inspection indicates no damage to the coil, they shall be returned for repair • If a regulators fails inspection and is over 50ppm PCB, it shall be scrapped as PCB-contaminated waste
Oil Circuit Reclosers	• If less than 200ppm PCB, the reclosers shall be drained, refilled, and re-tested after 2 years • Reclosers shall be visually inspected (remove cover). If the inspection indicates that there is no damage, they shall be returned for repair • If a recloser fails inspection and is over 50ppm PCB, it shall be scrapped as PCB-contaminated waste
Metering Transformers / Units	• If less than 200ppm PCB, the units shall be drained, refilled and re-tested after 2 years • The units shall be visually inspected (remove cover). If the inspection indicates no damage to the coil, it shall be returned for repair • If a unit fails inspection and is over 50ppm PCB, it shall be scrapped as PCB-contaminated waste
Capacitors	• No PCB or Dielektrol I- or II-filled capacitors shall be reused • Capacitors shall not have an unknown PCB content unless permission is obtained from the Services Recipient. Some capacitors manufactured before January 1981 may contain PCB over 50 ppm.
Primary Conductors	• If less than 3/0, primary conductors shall be reused for extensions where the main line is of the same size • Before reusing, #2 shall be inspected for deterioration in the core • All other conductors shall be reused
Secondary Conductors/ Underground Cable	• Secondary Conductors/Underground Cables shall be reused if they pass an asset condition test • The units must contain no splices (in the underground cable) that test greater than 50 mg/kg PCB. In addition, end sections must not have come from terminations that test greater than 50 mg/kg PDB. • All secondary conductors shall be reused • No underground cables shall be reused if they are more than 10 years old
Submarine Cable	• No submarine cable shall be used if it is more than 5 years old

Material	Criteria and Action
Insulators	• All single piece porcelain pin insulators shall be reused (not other porcelain insulators): the intent is to replace insulators with silicone (polymer) types on 115 kv and 230 kv, where practical • Epac insulators shall not be reused • Cob porcelain post insulators shall not be reused
Cross-arms	***Distribution:*** • Cross-arms shall be reused if no apparent cracking or excessive aging is evident
	Transmission: • All wooden cross-arms shall be removed and disposed • All steel cross-arms shall be reused
Spool Bolts	• All spool bolts shall be reused
Switches	***Distribution:*** • No Kearney switches nor rigid polymeric insulator-type switches shall be reused
	Transmission: • All shall be 115 kV & 230 kV in-line polymeric switches • Only those switches that have tested satisfactorily shall be reused
Insulating Oil	• All insulating oil is required to meet specification for Voltesso 35 Category "B" oil OR have the potential to be upgraded to meet this specification • Insulating oil must contain less than 50 mg/kg PCB by laboratory test

1.4 FINANCIAL TREATMENT OF USED MATERIAL

The Services Provider shall report all units removed from service. When used materials are reused for capital or maintenance work, the materials shall be charged to the work as if the material was new.

1.5 INFORMATION REQUIREMENTS

The Services Provider shall record and report the following information to the Services Recipient according to a schedule specified in the description of Services in Schedule "C" to the Agreement.

- Transformer Units by MVA/kVA and voltage, whether installed, salvaged or disposed as waste (new or used material)
- Regulator/Rabbit Units by kVA and voltage, whether installed, salvaged or disposed as waste (new or used material)
- Recloser Units by voltage and interrupting rating
- Switches by manufacturer type and voltage rating
- Capacitor Units by total MVA/kVAR, including voltage, number of phases and control type, whether installed, salvaged or disposed as waste (new or used material)
- Transmission line structures and distribution pole units by type (steel or wood pole), height, age, ownership (Hydro/Bell Canada/MEU), Bell Canada I.D. (exchange, route and pole number), structure number
- Conductor Units by size, type and length, whether installed, salvaged or disposed as waste (new or used material)
- Cable size, type, length and voltage, whether installed, salvaged or disposed as waste (new or used material)
- Record or retained material, including volumes scrapped, reused or repaired and reused.

(1) Note: The information listed above is required for accounting purposes at the plant.

1.6 WASTE MATERIAL

For waste material that is classified as either hazardous or as liquid industrial, the Services Provider shall follow specific requirements. These requirements are detailed in the appropriate legislation (e.g., *Environmental Protection Act, Occupational Health & Safety Act*) and internal policies/standards/procedures (e.g., Waste Management Manual). Records of hazardous waste volumes shipped to disposal shall be reported to the Services Recipient and such records shall be maintained according to established records management. All hazardous waste material shall be handled and managed with due regard for worker and public health and safety.

GSS #2 ENVIRONMENT, HEALTH & SAFETY REQUIREMENTS

2.1 GENERAL STATEMENT OF COMPLIANCE AND REQUIREMENTS

The Services Recipient expects to receive the same level of compliance, where applicable, for services provided under the Agreement. As a minimum, the Services Provider shall comply with the following:

- Federal and Provincial legislation;
- Municipal by-laws;
- The Services Recipient's Safety Rules and Policies;
- All legacy Ontario Hydro policies, procedures and standards still applicable to the Services Recipient;
- Policies approved by the Services Recipient's Board of Directors;
- The Services Recipient's Environment, Health & Safety Management policies, procedures and associated standards; and
- The Services Recipient's Policy for Health & Safety Incident Management.

2.2 ENVIRONMENTAL REQUIREMENTS

2.2.1 General Requirements for Management of the Environment

For managing the environment, the Services Provider shall abide by the following:

a) The Services Provider shall design, construct, operate, maintain and decommission the Services Recipient's facilities in accordance with standards to be developed by the Services Recipient and made available to the Services Provider.

b) The Services Provider shall perform all work on behalf of the Services Recipient in a manner that is consistent with the principles of an environmental management system including, as a minimum:
   - Assigning and communicating individual accountability and responsibility for the environment;
   - Engaging qualified employees and agents (i.e. with respect to knowledge, training and experience to perform the work assigned) to perform the work;
   - Having emergency preparedness and response capability suitable to the range of issues that could be encountered during the course of the work detailed in Schedule "C" to the Agreement;
   - Inspecting, maintaining and monitoring equipment, facilities and employees during the course of providing the Services;
   - Reporting environmental incidents, performing incident investigations and implementing corrective actions in response to an incident; and
   - Periodically reviewing environmental management processes and making improvements, as necessary.

c) The Services Provider shall consider the environmental implications of all work and integrate environmental considerations into its plans for all work that could have an adverse effect on the environment.

d) In performing the services, the Services Provider shall:
   - Use materials, products and equipment that are government-approved, industry-accepted and sustainable (i.e., from environmental, economical, social perspectives). The Services provider shall give preference, where practical, to materials and products that have low toxicity and do not contain substances that are included on Schedule 1 (List of Toxic Substances) of the *Canadian Environmental Protection Act* or on the Priority Substances Lists 1 and 2.
   - Maximize the efficient use of resources;
   - Be energy efficient; and
   - Conserve heritage resources.

e) The Services Provider shall, when included in the project scope, prepare and implement project-specific environmental specifications when the prevention or mitigation of predicted environmental impacts can only be assured by the application of a specific damage prevention or mitigation approach. Such environmental management specifications will be consistent with applicable standards.

f) The Services Provider shall prepare and provide to the Services Recipient, project-specific, As-Constructed Reports for all projects that require any one or more of the following, where the Services Recipient and the Services Provider shall mutually determine which environmental authorities or industry or legislative standards shall be used in developing such reports:

- Environmental permits;
- Environmental considerations or special commitments;
- Access agreements, construction property agreements and special conditions that contain a record of the final environmental state of the project;
- Documentation of significant environmental situations or activities; and
- Property rights summaries.

g) The Services Provider shall provide to the Services Recipient, the records identified in (b), (e) and (f).

2.2.2 Environmental Incident Management

The Services Provider shall consistently respond and report environmental incidents and ensure that all such incidents involving Distribution or Transmission assets and lands are managed effectively. Included as "environmental incidents" are:

- Vandalism, natural events (such as lightning, ice, and wind) and animal activity;
- Accidental or inadvertent public contact with electrical system assets or equipment (such as motor vehicle accidents, ladders into lines);
- Mechanical/electrical failure for no apparent reason or unknown cause;
- Asset management standards that are subsequently shown to have contributed to the incident; and
- Operation or maintenance activities in accordance with accepted standards that would not normally be expected to cause leaking, equipment failure or malfunction.

The Services Provider shall document all environmental incidents (such as spills and fires) involving the Services Recipient's assets and/or lands (owned or easement) (e.g., complete a Hydro One Environmental Incident Report). The Services provider shall enter this information into the Web Environmental Incident Collector (WebEIC) database and/or any other similar database, as directed by the Services Recipient.

The Services Provider shall consistently respond to, and report, environmental incidents. The Services Provider shall also ensure that all environmental incidents involving the Services Recipient's assets and land are managed effectively.

2.3 HEALTH & SAFETY

2.3.1 Potential Hazards

There are two significant hazards associated with work on the Services Recipient's assets:

- Hazards inherent to working in proximity to electrical equipment; and
- Hazards inherent to working at heights.

The Services Provider may also work in buildings or at sites where hazardous substances are present. Inventories and assessments of potentially hazardous or hazardous substances have been completed for the majority of the Services Recipient's sites; they are available to the Services Provider on request. All requests should be made locally.

The Services Provider shall manage all hazards associated with all Services with the Services Recipient.

2.3.2 General Requirements for the Management of Health & Safety

The Services Provider shall perform all work on behalf of the Services Recipient in a manner that is consistent with the principles of a health and safety management system including, as a minimum:

(a) Assigning and communicating individual accountability and responsibility for health and safety;
(b) Engaging qualified employees and agents (i.e. with respect to knowledge, training and experience to perform the work assigned) to perform the work;
(c) Having emergency preparedness and response capability suitable to the range of issues that could be encountered during the course of the work detailed in Schedule "C" to the Agreement;
(d) Inspecting, maintaining and monitoring equipment, facilities and employees during the course of providing the Services;

(e) Reporting safety events, performing event investigations and implementing corrective actions in response to an event;

(f) Periodically reviewing health and safety management processes periodically and making improvements, as necessary; and

(g) Submitting the records identified in (e) and (f) to the Services Recipient.

The Services Provider shall ensure the protection of the public in the performance of all work for the Services Recipient.

2.3.3 Health & Safety Event Management

The Services Provider shall consistently respond and report all health and safety events involving the Services Recipient staff and/or members to the Services Recipient. Included as health and safety events are:

- Vandalism, natural events (such as lightning, ice, and wind) and animal activity;
- Accidental or inadvertent public contact with electrical system assets or equipment (such as motor vehicle accidents, ladders into lines);
- Mechanical/electrical failure for no apparent reason or unknown cause;
- Asset management standards that are subsequently shown to have contributed to the event; and
- Operation or maintenance activities in accordance with accepted standards that would not normally be expected to cause leaking, equipment failure or malfunction.

<u>Schedule "B"</u>

CHANGE NOTIFICATION FORM (No. xxx)

Date issued: xx-xxx-xx

Services Description		
Project ID	**Services Recipient**	**Services Provider**
Scope Change		
Reason for Change		
Schedule/Delivery Impact		
Impact on Price	**Old Price:** **New Price:**	
Approvals	**Hydro One Networks Inc.**	**Hydro One Remote Communities Inc.**
Effective Date of Change:		
Proposed By:		
Date:		
Reviewed By:		
Date:		
Approved by:	(Authorized Signatory)	(Authorized Signatory)
Date:		

Schedule "C"

Description of Services

FORESTRY SERVICES:

A. Description of Services:

The Services Provider shall provide the Services Recipient with the following forestry services:

1. Upon the Services Recipient's request, perform condition assessments of the Services Recipient's distribution systems, and prepare a proposed multi-year forestry maintenance cycle for the Services Recipient.

2. Upon the Services Recipient's request, perform condition assessments of the Services Recipient's assets, and prepare cost estimates depicting at a minimum: labour hours and type (Technician, Supervisory, Maintainer, HH, etc.), TWE rates and requirements, material costs, board and lodging expenses, transportation costs excluding air charters, and applicable sundries in sufficient detail necessary for work scheduling and business planning purposes. As well, the amount of joint use right of way and associated clearing costs shall be identified by the Services Provider within the estimates.

3. Site monitoring of line clearing and/or brush control performed by third party contractors retained by the Services Recipient for servicing its rights of way in First Nation Communities as identified by the Services Recipient's representative. As required, the Services Provider shall clear lines and remove brush within the limits of approach to make it safe for First Nation Community contractors to clear lines and control brush outside the limits of approach.

4. Perform line-clearing in all communities within the Services Recipient's designated territory and brush control on all assets located on provincial land as identified by the Services Recipient. As well, from time to time as requested by the Services Recipient, the Services Provider will perform brush control activities on First Nation lands when the First Nation is unable to unwilling to perform the task to meet applicable standards.

5. Perform brush control measures including herbicide application where applicable in all station yards within the Services Recipient's territory.

6. Assist with the development of the line clearing and brush control specifications and standards necessary for negotiations with third party contractors and First Nations Administration.

7. Assist in providing notification of forestry services to communities and attaining necessary permissions from property owners or custodians.

8. Obtain various work permits such as cutting rights and stumpage fees on Crown Land or from companies with assigned cutting rights, fuel wood and stream crossing permits from the Ministry of Natural Resources, or transportation/crossing arrangements with the Canadian National Railway or Canadian Pacific Railway for the performance of the forestry services.

9. Provide forestry support for emergency line clearing and trouble calls.

10. Provide forestry support for line clearing and brush control as required for work driven by extensions, connections, betterments and upgrades to distribution facilities.

11. Provide documentation and support to enable the Services Recipient to obtain Purchase Service Agreements (PSA) with the Power Workers Union (PWU) for line clearing in First Nation communities, as well as, necessary sole source and procurement documentation.

12. Prepare and provide detail cost estimates of identified planned work to the Services Recipient by April 15, 2012 in order to facilitate business planning for the following year as may be needed. The Services Recipient shall identify the work to be estimated by March 1, 2012. Other estimates that may be required throughout the year and will be prepared and provided 15 days after the request is received by Forestry Services Scheduling.

13. The Services Provider shall prepare and provide necessary PSA and procurement documentation for First Nation brushing contracts by April 15, 2012. The Services Recipient will be responsible for managing and completing PSA negotiations with the PWU and approve procurement documents as it deems necessary.

14. The Services Provider shall complete 100% of the annual planned line clearing and brush control operations by December 15, 2012. The details of the annual plan will be discussed at a meeting between the Services Recipient's Customer Service Manager or delegate and the Services Provider's Forestry Superintendent - Northern Zone or Territory Manager delegate and shall be held before the end of February, 2012 where the parties will confirm activities and expectations for the year.

B. **Price and Terms of Payment**:

The Services Recipient shall pay the Services Provider for the forestry services on a time and materials basis in accordance with the wage schedules of the Services Provider.

The above fees payable excludes all airfares and lodging and contractual obligations as required under the collective agreement for the Services Provider's costs while working at the Services Recipient's facilities, which shall be paid directly by the Services Recipient. The Services Recipient will arrange and pay for the scheduling of charter flights to the Services Recipient's sites.

C. **Service Levels**:

The Services Provider shall report the following information in writing to the Services Recipient by December 15, 2012:

- Kilometers of line controlled / treated in each community
- Number of helicopter landing sites cleared
- Total actual cost of the forestry services in each community
- Instances of customer objection to use of herbicides and/or treatment of vegetation by any method; such customer disputes shall be resolved by the Services Recipient if resolution could not be attained through the Services Provider's regular procedures
- Detailed work completion reports of line clearing and brush control in each community upon completion of project.

WORK METHODS AND TRAINING SERVICES:

A. Description of Services:

The Services Provider shall provide the Services Recipient, as required by the Services Recipient, with the following services related to specific job procedures outlining sequence, tools, resources, safety precautions, and hazards relating to job tasks (collectively, the "Work Methods") and trades/technical training support for distribution lines, customer service and station maintenance trades in accordance with the specific terms and conditions noted therein:

1. **Training Delivery**
   - The Services Provider will provide requested trades training for the Services Recipient.
   - The Services Recipient will provide the names of all employees working for the Services Recipient on a continual basis (i.e. new employees/apprentices) to the Services Provider.
   - The Services Provider shall schedule the training in such manner so as to meet the Services Recipient's reasonable needs. In order for the Services Provider to meet these needs, the Services Recipient shall submit a "Request for Training" form 30 days in advance of the training requested, which form may be amended from time to time by the Services Provider. The "Request for Training" form is posted, and can be accessed, electronically at the Hydro One Plugin Website>HSE>Training>Forms (http://hydronet.hydroone.com/Pages/default.aspx).
   - The Services Recipient shall determine and notify the Services Provider as to whether or not training will be delivered in a centralized or decentralized manner.
   - The Services Recipient will also notify the Services Provider with as much time as possible in the event there is a need for Training course cancellation, but in any event no less than 10 Business Days' prior written notice. The Services Recipient acknowledges and agrees that if it does not provide the Services Provider with a minimum 10 Business Days prior written notification of training course cancellation, the Services Recipient will bear all costs that may have been incurred by the Services Provider for training development, scheduling, travel, and accommodations related to said training course.

The Services Provider and the Services Recipient shall comply with the following accountability matrix:

Accountabilities Matrix	
Task	**Accountability**
Approval of Course Content	Services Recipient
Course Participants	Services Recipient
Course Instructors	Services Provider
Course Scheduling	Services Provider
Development of Course Material	Services Provider
Quarterly Report of all training activities to Services Recipient	Services Provider

2. **Records Maintenance**
   - The Services Provider shall input all of the Services Recipient's training data into the Services Provider's centralized database within ***(10) ten*** Business Days after the Services Provider's receipt from the Services Recipient of the completed "Training Record Input Form", which form may be amended from time to time by the Services Provider. The "Training Record Input Form" is posted, and can be accessed,

electronically at the Hydro One Plugin Website>HSE>Training>Forms (http://hydronet.hydroone.com/Pages/default.aspx).

- The training record maintained by the Services Provider will include all legislated, Corporate-mandated and trade specific training. Other topics will be included at the request of the Services Recipient.
- All training records/information shall be accessible via the Hydro One Learning Management System (view only – HOLMs on the Hydro One Plugin Website - (http://hydronet.hydroone.com/Pages/default.aspx) by the Services Recipient.

3. **Training Material Development**
   - The Services Recipient will identify to the Services Provider the skill sets required, including all mandatory-training requirements. The Services Recipient shall inform the Services Provider requests to develop new training material by completing the "WM&T Creation of New Projects" Form, which form may be amended from time to time by the Services Provider. The "WM&T Creation of New Projects" Form is posted, and can be accessed, electronically at the Hydro One Plugin Website>HODS>SP-0699 (http://hydronet.hydroone.com/Pages/default.aspx).
   - The Services Provider will produce and maintain all course materials as directed by the Services Recipient, including a list of Subject Matter Experts participating and/or completing the project.
   - The modification of training packages will be developed by the Services Provider within a timeframe agreed to by both parties, after the Services Provider's receipt of signed terms of reference from the Services Recipient. The Services Provider shall ensure that the modifications shall include such items as new equipment, legislative changes, performance requirements and new procedures as requested by the Services Recipient.

4. **Communication**
   - The Services Recipient's training contact will be identified to the Services Provider by no later than October 30, 2012 and will speak with the Services Provider's representative identified in the body of the Agreement on a quarterly basis to review the Services Provider's performance of the work methods and training services as required by the Services Recipient. The Agenda for these quarterly meetings will be developed by the Services Recipient and forwarded to the Services Provider.
   - A course catalogue and availability of training courses for the coming year will be provided by the Services Provider to the Services Recipient on an ongoing basis. This is currently available to the Services Recipient through HOLMs.

5. **Work Methods and Procedures Development**
   - The Services Provider will provide assistance to the Services Recipient in the development of new Work Methods and/or procedures as required by the Services Recipient.
   - The development and assessment of new work procedures/tools will be a joint effort between the parties based on a terms of reference document which shall be provided by the Services Recipient to the Services Provider with timeframes for completion established by both parties.
   - The Services Provider will provide the Services Recipient with access to all work procedures and bulletins developed by the Services Provider.

B. Price and Terms of Payment:

The Services Recipient shall pay the Services Provider for the Work Methods services on a time and materials basis in accordance with the wage schedules of the Services Provider.

In addition, the Services Recipient will pay the cost of all material, travel and per diem costs incurred by the Services Provider related to the provision of these work methods and training services. The scheduling of charter flights to the Services Recipient's sites will be arranged and paid for by the Services Recipient. The Training Specialist/officer's time includes development and scheduling and shall be paid by the Services Recipient. The Training Manager's costs, including managing these work methods and training services, shall be paid by the Services Recipient in accordance with the hours in the chart above.

C. Service Levels:

- Training schedules/course availabilities for all required training (which are currently provided/available through the Services Provider's HOLMS database) shall be issued by the Services Provider within 90 days after the date first written above.
- The Services Provider shall provide the Services Recipient with post-course assessments of trainee accomplishment/performance to ensure employee competencies in areas trained.
- The Services Provider shall ensure that 95% of the scheduled training shall be provided to the Services Recipient prior to expiry of the term of the Agreement.

METERING SERVICES:

A. Description of Services

The Services Provider shall provide the Services Recipient with the following metering services:

- manage the Services Recipient's annual Meter Reverification and Sample Program : issuing work orders to the Services Recipient's field forces for meter change-outs of recalled (due meters), seal expired (overdue), sample and failed meters;
- verify/reverify and seal meters to meet the Services Recipient's field demand for meter change-outs;.
- manage physical meter inventory by maintaining adequate stock of metering equipment to meet the needs for annual meter reverification, new services, service upgrades and replacement of failed or defective/damaged meters;
- acquire / provide data to the Services Recipient as required by the Services Recipient to resolve meter disputes and customer complaints, including, as required, metering documentation and documentation about hardware;
- manage meter requirements for change-outs of reported damaged or defective meters (i.e. defective replacements) and disputed meters. The Services Provider shall issue meter equipment within 4 working days of a field request therefore from the Services Recipient;.
- maintain and track accurate meter and instrument transformer records in the Customer Service System in compliance with the requirements in the federal Electricity and Gas Inspection Act as amended;
- develop metering specifications/standards and provide engineering support to the Services Recipient;
- provide access to training and conferences for Remotes Metering and Distribution Engineering Technician and other Services Recipient staff;
- liaise with Canada Revenue Agency on behalf of the Services Recipient including with respect to audit +and metering installation reporting.

The Services Provider shall provide the Services Recipient with a written report by no later than December 15, 2012 wherein it shall specify the cost and accomplishments of the metering services provided by its personnel for the said year.

B. Price and Terms of Payment:

The Services Recipient shall pay to the Services Provider a fee of $10,000.00 for the metering services

The parties acknowledge and agree that the payment terms are as specified in the Agreement.

C. Service Levels:

All metering services will be provided by the Services Provider in accordance with ISO 9001:2008 requirements.

PROVINCIAL LINES SERVICES:

A. Description of Services:

Demand Work and Trouble Repairs:

Subject to the Services Provider's availability of personnel and resources which shall be determined by the Services Provider in its sole discretion, the Services Provider shall, in accordance with the Services Recipient's request from time to time, maintain the Services Recipient's distribution system (which distribution system supplies customers in remote communities at voltages of less than 50kV) by providing the following activities, as may be requested by the Services Recipient:

- Customer connection/disconnection to/from the primary distribution system
- Trouble Call Response, power restoration and storm damage repairs
- Line layout, estimating and staking
- Service Layouts and Collections
- Power line maintenance, construction and repair
- Distribution system operation including application of the Work Protection Code
- Arc Facilities Management (ArcFM) technical trouble support

For the performance of the above-referenced provincial lines services, the Services Provider shall provide:

1. subject to staff availability, short duration release of up to a maximum of 2 Regional Line Maintainers (RLMs) to cover absence/augment crew size. The Services Recipient will contact the Services Provider (Customer and Business Service Manager) as soon as practical to identify the need for all resources;

2. trouble Call Response: provide work crew(s) from appropriate geographical locations (Thunder Bay, Ear Falls, Dryden, Kenora, Timmins) in response to customer trouble calls dispatched by either the Services Recipient's First Line Manager/Union Trades Supervisor lines or the Services Provider's Supervisor on call. Trouble Calls crews shall be provided by the Services Provider on short notice and are subject to availability;

3. subject to staff availability, Customer Demand Work: Provide work crew(s) from appropriate geographical locations (Thunder Bay, Ear Falls, Dryden, Kenora, Timmins) in response to customer connection/ minor line construction requests from the Services Recipient's First Line Manager;

4. subject to staff availability, Lines Technical Work: Provide an Area Distribution Engineering Technician, (ADET)/Metering Technician, or Line Technician for short duration work assignments upon request from the Services Recipient's First Line Manager;

5. respond to requests for distribution system technical services and engineering approval(s).

Planned Work:

The Services Provider will work with the Services Recipient's First Line Manager to include in the Services Provider's plans the availability and supply of personnel and resources to meet the requirements for planned work in the Services Recipient's service territory. The Services Provider shall, in accordance with the Services Recipient's work plans respond to the Services Recipient's requests, from time to time, to maintain the Services Recipient's distribution system (which distribution system supplies customers in remote communities at voltages of less than 50kV) by providing the following activities, as may be requested by the Services Recipient:

- Line layout, estimating and staking
- Service Layouts and Collections
- Power line maintenance, construction and repair
- Sentinel light installation, repair or removal
- Distribution system operation including application of the Work Protection Code
- Meter Installation and reverification and sample meter changes
- Processing requests for railway and water crossing approvals
- Joint Use Consultation/Technical support
- Technical services in support of the Hydro One distribution line standards
- Engineering approval(s) and updates to the Distribution line standards
- MDx (Distribution system) data collection training and assistance
- Training and technical support for implementation and maintenance of ArcFM.

For the performance of the above-referenced provincial lines services, the Services Provider shall:

1. include in the Services Provider's plans, and make available, staff for short durations (up to 6 weeks) release of up to a maximum of 2 RLMs to cover absence/augment crew size;

2. include in the Services Provider's plans, and make available, staff for short durations (up to 6 weeks) work crew(s) from appropriate geographical locations (Thunder Bay, Ear Falls, Dryden, Kenora, Timmins) in response to customer connection/ minor line construction, MDX data collection requests from the Services Recipient's First Line Manager;

3. include in the Services Provider's plans, and make available, staff for short durations (up to 6 weeks), Area Distribution Engineering Technician, (ADET)/Metering Technician and Line Technician upon request from the Services Recipient's First Line Manager;

4. respond to requests for distribution system technical services and engineering approval(s).

Supervision, Administration, Health and Safety

The Services Provider shall comply with the following supervision, administration, health and safety, and work management conditions in its performance of the provincial lines services:

1. All training, supervision and administration costs associated with staff on rotation shall be accounted for within the Services Recipient's work program. Core/mandatory training shall be scheduled within the regular work location whenever possible.

2. Whenever possible, the Services Provider will provide advice for all Lines and Technician training requirements. Also, whenever possible, the Services Provider will provide notification for all Lines and Technician training that will be delivered at the local Hydro One Thunder Bay office. It is agreed that the Services Recipient will pay for all costs incurred by its staff to attend this training. Costs associated per Services Recipient employee will be agreed to prior to the Services Recipient employee attending the training.

3. Health and Safety incidents involving crews under the Services Provider's direct supervisory control shall be the responsibility of the Services Provider's lines operations centres.

Transport and Work Equipment (TWE) Provision

1. The Services Recipient will provide TWE at all fly-in sites for types of work, i.e. Trouble Calls, other Line work, Technician work.

2. For demand work at road access sites, trouble calls and new connects, the Services Provider will supply TWE, the cost of which will be included in the fees payable by the Services Recipient.

3. For Technician work at road access sites, the Services Provider will supply TWE and the costs of TWE will be included in the fees payable by the Services Recipient.

B. Price and Terms of Payment:

Except as specifically provided herein, the following fees:

- At the end of each quarter of the Term, the Services Recipient shall pay the Services Provider for the Services provided by the Services Provider an amount equal to the greater of (i) $28,125.00 and (ii) the total of the amounts payable for each type of Service provided by the Services Provider during the said quarter.
- The amount payable at the end of each quarter as described in the foregoing bullet hereunder shall be exclusive of applicable taxes.

Demand Work and Trouble Repair

- Time and Materials including any required overtime.
- The Services Recipient pays for all costs associated with fly-in work.

Planned Work

- Time and Materials including any required overtime.
- The Services Recipient shall pay all incremental travel/overtime costs for the assignment of personnel from locations other than Thunder Bay for Lines, Technician and Customer Service personnel.
- In addition, the Services Recipient will pay the Services Provider's costs of the administration and reporting in respect of these provincial lines services, material, transport and work equipment, travel and per diem costs related to the provision of these provincial line services other than trouble call response services.

C. Service Levels:

Demand Work – 100% of requests shall be satisfied within 14 days' after receipt of the request
Service Level for Demand Work:
For short duration Line and Technician work – an email request will be provided by the Services Recipient to the Services Provider for all planned work assignments. Fourteen days prior written notice is required to be provided by the Services Recipient to the Services Provider for cancellation/withdrawal of staff/crews committed to short duration assignments. The Services Recipient may request personnel and resources of up to 2 RLMs and 2 Distribution Line/Metering Technicians.

Trouble Response – 24/7
Service Level for Trouble Call Response:
Subject to the immediately proceeding sentence, the Services Provider shall restore service to customer and/or community within 24 hours after receipt by the Services Provider of the Trouble Call from the Services Recipient. The Services Recipient acknowledges and agrees that during major storm events, the Services Provider's staff may not be available to meet the 24-hour response timeframe, however, staff not involved in emergency work will be dispatched immediately and other staff will be dispatched as soon as conditions allow.

Scope of Trouble Calls that will be responded to by the Services Provider:

- 24 calls/year
- Work is mainly transformer re-fusing and switch re-fusing
- Each call is typically 3-4 hours of work and 6-8 hours of travel

<u>Planned Work</u>
The Services Provider will meet with the Services Recipient's FLM quarterly and include the Services Recipient's personnel and resource needs in the Services Provider's personnel and resource planning and scheduling. In order to facilitate integration of resource requirements, a meeting will be held during the first quarter of the term with the Services Provider's Zone 7 contact person where the Services Recipient will make known all major planned work for the year. Planned work not identified during this meeting will be subject to staff availability; however, efforts will be made to accommodate and may include resourcing from other parts of the Province.

The Services Recipient's contact person for work assignments is First Line Manager (FLM) Customer Service/Lines and Scheduling.

The Services Provider's contact person for work assignments in Zone 7 is the Business Manager; for other Zones, it will be the Superintendent, his delegate or scheduling group as agreed by the parties. Special requirements, scheduling conflicts and service level performance concerns will be discussed with the respective Zone Superintendent.

SAFETY SERVICES:

A. Description of Services:

The Services Provider shall provide the Services Recipient with following services related to safety:

1. Incident Reporting

The Services Provider shall assist the Services Recipient's Line Management with the proper and timely notification of safety related incidents for:

- Corporate reporting requirements
- Workplace Safety and Insurance Board
- Ministry of Labour

2. Incident Investigation

The Services Provider shall provide assistance/leadership for the investigation of high MRPH (Maximum Reasonable Potential for Harm) incidents and other lower incidents as requested by the Services Recipient's Line Management, the scope of which activities shall include, but not be limited to, the following:

- Prepare an initial bulletin notice of incident occurrence
- Assist with the Terms of Reference for incident investigations
- Being an investigation team member/leader
- Review/present the final report of the incident investigations to the Services Recipient's Line Management
- Assist with the development of an action plan to implement investigation recommendations

3. Health and Safety Management

The Services Provider shall assist the Services Recipient's Line Management with the development and maintenance of the Services Recipient's Health and Safety Activities, in support of their Environmental Health and Safety Management System (EHSMS) which may include the following:

- conduct an annual review of the Services Recipient's EHSMS, provide analysis and make recommendations for improvements;
- identify Hydro One safety requirements and provide information/advice on legal and other requirements applicable to the Services Recipient's business;
- prepare/issue a quarterly newsletter of recent H/S legislative changes and developments affecting Remotes.

4. Compliance Reviews

In consultation with the Services Recipient's Line Management, coordinate and conduct an annual compliance review of the Services Recipient's legal and other requirements that pertain to health and safety. Where required, the Services Provider shall develop appropriate protocols for the evaluation of health and safety compliance, in accordance with the Services Recipient's EHSMS procedures. The Services Provider shall also prepare and provide to the Services Recipient a written report summarizing the findings of the compliance review within 3 weeks of the field visits.

5. **Miscellaneous Services**

The Services Provider shall:

- attend Safety Meeting presentations given by both parties and provide support on urgent items or significant rule and regulation changes
- provide Job Planning Assistance including site visits, upon request
- review quality of work process inspections performed by the Services Recipient and recommend improvements, upon request
- perform work process inspections upon request and provide results to the Services Recipient
- provide the Services Recipient with a monthly written report at the end of each month during the term of the Agreement wherein it will describe the costs and accomplishments of these miscellaneous services provided by its personnel for the said month.

B. Price and Terms of Payment:

The Services Recipient shall pay to the Services Provider a fee not exceeding $50,000 for the safety services, based on actual time and expenses incurred, in accordance with the hourly rates referred to in the Agreement.

In addition, the Services Recipient will pay the cost of the administration and reporting in respect of the safety services, material, travel and per diem costs related to the provision of the safety services. The Services Recipient will arrange and pay for the scheduling of charter flights to the Services Recipient's sites.

C. Service Levels:

None.

FLEET SERVICES:

A. Description of Services:

The Services Provider shall provide the Services Recipient with the following fleet management, maintenance, repair and rental services relating to the use of transport and work equipment:

a) Inspections, maintenance and repair of fleet transport and work equipment. The identification and completion of minor repairs and maintenance (under $500.00) will be the Services Recipient's responsibility and at the Services Recipient's expense.

b) Supply of fleet licensing and provision of insurance as per Hydro One Inc. requirements.

c) Advise on fleet planning and acquisition as per the Services Recipient's evolving requirements. Increase or decrease of fleet compliment will be reviewed annually and fees paid adjusted accordingly.

d) Supply the current transport and work equipment complement for the fee specified,

e) Co-ordinate the replacement program including assistance with justifications for additions and replacements to current complement.

B. Price and Terms of Payment:

The Services Recipient shall pay to the Services Provider the depreciation costs of the Services Recipient's vehicles and the Services Recipient's costs for fuel, labour and external repairs. The scheduling of charter flights to the Services Recipient's sites will be arranged and paid for directly by the Services Recipient.

C. Service Levels:

The Services Provider shall, on a monthly basis during the term of the Agreement, provide the Services Recipient with a written summary of the total fleet costs by transport and work equipment unit and a written monthly fuel usage report for any equipment, spare parts, material and fuel purchases made by the Services Recipient from the Services Provider using the fleet credit card.

ENVIRONMENTAL SERVICES:

A. Description of Services:

The Services Provider shall provide the Services Recipient with the following environmental services as required:

- Quarterly Legislative Review
- Compliance Reviews and compliance support
- Emission Calculations and verification
- Certificate of Approval Amendments
- Support for remediation projects
- Investigations of diesel fuel alternatives
- Waste Management support
- Emergency response support

B. Price and Terms of Payment:

The Services Recipient shall pay to the Services Provider the cost of time and materials required to perform these services.

C. Service Levels:

All environmental services will be provided by the Services Provider in accordance with a jointly agreed work plan. Quarterly reviews of progress to be performed.

ENGINEERING SERVICES:

A. Description of Services:

The Services Provider shall provide the Services Recipient with the following engineering services:

Webequie DGS Project
- Modify contractor drawings and incorporate them into Meridian
- Make up connection and elementary wiring diagrams, mechanical layout and architectural drawings

Station Drawings
- Develop mechanical, civil and architectural templates for plant Station Standards
- Develop connection wiring and elementary wiring diagrams for switchgear design that resembles the standards used by the Services Provider
- Review Station drawings and adjusting them to the Services Provider's standards and save them into Meridian

Arc Flash calculation and administrative process
- Validate, review and advise the Services Recipient on battery and charger system standardization
- Validate, review and advise the Services Recipient on SCADA communications solutions
- Assist in the development of Distributed Generation Connection Requirements

B. Price and Terms of Payment:

The Services Provider shall pay to Services Recipient for thee engineering services on a time and materials basis.

C. Service Levels:

None.

FLIGHT SAFETY SERVICES:

A. Description of Services:

The Services Provider shall provide the Services Recipient with the following services related to flight safety:

1. Monitor all aviation occurrences between the Services Recipient and the commercial passenger charter companies with which it contracts, which occurrences shall include but not be limited to the following:

   - Accidents, incidents or occurrences as defined in GEN 3.3 of the Aeronautical Information Publication and the Canadian Aviation Regulations

   - Non-airworthiness defects (*cosmetic repairs*) and airworthiness defects (*that would result in the aircraft being grounded until repaired*)

   - Feedback from the Flight Evaluation Report *(internal report used to provide feedback from passengers and pilots to the Services Recipient to identify aircraft and contract problems*)

   - All incidents deemed to be High MRPH (*High Maximum Reasonable Potential for Harm*)

   - occurrences of a lesser risk, low MRPH, and occurrences handled at the Services Recipient's local operations level in Thunder Bay; the Services Provider shall track these occurrences and the Services Recipient when the number of these occurrences becomes of concern.

2. Assess, control and respond to occurrence reports.

3. Provide Team Lead/key resource for all High MRPH incident investigations.

4. Provide charter contract administration of all technical job specifications along with liaison representation with the Services Recipient's Superintendent of Operations and maintenance for new pilot interviews as well as current pilot presentations.

5. Assist with the planning of and participate in the annual Flight Safety Staff Meeting which shall be arranged by the Services Recipient at a date and time to be mutually agreed upon by the Services Recipient and the Services Provider. The Services Provider will arrange for its "Flight Safety Officer" to attend and present new and current information relevant to flight charter contracts and the aviation industry including a presentation of related flight safety information, approved pilot and aircraft lists, audit and monitoring results, and corrective action feedback.

6. Perform pre-award audits and provide a summary report on any fixed wing charter carriers prior to the award of any contract for passenger charter air service.

B. Price and Terms of Payment:

The Services Recipient shall pay to the Services Provider a fee of $10,000 for the Services.

In addition, the Services Recipient will pay the cost of the administration and reporting in respect of this Contract, material, travel and per diem costs related to the provision of the Services described in this Contract. The scheduling of charter flights to the Services Recipient's sites will be arranged and paid for by the Services Recipient.

C. Service Levels:

The Services Provider will report on a monthly basis the cost and accomplishment of the Services provided by its personnel.

DISTRIBUTION PLANNING TECHNICAL SERVICES:

A. Description of Services:

The Services Provider shall provide the Services Recipient with the following services related to distribution planning:

- conduct fuse co-ordination studies;
- carry out distribution system modeling;
- conduct short circuit/fault analyses;
- conduct tingle voltage studies;
- produce engineering drawings for unique situations/requirements;
- conduct voltage irregularity analyses;
- distribution Lines and Metering construction standards support;
- special distribution engineering standard support;
- GIS data maintenance and migration support;
- distribution design technology and tool support;
- distribution metering technical support;
- distribution lines technical support; and
- support with ESA Regulation 22/04.

B. Price and Terms of Payment:

The Services Provider shall pay to Services Recipient for thee engineering services on a time and materials basis.

C. Service Levels:

None.

JOINT USE SERVICES:

A. Description of Services:

The Services Provider shall provide the Services Recipient with the following services in order to assist the Services Recipient with its Joint Use Program:

(a) Support and participate with the Services Recipient's staff in drafting, negotiating, tracking and arranging for execution of joint use agreements for the Services Recipient as required and requested by the Services Recipient;
(b) add, remove and change permits or similar authorizations and update and/or remove documents as required by the Services Recipient;
(c) issue invoices to tenants/licensee for the Services Recipient in accordance with the Services Recipient's joint use agreements and manage the related accounts receivables accordingly;
(d) manage and input information concerning the Services Recipient's joint use agreements into the Services Provider's "Joint Use" database and maintain said information separate from the Services Provider's own joint use information;
(e) liaise with the Services Provider's "Joint Use" database on behalf of the Services Recipient; and
(f) provide training to the Services Recipient's staff with regard to the Database, joint use agreements and other joint use activities, all as requested by the Services Recipient.

B. Price and Terms of Payment:

The annual price for the performance of the Services for the Services Recipient shall be $15,000.00, exclusive of any sales and use taxes, as may be applicable.

C. Service Levels:

None.

HEALTH AND SAFETY SERVICES:

A. Description of Services:

The Services Provider shall provide the Services Recipient with the following services in order to assist the Services Recipient with its health and safety program:

(i) WSIB Claims Management

- support the supervisor in WSIB reporting and early and safe return to work;
- provide guidance and interpretation of WSIB policy and legislation to the Services Recipient's line management;
- manage the financial impact of the WSIB claim cost statement and submit monthly premium remittance the Workplace Safety and Insurance Board on behalf of the Services Recipient.

(ii) Care Management

- support the Services Recipient's sick leave program that deals with sick leaves greater than 5 days and that is medically supported;
- support (via the Services Provider's Disability Management Consultant, the affected supervisor and employee through a third party provider while the employee is absent from work due to a major medical absence with a view to assisting in providing the right care at the right time for the right outcome

(iii) Long Term Disability (LTD)

- provide the Services Recipient with LTD case management services including application assignment to LTD payroll and ongoing case management and rehabilitation activities through a third party provider

(iv) Audiometric Testing

- support the Services Recipient's supervisors to carry out an Audiometric Program through the Health, Safety and Environment Management System (HSEMS) that establishes the requirement to implement operational controls to minimize a health and safety risk

(v) Respiratory Screening Program

- support the Services Recipient's supervisors in determining how respirators will be managed at the Services Provider's premises

(vi) Ergonomic Assessments

- support the workplace parties through the Workstation or Vehicle Ergonomic Assessment process.

(vii) Physical Demands Analysis (PDAs)

- develop and maintain Physical Demand Analyses to assist with the Services Recipient's employees fitness to return to work

B. Price and Terms of Payment:

The annual price for the performance of the Services for the Services Recipient shall be $10,000.00 exclusive of any sales and use taxes, as may be applicable.

C. Service Levels:

None.

Schedule "D"

COMMERCIAL GENERAL LIABILITY INSURANCE CERTIFICATE
SUPPLY ONLY TRADES

Issued in favour:				
Insured:				
XXXXXXXXXXXXXXXXXXXXXX				
XXXXXXXXXXXXXXXXXXXXXX				
XXXXXXXXXXXXXXXXXXXXXX				
XXXXXXXXXXXXXXXXXXXXXX				
This is to certify that policies of insurance listed below have been issued to the insured named above for the period indicated and cover operations of the insured in connection with the **SERVICES BEING PERFORMED UNDER THE MASTER AGREEMENT**				
		Effective	**Expiration**	
	Policy	**Date**	**Date**	
Type of insurance	**Number**	**MM/DD/YR**	**MM/DD/YR**	
Commercial General Liability				$5,000,000
(X) Blanket Contractual Liability				$5,000,000
(X) Broad Form Property Damage				$5,000,000
(X) 3rd Party Property damage including loss of use				
(X) Sudden and Accidental Pollution Liability coverage				
(X) Products and Completed operations				
(X) Employer's Liability				
(X) Non-Owned Automobile Liability				
Automobile Liability				
(X) Owners				$5,000,000

Special Condition

Commercial General Liability policy shall i) include Hydro One Remote Communities Inc. as a named insured subject to sole agent provisions and ii) be primary non-contributing with and not excess of any other insurance available to Hydro One Remote Communities Inc. iii) contain a cross liability and severability of interest clause

The Insurer agrees to notify the certificate holder by registered mail not less than 30 days prior to any material change, which reduces or restricts cover, cancellation, termination or non-renewal.

Date:	
Name of Insurer:	
By: Authorized Official of the Insurance Company	
Print Name and Title of Above Official	

Schedule "E"

ADDITIONAL INSURANCE COVERAGES

1.01 Commercial General Liability and Excess Liability Insurance on an occurrence basis in an amount not less than $5,000,000 inclusive for both bodily injury, including death, personal injury and damage to property, including loss of use thereof, for each occurrence. To achieve the desired limit, umbrella or excess liability insurance may be used.

Coverage shall specifically include, but not be limited to, the following

i) Blasting, pile driving, caisson work, underground work;
ii) Products & Completed Operations including a provision that such coverage to be maintained for a period not less than 24 months post Final Performance;
iii) Errors and omissions integral to the operation of the Insured;
iv) Tenant's Legal Liability;
iv) Pesticide Liability; and
v) Rail Liability.

1.02 Contractor's Equipment Insurance covering equipment and tools, owned, rented or leased for the full replacement cost of such equipment on an "All Risks" basis including marine based risk subject to normal exclusions.

1.03 Pollution Liability Insurance: When remediation or abatement is included in the work, the Services Provider shall purchase a policy with limits of not less than $5,000,000 per occurrence covering bodily injury and property damage claims, including cleanup costs as a result of pollution conditions arising from the Services Provider's and/or its subcontractors' operations and completed operations. Completed operations coverage will remain in effect for no less than 3 years after final completion. The policy will have a retroactive date before the start of the work. To achieve the desired limit, umbrella or excess liability insurance may be used.

1.04 Errors & Omissions Insurance: Engineering, Architectural, Design or other Professionals or Consultants and the EPCM (Engineering, Procurement, Construction and Maintenance). The Services Provider shall, at all times, maintain in full force and effect professional liability insurance in an amount not less than $10,000,000 aggregate limit covering the period from start of conceptual design through to completion of the project and for a further discovery period of 5 years from the issuance of the certificate of Final Completion.

1.05 Transit insurance (including loading, unloading and storage during the course of transit including storage at secondary processing facilities) against All Risks of physical damage to the property of the Services Recipient in the Services Provider's care, custody and control until such property is received on the Services Recipient's site.

1.06 Aircraft and watercraft liability insurance with respect to owned or non-owned aircraft and watercraft if used directly or indirectly in the performance of the Services, including use of additional premises, shall be subject to limits of not less than $5,000,000.00 inclusive per occurrence for bodily injury, death and damage to property including loss of use thereof and limits of not less than $5,000,000.00 for aircraft passenger hazard. Such insurance shall be in a form acceptable to the Services Recipient. The policies shall be endorsed to provide the Services Recipient with not less than 15 days' notice in writing in advance of cancellation, change, or amendment restricting coverage. To achieve the desired limit, umbrella or excess liability insurance may be used.

1.07 Such other insurance as is mutually agreed upon between the Services Recipient and the Services Provider.

Where any of the above coverages are required for any of the Services, the Services Provider shall be bound by and comply with the following:

1. Prior to the commencement of the performance of the Services, the Services Provider shall provide the Services Recipient with a certificate of insurance completed by a duly authorized representative of its insurer certifying that at least the minimum coverages required here are in effect and that the coverages will not be cancelled, nonrenewed, or materially changed by endorsement or otherwise so as to restrict or reduce coverage, without 30 days' advance written notice by registered mail, or courier, receipt required, to:

   Manager, Risk & Insurance Department, Hydro One Remote Communities Inc. 483 Bay Street, TCT8, South Tower , Toronto, Ontario. M5G 2P5

   If any of the coverages are required to remain in force after final payment, an additional certificate evidencing continuation of such coverage will be submitted with the Services Provider's final invoice.

2. All deductibles shall be to the account of the Services Provider.

3. All insurance noted above shall specify that it is primary coverage and not contributory with or in excess of any other insurance that may be maintained by the Services Recipient.

4 A waiver of subrogation shall be provided by the insurers to the Services Recipient for coverages 1.02 (Contractor's Equipment).

6. The Services Recipient shall be included as a Named Insured under coverages noted in 1.03 (Pollution Liability) subject to Sole Agent provisions.

7. Coverages noted in 1.03 (Pollution Liability) shall contain a Cross Liability clause and a Severability of Interests clause.

8. Coverage provided for shall not be invalidated by actions or inactions of others.

Schedule "F"

Receiving Party Security Safeguards Regarding Confidential Information Received from the Disclosing Party

The Receiving Party shall protect the Confidential Information by security safeguards appropriate to the sensitivity of the information.

1) The Receiving Party shall protect the Confidential Information against such risks as loss or theft, unauthorized access, disclosure, copying, use, modification or destruction, through appropriate security measures, regardless of the format in which it is held.

2) All of the Receiving Party's Representatives with access to the Confidential Information shall be contractually required to respect the confidentiality of that information.

3) The Receiving Party acknowledges and agrees that the nature of the safeguards will vary depending on the sensitivity, amount, distribution and format of the information, and the method of storage. The Receiving Party shall ensure that more sensitive information will be safeguarded by a higher level of protection.

4) The Receiving Party shall ensure that methods of protection will include:

(a) physical measures, for example, locked filing cabinets and restricted access to offices;

(b) organizational measures, for example, controlling entry to data centers and limiting access to information on a "need-to-know" basis;

(c) technological measures, for example, the use of passwords and encryption; and

(d) investigative measures, in cases where the Receiving Party has reasonable grounds to believe that the Confidential Information is being inappropriately collected, used or disclosed by anyone whom in law the Receiving Party is responsible.

THIS AGREEMENT made in duplicate this 17th day of January, 2012 (the "Effective Date").

BETWEEN:

HYDRO ONE NETWORKS INC.
(the "Services Provider")

- and -

HYDRO ONE TELECOM INC.
(the "Services Recipient")

1.0 PREFACE

This Agreement is intended to identify the services that are to be provided to the Services Recipient by the Services Provider in accordance with the terms and conditions herein. Except as otherwise specified, the term of this Agreement shall be for a period of 1 year commencing on the Effective Date.

2.0 SERVICES

The Services Provider shall provide supply chain services to the Services Recipient, which collectively constitute the Services and which are more particularly described in Schedule "A" attached hereto, as may be required by the Services Recipient from time to time during the term of this Agreement.

3.0 FEES PAYABLE

(a) The annual price for the performance of the Services for the Services Recipient shall be $200,000, exclusive of any sales and use taxes, as may be applicable. The said annual price for the Services shall be paid by the Services Recipient to the Services Provider by means of monthly electronic journal transfers which shall be reflected in the applicable books and records of each party In addition, each Services Recipient shall pay for any material costs which the Services Provider, acting reasonably, incurs as a result of resources, services and products that the Services Provider must purchase and that are in addition to the Services Provider's existing resources, services and products, in order to provide the said Services Recipient with specific services it requires and requests.

(b) If at any time during the performance of the Services, the Services Recipient is of the opinion that there are deficiencies in the Services provided to it and/or that the price payable is in any way inaccurate, the Services Recipient shall pay the entire relevant price payable by it in full and its sole remedy shall be to follow the dispute resolution procedures outlined in Section 6.0 herein to determine what amount, if any, shall be refunded to the Services Recipient and/or what Services, if any, shall be rectified or redone by the Services Provider.

c) The parties acknowledge and agree that they qualify as specified members of a closely related group under subsection 156(1) of the Excise Tax Act (Canada), as amended (the "Act") and have jointly executed a Form GST25, to make an election under subsection 156(2) of the Act to deem the purchase and sale of the Services to be made for nil consideration for purposes of HST. For the purposes of this Agreement, "HST" means the federal Harmonized Sales Tax chargeable in accordance with Part IX of the *Excise Tax Act* (Canada), as amended, or any similar value-added tax that may be applicable during the term of this Agreement to the Services to be provided hereunder.

4.0 REPRESENTATIONS AND WARRANTIES

(a) The Services Provider represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder;
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Provider; and
- (iii) all staff employed in the performance of the Services shall have the qualifications, expertise and experience which could reasonably be expected of staff of a services provider performing work similar to the Services.

(b) The Services Recipient represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder; and
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Recipient.

5.0 PERFORMANCE OF THE SERVICES

(a) **Compliance with Standards and Applicable Law**: The Services Provider shall perform the Services in a diligent and professional manner and shall comply with the Services Recipient's computer data management and data access protocols contained in the Services Recipient's documents entitled "Information Security Policy" (SP 0908 R1) dated January 17, 2012 and any amendments thereto which may be made from time to time by the Services Recipient. The Services Provider shall comply at all times with the statutes, regulations, by-laws, standards and codes, as amended, as may be applicable to the Services Provider in respect of the Services and the performance of its obligations hereunder and it shall, at its own expense, obtain and maintain in good standing all permits and licences required by any authorities having jurisdiction to perform the Services.

(b) **Safety and Security Measures**: When any part of the Services is to be performed at any of the Services Recipient's premises, all of the Services Provider's staff engaged in the performance of the Services at the said premises shall comply with the safety and security requirements and measures in effect at the said premises.

(c) **Meetings**: The parties shall, after the Effective Date, meet at least twice a year during the term of this Agreement to review performance, quality and timeliness of the Services provided by the Services Provider pursuant to this Agreement.

6.0 DISPUTE RESOLUTION PROCEDURES

Any controversy, dispute, difference, question or claim arising between any of the parties in connection with the interpretation, performance, construction or implementation of this Agreement that cannot be resolved by a director or manager from each of the said parties (collectively "Dispute") shall be settled in accordance with this Section. The aggrieved party shall send the other affected party(ies) written notice identifying the Dispute, the amount involved, if any, and the remedy sought, and invoking the procedures of this Section. The Presidents of each affected party shall confer in an effort to resolve the Dispute. If the Presidents are unable to resolve the Dispute within 5 business days after receipt of the written notice of the Dispute, then the affected parties shall submit the Dispute to the President of Hydro One Inc. for resolution.

7.0 CONFIDENTIALITY AND INTELLECTUAL PROPERTY

(a) Confidentiality:

Each party (the "Receiving Party") shall maintain in strict confidence this Agreement and the existence and contents thereof and all information, analysis, conclusions, drawings, reports, specifications or other information, proprietary or otherwise, whether transmitted orally, electronically or in written form, and received in furtherance of this Agreement from any of the other parties (the "Disclosing Party") or any of the Disclosing Party's directors, officers, employees, consultants, agents or legal and other advisors (the "Disclosing Party Representatives") (collectively the "Confidential Information"). Except as permitted herein, the Receiving Party shall not publish, reproduce, or disclose, either directly or indirectly, the said Confidential Information to any third party and shall not use the said Confidential Information for any purpose other than for purposes of this Agreement without the prior written consent of the Disclosing Party. The Receiving Party may disclose the Confidential Information only to its shareholder, directors, officers, employees, consultants, agents or professional advisors (the "Receiving Party Representatives") having a need to know same and who have undertaken a like obligation to maintain its confidentiality.

For greater certainty, Confidential Information includes any and all personal information (as that term is defined in the Freedom of Information and Protection of Privacy Act (Ontario) and the Personal Information Protection and Electronic Documents Act (Canada), as they may be amended, and any and all information regarding a consumer, retailer, wholesale buyer, wholesale supplier, or a generator, provided by the Disclosing Party to the Receiving Party for purposes of this Agreement, whether or not such information was initially provided prior to the Effective Date.

The Receiving Party undertakes to protect and safeguard all Confidential Information in its possession or under its control and received by the Disclosing Party, in the manner described in Schedule "B" attached hereto. The Disclosing Party may, on reasonable notice, and during regular business hours, audit the information management practices of the Receiving Party to confirm compliance with the terms and conditions of this Section 7.0 and all applicable statutes, regulations, by-laws, standards and codes, as amended.

The Receiving Party undertakes to notify the Disclosing Party immediately upon discovery of any unauthorized use and/or disclosure of any of the Disclosing Party's Confidential Information, to co-operate with the Disclosing Party to help regain possession of such Confidential Information, and to prevent its further unauthorized use and/or disclosure.

The foregoing obligations with respect to confidentiality, use, reproduction, dissemination, publication and non-disclosure herein shall not apply to any information that:

(i) is previously known to or lawfully in the possession of the Receiving Party prior to the date of disclosure as evidenced by the Receiving Party's written record;
(ii) is independently known to or discovered by the Receiving Party, without any reference to the information or material;
(iii) is obtained by the Receiving Party from an arm's length third party having a bona fide right to disclose same and who was not otherwise under an obligation of confidence or fiduciary duty to the Disclosing Party or the Disclosing Party Representatives;
(iv) is or becomes public knowledge through no fault or omission of, or breach of this Agreement by the Receiving Party or the Receiving Party Representatives; or
(v) is required to be disclosed pursuant to a final judicial or governmental order or other legal process.

Confidential Information (other than this Agreement which shall be jointly owned by the parties) shall remain the sole and exclusive property of the Disclosing Party that has disclosed the Confidential Information, and the Disclosing Party shall retain all right, title and interest in and to the said Confidential Information.

The Receiving Party shall keep a record of written Confidential Information furnished to it by the Disclosing Party in a location separate from those locations where the Receiving Party has stored information in respect of other third parties for which it performs work and it shall advise the Disclosing Party of such location.

All Confidential Information furnished by the Disclosing Party (other than this Agreement), including that portion of the Confidential Information which is contained in analyses, compilations, studies or other documents prepared by the Receiving Party or by the Receiving Party Representatives, is the Disclosing Party's property and will be returned immediately to the Disclosing Party upon its request.

(b) Intellectual Property:

The Services Recipient shall obtain all rights, title and interests, including copyright ownership, to any reports and any other deliverable that is to be produced and delivered to it by the Services Provider and, subject to applicable legislation and notwithstanding clause 7.0(a) above, the said Services Recipient may use, disclose or modify such reports or deliverable in any manner it deems appropriate. The Services Provider shall not do any act which may compromise or diminish the Services Recipient's interest as aforesaid.

(c) Survival of Obligations:

The obligations in this Section 7.0 shall forever survive the termination or expiration of this Agreement.

8.0 LIABILITY

Unless otherwise agreed in writing, each party shall indemnify the other party and that other party's successors and assigns, directors, officers, employees, contractors and agents from and against all direct costs or damages attributable to the indemnifying party's performance and/or non-performance of its obligations under this Agreement and any amendments or additions thereto that are mutually agreed to in writing, whether arising from or based on breach of contract, tort, negligence, strict liability or otherwise. Notwithstanding any other provision of this Agreement, neither party shall be liable for any economic loss, loss of goodwill, loss of profit or for any special, indirect or consequential damages, where the said losses or damages are incurred by the other or by any third party claiming through or under the other.

This Section 8.0 shall forever survive the termination or expiration of this Agreement.

9.0 AUTHORIZED REPRESENTATIVES

The authorized representatives of the parties hereto for purposes of this Agreement are the following:

HYDRO ONE TELECOM INC.
65 Kelfield Street,
Rexdale, Ontario M9W 5A3

Attention: **Cliff Truax**
Telephone: 416-240-6713
Telecopier: 416-240-6802

HYDRO ONE NETWORKS INC.
483 Bay St.
North Tower, 14th Floor
Toronto, Ontario M5G 2P5
Attention: **Aline Brodie**
Telephone: (416) 345-5065
Telecopier: (416) 345-6068

All correspondence, reports, documents and/or other communication concerning this Agreement and the Schedule attached hereto shall be directed to the attention of the authorized representatives noted above and shall be deemed to be sufficiently given if delivered personally, mailed or transmitted by fax to the attention of the authorized representatives at the addresses above, and any notice so given shall be deemed to have been made and received on the date of delivery or on the 5th business day following the day of mailing of same or on the day of transmission if transmitted during normal business hours, otherwise on the next business day, as the case may be.

10.0 CHANGE OF CONTROL

In the event of a change of control of the Services Provider, this Agreement shall immediately terminate. A change of control shall mean, as applicable, a purchase of more than fifty (50) percent of the outstanding capital by a non-affiliate third party.

11.0 ASSIGNMENT

Neither this Agreement nor any rights and obligations shall be assigned by either party without the prior written consent of the other party, which consent shall not be unreasonably withheld. Subject to the foregoing, this Agreement shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

12.0 RELATIONSHIP OF PARTIES:

Nothing in this Agreement creates the relationship of principal and agent, employer and employee, partnership or joint venture between the parties. The parties agree that they are and will at all times remain independent and are not and shall not present themselves to be the agent, employee, partner or joint venturer of the other. No representations will be made or acts taken by either party which could establish any apparent relationship of agency, employment, joint venture or partnership and neither party shall be bound in any manner whatsoever by any agreements, warranties or representations made by the other party to any other person nor with respect to any other action of the other party.

13.0 SCHEDULES

Schedules "A" and "B" attached hereto are to be read with and form part of this Agreement.

14.0 COUNTERPARTS

This Agreement may be executed in counterparts and the counterparts together shall constitute an original.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE NETWORKS INC.

Name: Joseph Agostino
Title: Officer
I have authority to bind the corporation

HYDRO ONE TELECOM INC.

Name: Paul Marchant
Title: President and CEO
have authority to bind the corporation.

Schedule "A"

DESCRIPTION OF SERVICES:

The Services Provider shall provide the Services Recipient with the following supply chain services:

- demand planning;
- management and procurement;
- vendor and inventory management;
- process development;
- data management;
- warehousing;
- waste management; and
- investment recovery.

Schedule "B"

Receiving Party Security Safeguards Regarding Confidential Information Received from the Disclosing Party

The Receiving Party shall protect the Confidential Information by security safeguards appropriate to the sensitivity of the information.

1) The Receiving Party shall protect the Confidential Information against such risks as loss or theft, unauthorized access, disclosure, copying, use, modification or destruction, through appropriate security measures, regardless of the format in which it is held.

2) All of the Receiving Party Representatives with access to the Confidential Information shall be contractually required to respect the confidentiality of that information.

3) The Receiving Party acknowledges and agrees that the nature of the safeguards will vary depending on the sensitivity, amount, distribution and format of the information, and the method of storage. The Receiving Party shall ensure that more sensitive information will be safeguarded by a higher level of protection.

4) The Receiving Party shall ensure that methods of protection will include:

(a) physical measures, for example, locked filing cabinets and restricted access to offices;

(b) organizational measures, for example, controlling entry to data centers and limiting access to information on a "need-to-know" basis;

(c) technological measures, for example, the use of passwords and encryption; and

(d) investigative measures, in cases where the Receiving Party has reasonable grounds to believe that the Confidential Information is being inappropriately collected, used or disclosed by anyone whom in law the Receiving Party is responsible.

THIS AGREEMENT made in duplicate this 17th day of January, 2012 (the "Effective Date").

BETWEEN:

HYDRO ONE NETWORKS INC.
(the "Services Provider")

- and -

HYDRO ONE REMOTE COMMUNITIES INC.
(the "Services Recipient")

1.0 PREFACE

This Agreement is intended to identify the services that are to be provided to the Services Recipient by the Services Provider in accordance with the terms and conditions herein. Except as otherwise specified, the term of this Agreement shall be for a period of 1 year commencing on the Effective Date.

2.0 SERVICES

The Services Provider shall provide supply chain services to the Services Recipient, which collectively constitute the Services and which are more particularly described in Schedule "A" attached hereto, as may be required by the Services Recipient from time to time during the term of this Agreement.

3.0 FEES PAYABLE

(a) The annual price for the performance of the Services for the Services Recipient shall be $76,674.00, exclusive of any sales and use taxes, as may be applicable. The said annual price for the Services shall be paid by the Services Recipient to the Services Provider by means of monthly electronic journal transfers which shall be reflected in the applicable books and records of each party In addition, each Services Recipient shall pay for any material costs which the Services Provider, acting reasonably, incurs as a result of resources, services and products that the Services Provider must purchase and that are in addition to the Services Provider's existing resources, services and products, in order to provide the said Services Recipient with specific services it requires and requests.

(b) If at any time during the performance of the Services, the Services Recipient is of the opinion that there are deficiencies in the Services provided to it and/or that the price payable is in any way inaccurate, the Services Recipient shall pay the entire relevant price payable by it in full and its sole remedy shall be to follow the dispute resolution procedures outlined in Section 6.0 herein to determine what amount, if any, shall be refunded to the Services Recipient and/or what Services, if any, shall be rectified or redone by the Services Provider.

c) The parties acknowledge and agree that they qualify as specified members of a closely related group under subsection 156(1) of the Excise Tax Act (Canada), as amended (the "Act") and have jointly executed a Form GST25, to make an election under subsection 156(2) of the Act to deem the purchase and sale of the Services to be made for nil consideration for purposes of HST. For the purposes of this Agreement, "HST" means the federal Harmonized Sales Tax chargeable in accordance with Part IX of the *Excise Tax Act* (Canada), as amended, or any similar value-added tax that may be applicable during the term of this Agreement to the Services to be provided hereunder.

4.0 REPRESENTATIONS AND WARRANTIES

(a) The Services Provider represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder;
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Provider; and
- (iii) all staff employed in the performance of the Services shall have the qualifications, expertise and experience which could reasonably be expected of staff of a services provider performing work similar to the Services.

(b) The Services Recipient represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder; and
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Recipient.

5.0 PERFORMANCE OF THE SERVICES

(a) **Compliance with Standards and Applicable Law**: The Services Provider shall perform the Services in a diligent and professional manner and shall comply with the Services Recipient's computer data management and data access protocols contained in the Services Recipient's document entitled "Information Security Policy" (SP 0908 R1) dated January 17, 2012 and any amendments thereto which may be made from time to time by the Services Recipient. The Services Provider shall comply at all times with the statutes, regulations, by-laws, standards and codes, as amended, as may be applicable to the Services Provider in respect of the Services and the performance of its obligations hereunder and it shall, at its own expense, obtain and maintain in good standing all permits and licences required by any authorities having jurisdiction to perform the Services.

(b) **Safety and Security Measures**: When any part of the Services is to be performed at any of the Services Recipient's premises, all of the Services Provider's staff engaged in the performance of the Services at the said premises shall comply with the safety and security requirements and measures in effect at the said premises.

(c) **Meetings**: The parties shall, after the Effective Date, meet at least twice a year during the term of this Agreement to review performance, quality and timeliness of the Services provided by the Services Provider pursuant to this Agreement.

6.0 DISPUTE RESOLUTION PROCEDURES

Any controversy, dispute, difference, question or claim arising between any of the parties in connection with the interpretation, performance, construction or implementation of this Agreement that cannot be resolved by a director or manager from each of the said parties (collectively "Dispute") shall be settled in accordance with this Section. The aggrieved party shall send the other affected party(ies) written notice identifying the Dispute, the amount involved, if any, and the remedy sought, and invoking the procedures of this Section. The Presidents of each affected party shall confer in an effort to resolve the Dispute. If the Presidents are unable to resolve the Dispute within 5 business days after receipt of the written notice of the Dispute, then the affected parties shall submit the Dispute to the President of Hydro One Inc. for resolution.

7.0 CONFIDENTIALITY AND INTELLECTUAL PROPERTY

(a) Confidentiality:

Each party (the "Receiving Party") shall maintain in strict confidence this Agreement and the existence and contents thereof and all information, analysis, conclusions, drawings, reports, specifications or other information, proprietary or otherwise, whether transmitted orally, electronically or in written form, and received in furtherance of this Agreement from any of the other parties (the "Disclosing Party") or any of the Disclosing Party's directors, officers, employees, consultants, agents or legal and other advisors (the "Disclosing Party Representatives") (collectively the "Confidential Information"). Except as permitted herein, the Receiving Party shall not publish, reproduce, or disclose, either directly or indirectly, the said Confidential Information to any third party and shall not use the said Confidential Information for any purpose other than for purposes of this Agreement without the prior written consent of the Disclosing Party. The Receiving Party may disclose the Confidential Information only to its shareholder, directors, officers, employees, consultants, agents or professional advisors (the "Receiving Party Representatives") having a need to know same and who have undertaken a like obligation to maintain its confidentiality.

For greater certainty, Confidential Information includes any and all personal information (as that term is defined in the Freedom of Information and Protection of Privacy Act (Ontario) and the Personal Information Protection and Electronic Documents Act (Canada), as they may be amended, and any and all information regarding a consumer, retailer, wholesale buyer, wholesale supplier, or a generator, provided by the Disclosing Party to the Receiving Party for purposes of this Agreement, whether or not such information was initially provided prior to the Effective Date.

The Receiving Party undertakes to protect and safeguard all Confidential Information in its possession or under its control and received by the Disclosing Party, in the manner described in Schedule "B" attached hereto. The Disclosing Party may, on reasonable notice, and during regular business hours, audit the information management practices of the Receiving Party to confirm compliance with the terms and conditions of this Section 7.0 and all applicable statutes, regulations, by-laws, standards and codes, as amended.

The Receiving Party undertakes to notify the Disclosing Party immediately upon discovery of any unauthorized use and/or disclosure of any of the Disclosing Party's Confidential Information, to co-operate with the Disclosing Party to help regain possession of such Confidential Information, and to prevent its further unauthorized use and/or disclosure.

The foregoing obligations with respect to confidentiality, use, reproduction, dissemination, publication and non-disclosure herein shall not apply to any information that:

(i) is previously known to or lawfully in the possession of the Receiving Party prior to the date of disclosure as evidenced by the Receiving Party's written record;
(ii) is independently known to or discovered by the Receiving Party, without any reference to the information or material;
(iii) is obtained by the Receiving Party from an arm's length third party having a bona fide right to disclose same and who was not otherwise under an obligation of confidence or fiduciary duty to the Disclosing Party or the Disclosing Party Representatives;
(iv) is or becomes public knowledge through no fault or omission of, or breach of this Agreement by the Receiving Party or the Receiving Party Representatives; or
(v) is required to be disclosed pursuant to a final judicial or governmental order or other legal process.

Confidential Information (other than this Agreement which shall be jointly owned by the parties) shall remain the sole and exclusive property of the Disclosing Party that has disclosed the Confidential Information, and the Disclosing Party shall retain all right, title and interest in and to the said Confidential Information.

The Receiving Party shall keep a record of written Confidential Information furnished to it by the Disclosing Party in a location separate from those locations where the Receiving Party has stored information in respect of other third parties for which it performs work and it shall advise the Disclosing Party of such location.

All Confidential Information furnished by the Disclosing Party (other than this Agreement), including that portion of the Confidential Information which is contained in analyses, compilations, studies or other documents prepared by the Receiving Party or by the Receiving Party Representatives, is the Disclosing Party's property and will be returned immediately to the Disclosing Party upon its request.

(b) Intellectual Property:

The Services Recipient shall obtain all rights, title and interests, including copyright ownership, to any reports and any other deliverable that is to be produced and delivered to it by the Services Provider and, subject to applicable legislation and notwithstanding clause 7.0(a) above, the said Services Recipient may use, disclose or modify such reports or deliverable in any manner it deems appropriate. The Services Provider shall not do any act which may compromise or diminish the Services Recipient's interest as aforesaid.

(c) Survival of Obligations:

The obligations in this Section 7.0 shall forever survive the termination or expiration of this Agreement.

8.0 LIABILITY

Unless otherwise agreed in writing, each party shall indemnify the other party and that other party's successors and assigns, directors, officers, employees, contractors and agents from and against all direct costs or damages attributable to the indemnifying party's performance and/or non-performance of its obligations under this Agreement and any amendments or additions thereto that are mutually agreed to in writing, whether arising from or based on breach of contract, tort, negligence, strict liability or otherwise. Notwithstanding any other provision of this Agreement, neither party shall be liable for any economic loss, loss of goodwill, loss of profit or for any special, indirect or consequential damages, where the said losses or damages are incurred by the other or by any third party claiming through or under the other.

This Section 8.0 shall forever survive the termination or expiration of this Agreement.

9.0 AUTHORIZED REPRESENTATIVES

The authorized representatives of the parties hereto for purposes of this Agreement are the following:

HYDRO ONE REMOTE COMMUNITIES INC.
483 Bay Street,
South Tower, 8th Floor
Toronto, Ontario M5G 2P5
Attention: **Una O'Reilly**
TCT 8
Telephone: 416-345-6698
Telecopier: 416-345-6356

HYDRO ONE NETWORKS INC.
483 Bay St.
North Tower, 14th Floor B13
Toronto, Ontario M5G 2P5
Attention: **Rob Berardi**
Telephone: (416) 345-4277
Telecopier: (416) 345-6833

All correspondence, reports, documents and/or other communication concerning this Agreement and the Schedule attached hereto shall be directed to the attention of the authorized representatives noted above and shall be deemed to be sufficiently given if delivered personally, mailed or transmitted by fax to the attention of the authorized representatives at the addresses above, and any notice so given shall be deemed to have been made and received on the date of delivery or on the 5th business day following the day of mailing of same or on the day of transmission if transmitted during normal business hours, otherwise on the next business day, as the case may be.

10.0 CHANGE OF CONTROL

In the event of a change of control of the Services Provider, this Agreement shall immediately terminate. A change of control shall mean, as applicable, a purchase of more than fifty (50) percent of the outstanding capital by a non-affiliate third party.

11.0 ASSIGNMENT

Neither this Agreement nor any rights and obligations shall be assigned by either party without the prior written consent of the other party, which consent shall not be unreasonably withheld. Subject to the foregoing, this Agreement shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

12.0 RELATIONSHIP OF PARTIES:

Nothing in this Agreement creates the relationship of principal and agent, employer and employee, partnership or joint venture between the parties. The parties agree that they are and will at all times remain independent and are not and shall not present themselves to be the agent, employee, partner or joint venturer of the other. No representations will be made or acts taken by either party which could establish any apparent relationship of agency, employment, joint venture or partnership and neither party shall be bound in any manner whatsoever by any agreements, warranties or representations made by the other party to any other person nor with respect to any other action of the other party.

13.0 SCHEDULES

Schedules "A" and "B" attached hereto are to be read with and form part of this Agreement.

14.0 COUNTERPARTS

This Agreement may be executed in counterparts and the counterparts together shall constitute an original.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE NETWORKS INC.	**HYDRO ONE REMOTE COMMUNITIES INC.**
Joseph Agostino	Maureen Wareham
Name: Joseph Agostino	Name: Maureen Wareham
Title: Officer	Title: Officer
I have authority to bind the corporation	have authority to bind the corporation.

Schedule "A"

DESCRIPTION OF SERVICES:

The Services Provider shall provide the Services Recipient with the following supply chain services:

- demand planning;
- management and procurement;
- vendor and inventory management;
- process development;
- data management;
- warehousing;
- waste management; and
- investment recovery.

Schedule "B"

Receiving Party Security Safeguards Regarding Confidential Information Received from the Disclosing Party

The Receiving Party shall protect the Confidential Information by security safeguards appropriate to the sensitivity of the information.

1) The Receiving Party shall protect the Confidential Information against such risks as loss or theft, unauthorized access, disclosure, copying, use, modification or destruction, through appropriate security measures, regardless of the format in which it is held.

2) All of the Receiving Party Representatives with access to the Confidential Information shall be contractually required to respect the confidentiality of that information.

3) The Receiving Party acknowledges and agrees that the nature of the safeguards will vary depending on the sensitivity, amount, distribution and format of the information, and the method of storage. The Receiving Party shall ensure that more sensitive information will be safeguarded by a higher level of protection.

4) The Receiving Party shall ensure that methods of protection will include:

(a) physical measures, for example, locked filing cabinets and restricted access to offices;

(b) organizational measures, for example, controlling entry to data centers and limiting access to information on a "need-to-know" basis;

(c) technological measures, for example, the use of passwords and encryption; and

(d) investigative measures, in cases where the Receiving Party has reasonable grounds to believe that the Confidential Information is being inappropriately collected, used or disclosed by anyone whom in law the Receiving Party is responsible.

THIS AGREEMENT made in duplicate this 17th day of January, 2012 (the "Effective Date").

BETWEEN:

HYDRO ONE REMOTE COMMUNITIES INC.
(the "Services Provider")

- and -

HYDRO ONE NETWORKS INC.
(the "Services Recipient")

1.0 PREFACE

This Agreement is intended to identify the services that are to be provided to the Services Recipient by the Services Provider in accordance with the terms and conditions herein. Except as otherwise specified, the term of this Agreement shall be for a period of 1 year commencing on the Effective Date.

2.0 SERVICES

Subject to the Services Provider's availability of personnel and resources, which availability shall be determined by the Services Provider in its sole discretion, the Services Provider shall provide metering work, lines work and training for lines work to the Services Recipient, which collectively constitute the Services and which are more particularly described in Schedule "A" attached hereto, as may be required by the Services Recipient from time to time during the term of this Agreement.

3.0 FEES PAYABLE

(a) The price for the performance of the Services shall be on a time and materials basis in accordance with the Services Provider's 2012-2013 hourly rates by job category, which rates may be amended from time to time by mutual agreement of the parties. The parties acknowledge and agree that the Services Recipient has received the Services Provider's 2012-2013 hourly rates from the Services Provider.

(b) The parties agree that the price for the Services shall be paid by the Services Recipient to the Services Provider by direct time reporting through Hydro One Inc.'s payroll system.

(c) In addition, the Services Recipient shall pay for any material costs which the Services Provider, acting reasonably, incurs as a result of resources, services and products that the Services Provider must purchase and that are in addition to the Services Provider's existing resources, services and products, in order to provide the said Services Recipient with specific services it requires and requests.

(d) If at any time during the performance of the Services, the Services Recipient is of the opinion that there are deficiencies in the Services provided to it and/or that the price payable is in any way inaccurate, the Services Recipient shall pay the entire relevant price payable by it in full and its sole remedy shall be to follow the dispute resolution procedures outlined in Section 6.0 herein to determine what amount, if any, shall be refunded to the Services Recipient and/or what Services, if any, shall be rectified or redone by the Services Provider.

(e) The parties acknowledge and agree that they qualify as specified members of a closely related group under subsection 156(1) of the Excise Tax Act (Canada), as amended (the "Act") and have jointly executed a Form GST25, to make an election under subsection 156(2) of the Act to deem the purchase and sale of the Services to be made for nil consideration for purposes of HST. For the purposes of this Agreement, "HST" means the federal Harmonized Sales Tax chargeable in accordance with Part IX of the *Excise Tax Act* (Canada), as amended, or any similar value-added tax that may be applicable during the term of this Agreement to the Services to be provided hereunder.

4.0 REPRESENTATIONS AND WARRANTIES

(a) The Services Provider represents and warrants that:
  (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder;
  (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Provider; and
  (iii) all staff employed in the performance of the Services shall have the qualifications, expertise and experience which could reasonably be expected of staff of a services provider performing work similar to the Services.

(b) The Services Recipient represents and warrants that:
  (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder; and
  (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Recipient.

5.0 PERFORMANCE OF THE SERVICES

(a) **Compliance with Standards and Applicable Law**: The Services Provider shall perform the Services in a diligent and professional manner and shall comply with the Services Recipient's computer data management and data access protocols contained in the Services Recipient's document entitled "Information Security Policy" (SP 0908 R1) dated January 17, 2012 and any amendments thereto which may be made from time to time by the Services Recipient. The Services Provider shall comply at all times with the statutes, regulations, by-laws, standards and codes, as amended, as may be applicable to the Services Provider in respect of the Services and the performance of its obligations hereunder and it shall, at its own expense, obtain and maintain in good standing all permits and licences required by any authorities having jurisdiction to perform the Services.

(b) **Safety and Security Measures**: When any part of the Services is to be performed at any of the Services Recipient's premises, all of the Services Provider's staff engaged in the performance of the Services at the said premises shall comply with the safety and security requirements and measures in effect at the said premises.

(c) **Meetings**: The parties shall, after the Effective Date, meet at least once during the term of this Agreement to review performance, quality and timeliness of the Services provided by the Services Provider pursuant to this Agreement.

6.0 DISPUTE RESOLUTION PROCEDURES

Any controversy, dispute, difference, question or claim arising between any of the parties in connection with the interpretation, performance, construction or implementation of this Agreement that cannot be resolved by a director or manager from each of the said parties (collectively "Dispute") shall be settled in accordance with this Section. The aggrieved party shall send the other affected party(ies) written notice identifying the Dispute, the amount involved, if any, and the remedy sought, and invoking the procedures of this Section. The Presidents of each affected party shall confer in an effort to resolve the Dispute. If the Presidents are unable to resolve the Dispute within 5 business days after receipt of the written notice of the Dispute, then the affected parties shall submit the Dispute to the President of Hydro One Inc. for resolution.

7.0 CONFIDENTIALITY AND INTELLECTUAL PROPERTY

(a) Confidentiality:

Each party (the "Receiving Party") shall maintain in strict confidence this Agreement and the existence and contents thereof and all information, analysis, conclusions, drawings, reports, specifications or other information, proprietary or otherwise, whether transmitted orally, electronically or in written form, and received in furtherance of this Agreement from any of the other parties (the "Disclosing Party") or any of the Disclosing Party's directors, officers, employees, consultants, agents or legal and other advisors (the "Disclosing Party Representatives") (collectively the "Confidential Information"). Except as permitted herein, the Receiving Party shall not publish, reproduce, or disclose, either directly or indirectly, the said Confidential Information to any third party and shall not use the said Confidential Information for any purpose other than for purposes of this Agreement without the prior written consent of the Disclosing Party. The Receiving Party may disclose the Confidential Information only to its shareholder, directors, officers, employees, consultants, agents or professional advisors (the "Receiving Party Representatives") having a need to know same and who have undertaken a like obligation to maintain its confidentiality.

For greater certainty, Confidential Information includes any and all personal information (as that term is defined in the Freedom of Information and Protection of Privacy Act (Ontario) and the Personal Information Protection and Electronic Documents Act (Canada), as they may be amended, and any and all information regarding a consumer, retailer, wholesale buyer, wholesale supplier, or a generator, provided by the Disclosing Party to the Receiving Party for purposes of this Agreement, whether or not such information was initially provided prior to the Effective Date.

The Receiving Party undertakes to protect and safeguard all Confidential Information in its possession or under its control and received by the Disclosing Party, in the manner described in Schedule "B" attached hereto. The Disclosing Party may, on reasonable notice, and during regular business hours, audit the information management practices of the Receiving Party to confirm compliance with the terms and conditions of this Section 7.0 and all applicable statutes, regulations, by-laws, standards and codes, as amended.

The Receiving Party undertakes to notify the Disclosing Party immediately upon discovery of any unauthorized use and/or disclosure of any of the Disclosing Party's Confidential Information, to co-operate with the Disclosing Party to help regain possession of such Confidential Information, and to prevent its further unauthorized use and/or disclosure.

The foregoing obligations with respect to confidentiality, use, reproduction, dissemination, publication and non-disclosure herein shall not apply to any information that:

(i) is previously known to or lawfully in the possession of the Receiving Party prior to the date of disclosure as evidenced by the Receiving Party's written record;
(ii) is independently known to or discovered by the Receiving Party, without any reference to the information or material;
(iii) is obtained by the Receiving Party from an arm's length third party having a bona fide right to disclose same and who was not otherwise under an obligation of confidence or fiduciary duty to the Disclosing Party or the Disclosing Party Representatives;
(iv) is or becomes public knowledge through no fault or omission of, or breach of this Agreement by the Receiving Party or the Receiving Party Representatives; or
(v) is required to be disclosed pursuant to a final judicial or governmental order or other legal process.

Confidential Information (other than this Agreement which shall be jointly owned by the parties) shall remain the sole and exclusive property of the Disclosing Party that has disclosed the Confidential Information, and the Disclosing Party shall retain all right, title and interest in and to the said Confidential Information.

The Receiving Party shall keep a record of written Confidential Information furnished to it by the Disclosing Party in a location separate from those locations where the Receiving Party has stored information in respect of other third parties for which it performs work and it shall advise the Disclosing Party of such location.

All Confidential Information furnished by the Disclosing Party (other than this Agreement), including that portion of the Confidential Information which is contained in analyses, compilations, studies or other documents prepared by the Receiving Party or by the Receiving Party Representatives, is the Disclosing Party's property and will be returned immediately to the Disclosing Party upon its request.

(b) Intellectual Property:

The Services Recipient shall obtain all rights, title and interests, including copyright ownership, to any reports and any other deliverable that is to be produced and delivered to it by the Services Provider and, subject to applicable legislation and notwithstanding clause 7.0(a) above, the said Services Recipient may use, disclose or modify such reports or deliverable in any manner it deems appropriate. The Services Provider shall not do any act which may compromise or diminish the Services Recipient's interest as aforesaid.

(c) Survival of Obligations:

The obligations in this Section 7.0 shall forever survive the termination or expiration of this Agreement.

8.0 LIABILITY

Unless otherwise agreed in writing, each party shall indemnify the other party and that other party's successors and assigns, directors, officers, employees, contractors and agents from and against all direct costs or damages attributable to the indemnifying party's performance and/or non-performance of its obligations under this Agreement and any amendments or additions thereto that are mutually agreed to in writing, whether arising from or based on breach of contract, tort, negligence, strict liability or otherwise. Notwithstanding any other provision of this Agreement, neither party shall be liable for any economic loss, loss of goodwill, loss of profit or for any special, indirect or consequential damages, where the said losses or damages are incurred by the other or by any third party claiming through or under the other.

This Section 8.0 shall forever survive the termination or expiration of this Agreement.

9.0 AUTHORIZED REPRESENTATIVES

The authorized representatives of the parties hereto for purposes of this Agreement are the following:

HYDRO ONE REMOTE COMMUNITIES INC.
483 Bay Street,
South Tower, 8th Floor
Toronto, Ontario M5G 2P5
Attention: **Una O'Reilly**
TCT 8
Telephone: 416-345-6698
Telecopier: 416-345-6356

HYDRO ONE NETWORKS INC.
483 Bay St.
North Tower, 14th Floor B13
Toronto, Ontario M5G 2P5
Attention: **Rob Berardi**
Telephone: (416) 345-4277
Telecopier: (416) 345-6833

All correspondence, reports, documents and/or other communication concerning this Agreement and the Schedule attached hereto shall be directed to the attention of the authorized representatives noted above and shall be deemed to be sufficiently given if delivered personally, mailed or transmitted by fax to the attention of the authorized representatives at the addresses above, and any notice so given shall be deemed to have been made and received on the date of delivery or on the 5th business day following the day of mailing of same or on the day of transmission if transmitted during normal business hours, otherwise on the next business day, as the case may be.

10.0 CHANGE OF CONTROL

In the event of a change of control of the Services Provider, this Agreement shall immediately terminate. A change of control shall mean, as applicable, a purchase of more than fifty (50) percent of the outstanding capital by a non-affiliate third party.

11.0 ASSIGNMENT

Neither this Agreement nor any rights and obligations shall be assigned by either party without the prior written consent of the other party, which consent shall not be unreasonably withheld. Subject to the foregoing, this Agreement shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

12.0 RELATIONSHIP OF PARTIES:

Nothing in this Agreement creates the relationship of principal and agent, employer and employee, partnership or joint venture between the parties. The parties agree that they are and will at all times remain independent and are not and shall not present themselves to be the agent, employee, partner or joint venturer of the other. No representations will be made or acts taken by either party which could establish any apparent relationship of agency, employment, joint venture or partnership and neither party shall be bound in any manner whatsoever by any agreements, warranties or representations made by the other party to any other person nor with respect to any other action of the other party.

13.0 SCHEDULES

Schedules "A" and "B" attached hereto are to be read with and form part of this Agreement.

14.0 COUNTERPARTS

This Agreement may be executed in counterparts and the counterparts together shall constitute an original.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE NETWORKS INC.

Name: Joseph Agostino
Title: Officer
I have authority to bind the corporation

HYDRO ONE REMOTE COMMUNITIES INC.

Name: Maureen Wareham
Title: Officer
have authority to bind the corporation.

Schedule "A"

DESCRIPTION OF SERVICES:

Subject to the Services Provider's availability of personnel and resources, which availability shall be determined by the Services Provider in its sole discretion, the Services Provider shall provide the Services Recipient with the following services as may be required by the Services Recipient from time to time during the term of this Agreement:

a. Metering/Technician Work:

- update, install, reverify and sample meters
- Smart meter change-outs
- line layout, estimating and staking
- voltage/current surveys and responding to voltage/current complaints
- update Emergency Site Plans

b. Lines Work:

- maintain the Services Recipient's transmission and distribution system in Northwestern Ontario by providing the following activities, as may be requested by the Services Recipient:
- power line maintenance, construction and repair
- trouble Call Response, power restoration and storm damage repairs

c. Training:

- Provide lines apprenticeship program instruction services

Schedule "B"

Receiving Party Security Safeguards Regarding Confidential Information Received from the Disclosing Party

The Receiving Party shall protect the Confidential Information by security safeguards appropriate to the sensitivity of the information.

1) The Receiving Party shall protect the Confidential Information against such risks as loss or theft, unauthorized access, disclosure, copying, use, modification or destruction, through appropriate security measures, regardless of the format in which it is held.

2) All of the Receiving Party Representatives with access to the Confidential Information shall be contractually required to respect the confidentiality of that information.

3) The Receiving Party acknowledges and agrees that the nature of the safeguards will vary depending on the sensitivity, amount, distribution and format of the information, and the method of storage. The Receiving Party shall ensure that more sensitive information will be safeguarded by a higher level of protection.

4) The Receiving Party shall ensure that methods of protection will include:

(a) physical measures, for example, locked filing cabinets and restricted access to offices;

(b) organizational measures, for example, controlling entry to data centers and limiting access to information on a "need-to-know" basis;

(c) technological measures, for example, the use of passwords and encryption; and

(d) investigative measures, in cases where the Receiving Party has reasonable grounds to believe that the Confidential Information is being inappropriately collected, used or disclosed by anyone whom in law the Receiving Party is responsible.

Execution Copy

THIS AGREEMENT made in duplicate this 15th day of July, 2011 (the "Effective Date").

BETWEEN:

COPY

HYDRO ONE TELECOM INC.
(the "Services Provider")

- and -

HYDRO ONE NETWORKS INC.
(the "Services Recipient")

WHEREAS

A. The Services Recipient owns an ArcSight Security Event Management System (the "ArcSight System") that analyzes and correlates events of interest that occur across the organization to deliver accurate prioritization of security risks and compliance violations.

B. The Services Recipient wishes to engage the Services Provider to provide, and the Services Provider has agreed to provide, certain services in relation to the ArcSight System, in accordance with the terms and conditions of this Agreement.

NOW THEREFORE in consideration of the mutual covenants, terms and conditions contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby irrevocably acknowledged, the parties hereto agree as follows:

1.0 TERM

(a) Except as otherwise specified and subject to the termination rights in subparagraphs (b), (c) and (d) below of this Section 1.0, in subparagraph (c) of Section 2.0 below and in Section 10.0 below, this Agreement shall be of full force and effect as of the Effective Date and shall terminate upon satisfactory completion of, and payment for, the services described in Section 2.0 below by the Services Provider and the Services Recipient respectively in accordance with the terms and conditions herein (the "Term"). The Services Recipient shall commence to provide the Services on the Effective Date and shall completely perform the Services in accordance with the terms and conditions herein by no later than July 31, 2012. Except as otherwise specified and in addition to other termination provisions specified elsewhere, in the event of termination of this Agreement, the Services Recipient shall pay to the Services Provider any monies then due and owing to the Services Provider because of any performance of the Services Provider's obligations completed up to the effective date of such termination.

(b) When a party (the "non-Defaulting Party") becomes aware of the breach of a term, condition, representation, warranty or covenant (an "Event of Default") by the other party (the "Defaulting Party"), the non-Defaulting Party may provide the Defaulting Party with written notice of the Event of Default and the non-Defaulting Party shall allow the Defaulting Party to cure or rectify such Event of Default within 30 business days after receipt of the notice and, subject to the provisions herein, if the Event of Default is not cured within the 30-business day period to the non-Defaulting Party's reasonable satisfaction, the non-Defaulting Party may immediately terminate this Agreement with written notice to the Defaulting Party without penalty or liability to the non-Defaulting Party, except in the case of the Services Recipient, any monies then due and owing to the Services Provider because of any performance of the Services Provider's obligations completed up to the effective date of such termination. The immediately preceding sentence and this sentence shall survive the termination or expiry of this Agreement.

(c) Notwithstanding anything contained herein, this Agreement shall automatically terminate upon termination of the Telecommunications Services Agreement dated January 1, 2011 executed between the parties. In the event of such termination, the Services Recipient shall reimburse the Services Provider for amounts spent, incurred, committed (whether or not yet payable) by the Services Provider for services or products from and of third parties in relation to the Services to be provided hereunder and all other costs incurred by the Services Provider arising out of the said termination provided that the Services Provider provides the Services Recipient with evidence (including an invoice and all supporting documentation) reasonably satisfactory to the Services Recipient of such amounts and other costs. The immediately preceding sentences and this sentence shall survive the termination or expiry of this Agreement.

(d) All rights and remedies of the parties provided herein are not intended to be exclusive but rather are cumulative and are in addition to any other right or remedy otherwise available to the parties respectively at law or in equity and not specifically precluded herein, and any one or more of the parties' rights and remedies may from time to time be exercised independently or in combination and without prejudice to any other right or remedy the parties may have or may have exercised. The parties further agree that where any of the remedies provided for and elected by the non-defaulting party are found to be unenforceable, the non-defaulting party shall not be precluded from exercising any other right or remedy available to it at law or in equity, except to the extent specifically precluded herein. The provisions of this subparagraph (d) of this Section 1.0 shall survive the termination or expiry of this Agreement.

2.0 SERVICES AND SERVICES RECIPIENT'S OBLIGATIONS

(a) The Services Provider shall perform certain services in relation to the ArcSight System, which services are more particularly described in Schedule "A" attached hereto (the "**Services**") in accordance with, and subject to, the terms and conditions of this Agreement.

(b) The Services Recipient shall carry out its obligations specified in Schedule "A" attached hereto.

(c) The parties acknowledge and agree that the performance of the Services by the Services Provider is conditional upon the completion by the Services Recipient of the Services Recipient's obligations in Section 2 of Schedule "A" as, and by the time periods specified in, Section 2 of Schedule "A" or, where no time period is specified, by the time period reasonably requested by the Services Provider. In the event that any of the Services Recipient's obligations cannot be successfully completed as, and by the time periods described in, Section 2 of Schedule "A" or, where no time period is specified, by the time period reasonably requested by the Services Provider, then the Services Provider may terminate this Agreement and neither party shall be liable to the other party for any penalty or damages as a result thereof.

(d) The Services Recipient acknowledges and agrees that procurement of any additional hardware and software (and subsequent maintenance arrangements) as determined and agreed upon after the Architecture Workshop (as specified in Section 1(b) of Schedule "A" attached hereto) in excess of $220,000.00 for use by the Services Provider in performing the Services are the responsibility of the Services Recipient. Ownership of the ArcSight System, the IT Systems (as defined in Section 1(e) of Schedule "A" attached hereto) and any hardware and software used by the Services Provider in performing the Services shall remain at all times with the Services Recipient and nothing in this Agreement shall have the effect of transferring title thereto to the Services Provider.

(e) The Services Recipient shall cooperate and provide any required input as might be requested by the Services Provider, on a timely basis, to facilitate the performance of the Services by the Services Provider. In addition, the Services Recipient shall disclose to the Services Provider on a timely basis any information within the Services Recipient's possession or control which, in the Services Provider's opinion, may reasonably affect the ability of the Services Provider to meet its obligations under this Agreement.

3.0 FEES PAYABLE

(a) The price for the performance of the Services for the Services Recipient shall be $1,300,000.00 exclusive of any sales and use taxes, as may be applicable. The said price for the Services shall include the costs of hardware and software to be purchased pursuant to Section 2(d) of Schedule "A" attached hereto) up to $220,000.00 and shall be paid by the Services Recipient to the Services Provider by means of monthly electronic journal transfers which shall be reflected in the applicable books and records of each party. In addition, with the exception of hardware and software to be purchased pursuant to Section 2(b) of Schedule "A" attached hereto which are specifically dealt with in the immediately preceding sentence and in clause 2.0(d) above, the Services Recipient shall pay for any material costs which the Services Provider, acting reasonably and with prior written approval of the Services Recipient, incurs as a result of resources, services and products that the Services Provider must purchase and that are in addition to the Services Provider's existing resources, services and products, in order to provide the Services Recipient with specific services it requires and requests.

(b) If at any time during the performance of the Services, the Services Recipient is of the opinion that there are deficiencies in the Services provided to it, the Services Recipient shall pay the entire relevant price or portion thereof payable by it in full and its sole remedy shall be to follow the dispute resolution procedures outlined in Section 6.0 herein to determine what amount, if any, shall be refunded to the Services Recipient and/or what Services, if any, shall be rectified or redone by the Services Provider.

(c) The parties acknowledge and agree that they qualify as specified members of a closely related group under subsection 156(1) of the Excise Tax Act (Canada), as amended (the "Act") and have jointly executed a Form GST25, to make an election under subsection 156(2) of the Act to deem the purchase and sale of the Services to be made for nil consideration for purposes of Harmonized Sales Tax.

4.0 REPRESENTATIONS AND WARRANTIES

(a) The Services Provider represents and warrants that:
   (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder;
   (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Provider; and
   (iii) all staff employed in the performance of the Services shall have the qualifications, expertise and experience which could reasonably be expected of staff of a services provider performing work similar to the Services.

(b) The Services Recipient represents and warrants that:
   (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder; and
   (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Recipient.

5.0 PERFORMANCE OF THE SERVICES

(a) **Compliance with Standards and Applicable Law**: The Services Provider shall perform the Services in a diligent and professional manner and shall comply with the Services Recipient's computer data management and data access protocols contained in the Services Recipient's documents entitled "Corporate Security Standard 600-3 – Information Security Policy" dated January 17, 2000 and "Corporate Security Policy 908 – Information Security Policy" dated August 1, 2010 and any amendments thereto which may be made from time to time by the Services Recipient. The Services Provider shall comply at all times with the statutes, regulations, by-laws, standards and codes, as amended, as may be applicable to the Services Provider in respect of the Services and the performance of its obligations hereunder and it shall, at its own expense, obtain and maintain in good standing all permits and licences required by any authorities having jurisdiction to perform the Services.

(b) **Safety and Security Measures**: When any part of the Services is to be performed at any of the Services Recipient's premises, all of the Services Provider's staff engaged in the performance of the Services at the said premises shall comply with the safety and security requirements and measures in effect at the said premises.

6.0 DISPUTE RESOLUTION PROCEDURES

Any controversy, dispute, difference, question or claim arising between the parties in connection with the interpretation, performance, construction or implementation of this Agreement that cannot be resolved by a director or manager from each of the parties (collectively "Dispute") shall be settled in accordance with this Section. The aggrieved party shall send the other affected party written notice identifying the Dispute, the amount involved, if any, and the remedy sought, and invoking the procedures of this Section. The Presidents of each affected party shall confer in an effort to resolve the Dispute. If the Presidents are unable to resolve the Dispute within 5 business days after receipt of the written notice of the Dispute, then the affected parties shall submit the Dispute to the President of Hydro One Inc. for resolution.

7.0 CONFIDENTIALITY AND INTELLECTUAL PROPERTY

(a) **Confidentiality:**

Each party (the "Receiving Party") shall maintain in strict confidence this Agreement and the existence and contents thereof and all information, analysis, conclusions, drawings, reports, specifications or other information, proprietary or otherwise, whether transmitted orally, electronically or in written form, and received in furtherance of this Agreement from any of the other parties (the "Disclosing Party") or any of the Disclosing Party's directors, officers, employees, consultants, agents or legal and other advisors (the "Disclosing Party Representatives") (collectively the "Confidential Information"). Except as permitted herein, the Receiving Party shall not publish, reproduce, or disclose, either directly or indirectly, the said Confidential Information to any third party and shall not use the said Confidential Information for any purpose other than for purposes of this Agreement without the prior written consent of the Disclosing Party. The Receiving Party may disclose the Confidential Information only to its shareholder, directors, officers, employees, consultants, agents or professional advisors (the "Receiving Party Representatives") having a need to know same and who have undertaken a like obligation to maintain its confidentiality.

For greater certainty, Confidential Information includes any and all personal information (as that term is defined in the Freedom of Information and Protection of Privacy Act (Ontario) and the Personal Information Protection and Electronic Documents Act (Canada), as they may be amended, and any and all information regarding a consumer, retailer, wholesale buyer, wholesale supplier, or a generator, provided by the Disclosing Party to the Receiving Party for purposes of this Agreement, whether or not such information was initially provided prior to the Effective Date.

The Receiving Party undertakes to protect and safeguard all Confidential Information in its possession or under its control and received by the Disclosing Party, in the manner described in Schedule "B" attached hereto. The Disclosing Party may, on reasonable notice, and during regular business hours, audit the information management practices of the Receiving Party to confirm compliance with the terms and conditions of this Section 7.0 and all applicable statutes, regulations, by-laws, standards and codes, as amended.

The Receiving Party undertakes to notify the Disclosing Party immediately upon discovery of any unauthorized use and/or disclosure of any of the Disclosing Party's Confidential Information, to co-operate with the Disclosing Party to help regain possession of such Confidential Information, and to prevent its further unauthorized use and/or disclosure.

The foregoing obligations with respect to confidentiality, use, reproduction, dissemination, publication and non-disclosure herein shall not apply to any information that:

(i) is previously known to or lawfully in the possession of the Receiving Party prior to the date of disclosure as evidenced by the Receiving Party's written record;
(ii) is independently known to or discovered by the Receiving Party, without any reference to the information or material;
(iii) is obtained by the Receiving Party from an arm's length third party having a bona fide right to disclose same and who was not otherwise under an obligation of confidence or fiduciary duty to the Disclosing Party or the Disclosing Party Representatives;
(iv) is or becomes public knowledge through no fault or omission of, or breach of this Agreement by the Receiving Party or the Receiving Party Representatives; or
(v) is required to be disclosed pursuant to a final judicial or governmental order or other legal process.

Confidential Information (other than this Agreement which shall be jointly owned by the parties) shall remain the sole and exclusive property of the Disclosing Party that has disclosed the Confidential Information, and the Disclosing Party shall retain all right, title and interest in and to the said Confidential Information.

The Receiving Party shall keep a record of written Confidential Information furnished to it by the Disclosing Party in a location separate from those locations where the Receiving Party has stored information in respect of other third parties for which it performs work and it shall advise the Disclosing Party of such location.

All Confidential Information furnished by the Disclosing Party (other than this Agreement), including that portion of the Confidential Information which is contained in analyses, compilations, studies or other documents prepared by the Receiving Party or by the Receiving Party Representatives, is the Disclosing Party's property and will be returned immediately to the Disclosing Party upon its request.

(b) **Intellectual Property:**

Both parties retain all rights to methodology, knowledge and data brought to the Services and used therein. No rights to proprietary interests existing prior to the start of the Services are passed hereunder other than right to use same as provided for below. The Services Provider shall not knowingly incorporate into the Services any data, software or hardware the use of which by the Services Recipient violates the proprietary rights of third parties.

The Services Recipient shall obtain all rights, title and interests, including copyright ownership, to any reports and any other deliverable that is to be produced and delivered to it by the Services Provider and, subject to applicable legislation and notwithstanding clause 7.0(a) above, the said Services Recipient may use, disclose or modify such reports or deliverable in any manner it deems appropriate. The Services Provider shall not do any act which may compromise or diminish the Services Recipient's interest as aforesaid.

The Services Provider grants to the Services Recipient a non-exclusive, paid up, irrevocable, perpetual license to use any data and other proprietary items incorporated into the Services by the Services Provider hereunder. The Services Recipient shall have the right to exploit such data and property and to license same to third parties provided that such licenses contain reasonable reservations of proprietary rights in favour of the Services Provider (which may be included in a general reservation, but shall contain the same order of legal protection as the Services Provider uses when distributing such data or property to third parties) or provided the use of same does not reveal information proprietary to the Services Provider.

(c) **Survival of Obligations:**

The obligations in this Section 7.0 shall forever survive the termination or expiration of this Agreement.

8.0 LIABILITY

Unless otherwise agreed in writing, each party shall indemnify the other party and that other party's successors and assigns, directors, officers, employees, contractors and agents from and against all direct costs or damages attributable to the indemnifying party's performance and/or non-performance of its obligations under this Agreement and any amendments or additions thereto that are mutually agreed to in writing, whether arising from or based on breach of contract, tort, negligence, strict liability or otherwise. Notwithstanding any other provision of this Agreement, neither party shall be liable for any economic loss, loss of goodwill, loss of profit or for any special, indirect or consequential damages, where the said losses or damages are incurred by the other or by any third party claiming through or under the other.

This Section 8.0 shall forever survive the termination or expiration of this Agreement.

9.0 AUTHORIZED REPRESENTATIVES

The authorized representatives of the parties hereto for purposes of this Agreement are the following:

HYDRO ONE TELECOM INC.
65 Kelfield Street,
Rexdale, Ontario M9W 5A3

Attention: **Cliff Truax**
Telephone: 416-240-6713
Telecopier: 416-240-6802

HYDRO ONE NETWORKS INC.
483 Bay St.
North Tower, 5th Floor
Toronto, Ontario M5G 2P5

Attention: **David Lai**
Telephone: (416) 345-4133
Telecopier: (416) 345-5744

All correspondence, reports, documents and/or other communication concerning this Agreement and the Schedules attached hereto shall be directed to the attention of the authorized representatives noted above and shall be deemed to be sufficiently given if delivered personally, mailed or transmitted by fax to the attention of the authorized representatives at the addresses above, and any notice so given shall be deemed to have been made and received on the date of delivery or on the 5th business day following the day of mailing of same or on the day of transmission if transmitted during normal business hours, otherwise on the next business day, as the case may be.

10.0 CHANGE OF CONTROL

In the event of a change of control of the Services Provider, this Agreement shall immediately terminate. A change of control shall mean, as applicable, a purchase of more than fifty (50) percent of the outstanding capital by a non-affiliate third party.

11.0 ASSIGNMENT

Neither this Agreement nor any rights and obligations shall be assigned by either party without the prior written consent of the other party, which consent shall not be unreasonably withheld. Subject to the foregoing, this Agreement shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

12.0 RELATIONSHIP OF PARTIES:

Nothing in this Agreement creates the relationship of principal and agent, employer and employee, partnership or joint venture between the parties. The parties agree that they are and will at all times remain independent and are not and shall not present themselves to be the agent, employee, partner or joint venturer of the other. No representations will be made or acts taken by either party which could establish any apparent relationship of agency, employment, joint venture or partnership and neither party shall be bound in any manner whatsoever by any agreements, warranties or representations made by the other party to any other person nor with respect to any other action of the other party.

13.0 SCHEDULES

Schedules "A" and "B" attached hereto are to be read with and form part of this Agreement.

14.0 AMENDMENTS

This Agreement may be amended only by mutual written agreement of the Parties.

15.0 COUNTERPARTS

This Agreement may be executed in counterparts and the counterparts together shall constitute an original.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE NETWORKS INC.

Name: Monique Jobin
Title: Director, Supply Chain Service
I have authority to bind the corporation

HYDRO ONE TELECOM INC.

Name: Carmine Marcello
Title: EVP Strategy
I have authority to bind the corporation.

Schedule "A"

DESCRIPTION OF SERVICES:

1. The Services Provider shall provide the Services Recipient with the following services:

(a) on a one-time basis, the Services Providers will bring the current ArcSight implementation up-to-date to enable it to provide security event management services to the Services Recipient;

(b) by no later than August 19, 2011, hold an Architecture Workshop with the Services Recipient to confirm the ArcSight System architecture to be implemented; upon receipt of the Services Recipient's responses and decisions in response to any questions posed by the Services Provider during this Architecture Workshop, the Services Provider shall provide the Services Recipient with a list of hardware and software which the Services Provider reasonably determines must be purchased by the Services Recipient in order for the Services Provider to perform the Services;

(c) implement and document the ArcSight System as agreed to by the Services Recipient and the Services Provider during and after the Architecture Workshop;

(d) develop and document operating procedures to manage and control future maintenance and enhancements of the ArcSight System;

(e) by no later than March 1, 2012, commission the following 10 security monitoring IT systems listed below which may comprise a collection of hardware and software that together provide information technology services and which may contain multiple servers, switches, routers or other information technology appliances (collectively, the "**IT Systems**"):

- Tripwire
- IBM/ISS RealSecure (DMZ IDS)
- Firepass SSL VPN
- CheckPoint Firewalls
- TACACS
- Ironmail email gateway
- Active Directory Windows Security Event Logs
- Cisco IPS (Wireless IPS events)
- SAP (Partial and In-Progress)
- DHCP

The Services Provider shall ensure that commissioning activities shall involve events of interest workshops and use-case development, documentation and alarm testing;

(f) from and after March 1, 2012, develop and provide to the Services Recipient, in either written or electronic format,:

(i) at the end of each day, a report containing daily call logs and analysis notes dealing with security incidents for the said day (each, a "**Daily Security Analyst Report**"),

(ii) at the end of each calendar week, a report containing weekly security statistics and highlights of security incidents and cases of the said week (each, a "**Weekly Security Incidents Report**"),

(iii) at the end of each calendar month, a report which is similar to the weekly reports but also includes trending and highlights on the health of the security infrastructure system for the said month (each, a "**Monthly Security Event Summary Report**"), and

(iv) at the end of each calendar quarter during the Term (specifically on or around March 30, 2012 and June 30, 2012), a report which builds on the Monthly Security Event Summary Reports during the said calendar quarter with the addition of high level key risk indicators and key performance indicators (each, a "**Quarterly SEM Service Summary Report**"); and

(v) develop and provide to the Services Recipient and with such frequency and information as reasonably requested by the Services Recipient, an Executive Security Dashboard identifying the current security status of the IT Systems identified in (e) above.

SERVICES RECIPIENT'S OBLIGATIONS

2. The Services Recipient shall:

(a) cause the Services Recipient's IT outsourcing contractor, Inergi, Inc. to provide, in a timely manner, any services reasonably required by the Services Provider in order to enable the Services Provider to complete its obligations specified in Section 1 above of this Schedule "A" or elsewhere in the body of the Agreement;

(b) within 2 months of receiving from the Services Provider a list of hardware and software determined by the Services Provider pursuant to Section 1(b) above to be necessary in order for the Services Provider to perform the Services and agreed to by the Services Recipient, purchase and deliver to the Services Provider said hardware and software;

(c) provide the Services Provider with responses and decisions to any questions posed by the Services Provider during the Architecture Workshop immediately days after completion of the Architecture Workshop; and

(d) attend the use-case workshops referred to in Section 1(e) above of this Schedule "A" and provide the Services Provider with timely information to define events of interest for the development of "use cases" and for the development of all of the Daily Security Analyst Reports, the Weekly Security Incidents Reports, the Monthly Security Event Summary Reports, the Quarterly SEM Service Summary Reports and the Executive Security Dashboard for use within the ArcSight System as the Services Provider reasonably deems necessary in order for the Services Provider to perform the Services herein.

Schedule "B"

Receiving Party Security Safeguards Regarding Confidential Information Received from the Disclosing Party

The Receiving Party shall protect the Confidential Information by implementing the security safeguards appropriate to the sensitivity of the information.

1) The Receiving Party shall protect the Confidential Information against such risks as loss or theft, unauthorized access, disclosure, copying, use, modification or destruction, through appropriate security measures, regardless of the format in which it is held.

2) All of the Receiving Party Representatives with access to the Confidential Information shall be contractually required to respect the confidentiality of that information.

3) The Receiving Party acknowledges and agrees that the nature of the safeguards will vary depending on the sensitivity, amount, distribution and format of the information, and the method of storage. The Receiving Party shall ensure that more sensitive information will be safeguarded by a higher level of protection.

4) The Receiving Party shall ensure that methods of protection will include:

(a) physical measures, for example, locked filing cabinets and restricted access to offices;

(b) organizational measures, for example, controlling entry to data centers and limiting access to information on a "need-to-know" basis;

(c) technological measures, for example, the use of passwords and encryption; and

(d) investigative measures, in cases where the Receiving Party has reasonable grounds to believe that the Confidential Information is being inappropriately collected, used or disclosed by anyone whom in law the Receiving Party is responsible.

Execution Copy

CDM SERVICES AGREEMENT

THIS AGREEMENT made in duplicate this 1st day of October, 2011 (the "**Effective Date**").

BETWEEN:

HYDRO ONE BRAMPTON NETWORKS INC., a corporation incorporated pursuant to the laws of the Province of Ontario and having an office at 175 Sandalwood Parkway West, Brampton, Ontario L7A 1E8 (hereinafter "the **LDC**")

OF THE FIRST PART,

- and -

HYDRO ONE NETWORKS INC., a corporation incorporated pursuant to the laws of the Province of Ontario and having an office at 483 Bay St., North Tower, 14th Floor, Toronto, Ontario M5G 2P5 (hereinafter "**HONI**")

OF THE SECOND PART.

WHEREAS the Ontario Power Authority ("**OPA**") received a directive (the "**Second Directive**"), dated April 23, 2010, from the Minister of Energy to among other things, design, deliver and fund province-wide electricity conservation and demand management ("**CDM**") programs to be made available for participation by local distribution companies in Ontario;

AND WHEREAS in collaboration with the local distribution companies, the OPA has designed OPA-Contracted Province-Wide CDM Programs to assist the local distribution companies in meeting their OEB-approved CDM targets and one of those CDM Programs is the Residential and Low Income Program and one of the Initiatives established under this said CDM Program is the Residential and Small Commercial Demand Response Initiative (the "**RDR Initiative**");

AND WHEREAS the LDC and the OPA have executed a Master CDM Program Agreement that sets out the parties' respective rights and obligations under which the LDC can deliver specific CDM Programs for 2011 to 2014 with funding provided by the OPA (the "**Master Agreement**");

AND WHEREAS LDC wishes to implement the RDR Initiative pursuant to the terms and conditions of the Master Agreement;

AND WHEREAS the LDC wishes to retain HONI to assist the LDC in implementing the RDR Initiative by providing certain services and HONI has agreed to provide said services to the LDC in accordance with and subject to the terms and conditions of this Agreement.

NOW THEREFORE in consideration of the mutual covenants, terms and conditions contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby irrevocably acknowledged, the parties hereto agree as follows:

1.0 DEFINITIONS

In this Agreement, including the recitals and the Schedules hereto, in addition to terms defined elsewhere in this Agreement, unless there is something in the subject matter or context inconsistent therewith, the following words shall have the following meanings and all other capitalized words or expressions shall have the meaning given to them in the Master Agreement:

1.1 **"Affiliate"** has the meaning ascribed to it in the Ontario *Business Corporations Act,* as amended.

1.2 "**Aggregation Operator"** means the Person(s) providing to the OPA the services required to effect Load Control of Load Control Devices including receiving instructions from the Person who provides Dispatch Services to the OPA.

1.3 "**Agreement**" means this CDM Services Agreement between the LDC and HONI as it may be amended from time to time, including the Schedule attached hereto and made a part hereof by reference hereto and any amendments to the Schedule or to the body of this Agreement.

1.4 "**Business Day**" means a day other than a Saturday, Sunday, or statutory holiday in the Province of Ontario.

1.5 "**CDM**" means electricity conservation and demand management.

1.6 **"Commercially Reasonable Efforts"** means all efforts which may be required to enable a Person, directly or indirectly, to satisfy, consummate, complete or achieve a condition, transaction, activity, obligation or undertaking contemplated by this Agreement and which do not require such Person to expend any funds or assume liabilities other than expenditures and liabilities which are reasonable in nature and amount in the context of the purpose of, and the RDR Initiative.

1.7 "**Continuing Load Control Device**" means a Load Control Device provided to a Continuing Participant under the Prior Program;

1.8 "**Continuing Participant**" means a participant of a Prior Program whose participant agreement from such Prior Program continues to be in effect;

1.9 "**Control System**" means the Cooper Power Systems (previously known as Canon Technologies Yukon®) load control management software and such additional systems designated by the OPA from time to time.

1.10 **"Curtailment"** means the exercise of Load Control.

1.11 "**Customer Information Display**" means a device and associated technology that is capable, at a minimum, of retrieving and displaying estimated cost and electricity usage information. An example for a Customer Information Display is an in-home display.

1.12 **"Dispatch Services"** means services required to effect Load Control of Load Control Devices in the service areas of one or more local distribution companies, including that of the LDC, whether directly or through an Aggregation Operator.

1.13 **"Distribution Consumer"** means an electricity consumer, whether or not a customer of the LDC, that is directly connected to, or behind the meter of another electricity consumer connected to, the LDC's Distribution System and is in the LDC's service area.

1.14 "**Effective Date**" means the date first written above.

1.15 "**Eligible Person**" means a Person that satisfies the criteria in Schedule "F" attached hereto. .

1.16 "**Eligible End Use Appliance**" means any one of the following: (a) central air conditioner including an air source heat pump (which, for certainty, does not include a ground source hat pump), (b) electric water heater; and (c) swimming pool pump.

1.17 "**Governmental Authority**" means any federal, provincial, or municipal government, parliament, or legislature, or any regulatory authority, agency, tribunal, commission, board or department of any such government, parliament or legislature, or any court or other law, regulation or rule-making entity, having jurisdiction in the relevant circumstances, including the IESO, the OEB, the Electrical Safety Authority, the Electricity Commissioner's Officer, and any Person acting under the authority of any of the foregoing, but excluding the OPA.

1.18 "**Load Control**" means the ability to control and dispatch the electricity demand of one or more Eligible End Use Appliances through a Load Control Device connected to such appliance(s) during a given period.

1.19 "**Load Control Device**" means a device, including in the form of a relay-based switch or programmable thermostat, installed at a premise and connected to one or more Eligible End Use Appliances for the purpose of Load Control that is capable of receiving a signal dispatched to control the appliance(s) to which it is connected.

1.20 "**Opt Out Request**" means a request by a Participant, made in writing, by telephone or via the internet, prior to the commencement of the Activation Period requesting that Load Control in respect of a Load Control Device located at its premises not be initiated for a defined period, such period not to exceed 48 hours.

1.21 "**Participant**" means a Person who has satisfied the Eligibility Criteria, has agreed to the Participant Agreement, which has not been terminated, and who has not issued a Termination Request.

1.22 "**Participant Agreement**" means the agreement in the form of Schedule "E" hereto pursuant to which a Participant agrees to participate in the RDR Initiative.

1.23 "**Person**" means a natural person, firm, trust, partnership, association, unincorporated organization, limited partnership, company or corporation (with or without share capital), joint venture, sole proprietorship, Governmental Authority or other entity of any kind.

1.24 ""**Prior Program**" means (A) the residential and small commercial demand response programs offered pursuant to (i) a Master CDM Program Agreement between the LDC and the OPA in 2007 (the actual date varies by LDC), and (ii) the Amended and Restated Master CDM Agreement between the LDC and the OPA dated as of January 31, 2008, for certainty, as amended and extended to August 31, 2011; and (B) if applicable, a residential and/or small commercial demand response program funded by third tranche CDM spending during the period from 2005 to 2008.

1.25 "**Project Management Fee**" means the fee charged by HONI to the LDC for managing the LDC's RDR Initiative for the LDC.

1.26 "**Residential**" means electricity consumers in Ontario that are classified as residential in the most recent Yearbook of Electricity Distributors published by the Ontario Energy Board;

1.27 "**Small Commercial Distribution Consumer**" means a Distribution Consumer of the LDC whose account with the LDC has the service classification "General Service less than 50 kW" or the equivalent.

1.28 "**Subcontract**" means an agreement entered into by HONI and a third party whereby HONI has subcontracted all or part of the Services to the said third party. Any such third party shall hereinafter be referred to as a "**Subcontractor**".

1.29 "**Termination Request**" means a request made in writing or by telephone by a Participant that the Load Control in respect of a Load Control Device located at its premises cease permanently.

2.0 CONDITION PRECEDENTS

2.1 The parties acknowledge and agree that this Agreement and the fulfillment of all terms and conditions hereunder are conditional upon the following occurring by no later than October 15, 2011:

(a) the LDC Registering for the RDR Initiative to accept and agree to the Residential and Small Commercial Demand Response Initiative Schedule "B-3"at the Ontario Power Authority iCon Website and HONI receiving evidence of said registration from the LDC in a form acceptable to - Residential and Small Commercial Demand Response Initiative Schedule "B-3" at the Ontario Power Authority iCon Website.

2.2 If the conditions specified in clause 2.1 above cannot be successfully completed or achieved on or before October 15, 2011 and a time extension cannot be agreed upon, the parties shall be under no legal obligation or have any liability of any nature whatsoever with respect to the matters described herein by virtue of this Agreement and neither party shall be liable for any penalty or damages as a result thereof.

2.3 The LDC acknowledges and agrees that HONI has subcontracted all or part of the Services to Goodcents International, ULC for the period of the Term.

3.0 TERM

3.1 Subject to the termination rights in this clause and except as otherwise specified, the term of this Agreement shall be for a period commencing on the Effective Date and terminating on January, 1, 2015 (hereinafter referred to as the "**Term**"). If a Subcontract is terminated for convenience as permitted therein or if a notice of termination of a Subcontract is received by one party to the said Subcontract from the other party to the said Subcontract, HONI may terminate this Agreement by providing the LDC with as much termination notice as is provided under the said Subcontract and upon such termination of this Agreement, HONI shall be under no further obligation or have any further liability of any nature whatsoever with respect to the matters described herein by virtue of this Agreement except as outlined in Section 9.0 Liability and Indemnification. If a Subcontract is terminated by virtue of one party to the said Subcontract exercising a right of termination due to an event of default by the other party to the said Subcontract or if a notice of termination of a

Subcontract is received by one party to the said Subcontract from the other party to the said Subcontract due to an event of default under the said Subcontract, HONI may terminate this Agreement by providing the LDC with as much termination notice as is provided under the said Subcontract and upon such termination of this Agreement, HONI shall be under no further obligation or have any further liability of any nature whatsoever with respect to the matters described herein by virtue of this Agreement except as outlined in Section 9.0 Liability and Indemnification. The provisions of this clause 3.1 with respect to liability shall survive the termination or expiry of this Agreement.

4.0 REPRESENTATIONS AND WARRANTIES

4.1 HONI represents and warrants that:

(a) Corporate Status. HONI is a corporation duly constituted, validly existing and in good corporate standing under the laws of its incorporating jurisdiction;

(b) Authority. HONI has the necessary corporate power, authority and capacity and good and sufficient right to enter into this Agreement on the terms and conditions herein set forth, and has, and, subject to the terms and conditions herein, covenants to maintain during the Term of this Agreement, the financial and other ability and authority to fulfill its obligations hereunder; and

(c) Valid, Binding and Enforceable. This Agreement constitutes a valid and binding obligation of HONI enforceable against it in accordance with its terms and conditions.

4.2 The LDC represents and warrants that:

(a) Corporate Status. The LDC is a corporation duly constituted, validly existing and in good corporate standing under the laws of its incorporating jurisdiction;

(b) Authority. The LDC has the necessary corporate power, authority and capacity and good and sufficient right to enter into this Agreement on the terms and conditions herein set forth, and has, and, subject to the terms and conditions herein, covenants to maintain during the Term of this Agreement, the financial and other ability and authority to fulfill its obligations hereunder; and

(c) Valid, Binding and Enforceable. This Agreement constitutes a valid and binding obligation of the LDC enforceable against it in accordance with its terms and conditions.

4.3 HONI makes no representation or warranty, and HONI shall not be deemed to have made any representation or warranty, express, implied, statutory or otherwise, as to the accuracy or completeness of any information furnished to the LDC for purposes of the LDC's Application to the OPA for the RDR Initiative and the LDC's obligations under the Residential and Small Commercial Demand Response Initiative Schedule "B-3", whether said information was furnished prior to the Effective Date of this Agreement or during the Term of this Agreement. HONI shall have no liability to the LDC resulting from its use of the said information, unless such liability is created under some further contractual obligation between the parties. The LDC agrees that it shall assume full responsibility for its use of, and all conclusions it derives from, the said information, and neither HONI nor any of its directors, officers, employees and consultants shall have any liability with respect thereto. This clause 4.3 shall survive the expiry or termination of this Agreement.

4.4 Except as otherwise specified herein, HONI makes no representation or warranty, and HONI shall not be deemed to have made any representation or warranty, express, implied, statutory or otherwise, with respect to the Services or any part thereof including the Load Control Devices and the Customer Information Displays and the installations thereof. The parties acknowledge and agree that as between them, HONI does not own nor will it own the Load Control Devices or the Customer Information Displays and title to the Load Control Devices and the Customer Information Displays shall at all times be and remain with the LDC. Nothing in this Agreement or otherwise shall have the effect of passing title to the Local Control Devices unto HONI. This clause 4.4 shall forever survive the termination or expiry of this Agreement

4.5 The LDC shall provide written instructions to HONI as to which Load Control Devices and Customer Information Displays can be installed by HONI pursuant to this Agreement and shall confirm in writing to HONI that the said Load Control Devices and Customer Information Displays meet the minimum requirements for such devices as specified in Schedule "G" attached hereto.

5.0 THE SERVICES

5.1 HONI shall perform, or shall cause to be performed, the Services as more particularly described in this Section commencing on the first Business Day after all of the conditions specified in clause 2.1 have been met or have occurred in accordance with the terms and conditions of this Agreement.

5.2 HONI agrees that it shall perform the work activities specified in Schedule "A" attached hereto which collectively constitute the Services. The LDC shall carry out its obligations specified in Schedule "A" attached hereto.

5.3 Both parties acknowledge and agree that the description of the Services to be performed by HONI as outlined in clause 5.2 is subject to revision, amendment or addition as required and as may be agreed to between the parties' respective primary contact person, both of which are identified in clause 5.4 below.

5.4 HONI hereby appoints George Katsuras as the primary contact, who will be responsible for the administration and co-ordination of the Services, including supervision of HONI staff and resource management. The LDC hereby appoints Ralph Williams as the primary contact who will be the primary interface with HONI on a daily basis. Each of the parties may change their primary contact by providing notice thereof to the other party.

5.5 The LDC shall cooperate and provide any required input as might be requested by HONI, on a timely basis, to facilitate the performance of the Services by HONI. In addition, the LDC shall disclose to HONI on a timely basis any information within the LDC's possession or control which, in HONI's opinion, may reasonably affect the ability of HONI to meet its obligations under this Agreement.

5.6 The parties acknowledge and agree that the Yukon® "head end" server and software and the inventory management system referred to in Schedule "A" attached hereto are owned by HONI and nothing in this Agreement shall have the effect of transferring title thereto to the LDC. This clause 5.6 shall survive the expiry or termination of this Agreement.

6.0 FEES PAYABLE

6.1 INTENTIONALLY DELETED.

6.2 HONI shall issue an invoice to the LDC by no later than15th of every month during the Term for the costs incurred by HONI in performing the Services for the LDC during the previous month for the Term (including, where applicable, those based upon the unit costs attached hereto as Schedule "C" and including the amounts payable pursuant to clause 6.3 below). The invoice will also include an amount equal to HONI's then current overhead costs applied to the Project Management Fee. The invoice shall be paid by the LDC to HONI within 30 days of the date of the invoice and said payment obligations shall survive the termination or expiry of this Agreement.

6.3 With respect to the costs of the actual Load Control Devices, Customer Information Displays, and the actual Load Control Device add-on wires, the parties acknowledge and agree that the LDC shall reimburse HONI for the actual costs thereof, which costs shall be identified in each invoice issued by HONI for the said items purchased by HONI during the previous month.

6.4 The parties acknowledge and agree that they qualify as specified members of a closely related group under subsection 156(1) of the Excise Tax Act (Canada), as amended (the "Act") and have jointly executed a Form GST25, to make an election under subsection 156(2) of the Act to deem the purchase and sale of the Services to be made for nil consideration for purposes of Harmonized Sales Tax.

7.0 DISPUTE RESOLUTION PROCEDURES

7.1 In the event of any controversy, dispute, difference, question or claim arising between the parties in connection with the interpretation, performance, construction or implementation of this Agreement (collectively, a "**Dispute**"), the primary contact from each party as identified in clause 5.4 above shall confer in an effort to resolve the Dispute. The aggrieved party shall send the other party written notice identifying the Dispute, the amount involved, if any, and the remedy sought. If the Dispute cannot be resolved in accordance with this clause, the parties are free to exercise any right or remedy available to it in law or equity.

8.0 CONFIDENTIALITY AND INTELLECTUAL PROPERTY

(a) Confidentiality:

Each party (the "**Receiving Party**") shall maintain in strict confidence this Agreement and the existence and contents thereof and all information, analysis, conclusions, drawings, reports, specifications or other information, proprietary or otherwise, whether transmitted orally, electronically or in written form, and received in furtherance of this Agreement from the other party (the "**Disclosing Party**") or any of the Disclosing Party's directors, officers, employees, contractors, subcontractors, consultants, agents or legal and other advisors (the "**Disclosing Party Representatives**") (collectively the "**Confidential Information**"). Except as permitted herein, the

Receiving Party shall not publish, reproduce or disclose, either directly or indirectly, the said Confidential Information to any third party and shall not use the said Confidential Information for any purpose other than for purposes of this Agreement without the prior written consent of the Disclosing Party. The Receiving Party may disclose the Confidential Information only to its shareholder, directors, officers, employees, consultants, contractors, subcontractors, agents and professional advisors (the "**Receiving Party Representatives**") having a need to know same and who have undertaken a like obligation to maintain its confidentiality.

For greater certainty, Confidential Information includes any and all personal information (as that term is defined in the *Freedom of Information and Protection of Privacy Act* (Ontario) and the *Personal Information Protection and Electronic Documents Act* (Canada), as they may be amended) and any and all information regarding a consumer, retailer, wholesale buyer, wholesale supplier, or a generator provided by the Disclosing Party to the Receiving Party for purposes of this Agreement, whether or not such information was initially provided prior to the Effective Date.

The Receiving Party undertakes to protect and safeguard all Confidential Information in its possession or under its control and received by the Disclosing Party, in the manner described in Schedule "B" attached hereto. The Disclosing Party may, on reasonable notice, and during regular business hours, audit the information management practices of the Receiving Party to confirm compliance with the terms and conditions of this Section 8.0 and all applicable statutes, regulations, by-laws, standards and codes, as amended.

The Receiving Party undertakes to notify the Disclosing Party immediately upon discovery of any unauthorized use and/or disclosure of any of the Disclosing Party's Confidential Information, to co-operate with the Disclosing Party to help regain possession of such Confidential Information, and to prevent its further unauthorized use and/or disclosure.

The foregoing obligations with respect to confidentiality, use, reproduction, dissemination, publication and non-disclosure herein shall not apply to any information that:

(i) is previously known to or lawfully in the possession of the Receiving Party prior to the date of disclosure as evidenced by the Receiving Party's written record;
(ii) is independently known to or discovered by the Receiving Party, without any reference to the information or material;
(iii) is obtained by the Receiving Party from an arm's length third party having a bona fide right to disclose same and who was not otherwise under an obligation of confidence or fiduciary duty to the Disclosing Party or the Disclosing Party Representatives;
(iv) is or becomes public knowledge through no fault or omission of, or breach of this Agreement by the Receiving Party or the Receiving Party Representatives; or
(v) is required to be disclosed pursuant to a final judicial or governmental order or other legal process.

Confidential Information (other than this Agreement which shall be jointly owned by the parties) shall remain the sole and exclusive property of the Disclosing Party that has disclosed the Confidential Information, and the Disclosing Party shall retain all right, title and interest in and to the said Confidential Information.

The Receiving Party shall keep a record of written Confidential Information furnished to it by the Disclosing Party in a location separate from those locations where the Receiving Party has stored information in respect of other third parties for which it performs work and it shall advise the Disclosing Party of such location.

All Confidential Information furnished by the Disclosing Party (other than this Agreement), including that portion of the Confidential Information which is contained in analyses, compilations, studies or other documents prepared by the Receiving Party or by the Receiving Party Representatives, is the Disclosing Party's property and will be returned immediately to the Disclosing Party upon its request.

(b) Intellectual Property:

The LDC agrees to include the "Hydro One and plug design" trademark in red and black (the "**Trade-mark**") on all written RDR Initiative material, whether in print or electronic form. If the LDC's logo also appears in such material, the Trade-mark shall be displayed in equal size. The LDC shall not promote the RDR Initiative except in such form and content as has received HONI's prior written approval. The LDC agrees that nothing in this Agreement shall be interpreted to grant the LDC any interest in the Trade-mark except as expressly set out in this paragraph.

(c) Survival of Obligations:

The obligations in this Section 8.0 shall forever survive the termination or expiration of this Agreement.

9.0 LIABILITY AND INDEMNIFICATION

9.1 (a) Except as provided in clause 9.1(b) below, the LDC shall be liable for, shall fully indemnify and save harmless and shall release HONI, its successors and assigns, its directors, officers, employees, agents, contractors, subcontractors and representatives of, from and against all damage, loss or injury to persons or property of any nature or kind whatsoever arising from or by reason of, in any way relating to, or based upon any information provided by HONI and/or any of its Subcontractors to the LDC for purposes of the LDC completing and submitting its application to the OPA for the RDR Initiative and any other documents required to be delivered by the LDC to the OPA in accordance with Schedule "D" of the Master Agreement, HONI's performance of, purported performance of, or non-performance of any of its obligations or covenants in this Agreement and/or otherwise in relation to or as a result of this Agreement, and any and all actions, manner of actions, causes of actions, suits, proceedings, claims, debts, obligations, expenses, demands, penalties, fines and costs arising therefrom and connected therewith.

(b) HONI agrees to indemnify and hold harmless the LDC and its employees from and against all liability, claims, judgements or demands for loss, damage or injury including loss of life, to persons or property occasioned by the negligent or improper acts or omissions of a Subcontractor provided that the said Subcontractor has indemnified and held harmless HONI and its employees from and against all said liability, claims, judgements or demands. Notwithstanding the foregoing, HONI's liability hereunder shall be limited to $5 million.

9.2 Notwithstanding anything to the contrary in this Agreement, HONI shall not be liable for any economic loss, loss of goodwill, loss of profit or for any special, indirect or consequential damages, where the said losses or damages are incurred by the LDC or by any third party whether the third party is claiming through or under the LDC or otherwise.

9.3 HONI shall, to the extent determined by HONI to be reasonable, assist the LDC in resolving disputes with any Subcontractor HONI in the case of failure of the said Subcontractor to perform any part of the Services which HONI has contracted out to the said Subcontractor.

9.4 The Parties acknowledge and agree that this Section 9.0 shall survive termination or expiry of this Agreement.

10.0 AUTHORIZED REPRESENTATIVES

10.1 The authorized representatives of the parties hereto for purposes of this Agreement are the following:

HYDRO ONE NETWORKS INC.
483 Bay St.
North Tower, 14th Floor
Toronto, Ontario
M5G 2P5
Attention: **George Katsuras**
Telephone: (416) 345-5881
Telecopier: (416) 345-5911

HYDRO ONE BRAMPTON NETWORKS INC
175 Sandalwood Parkway West
Brampton, Ontario
L7A 1E8

Attention: **Ralph Williams**
Telephone: (905) 452-5516
Telecopier: (905) 840-0967

Any notices, correspondence or other documents required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been properly given on the date of actual delivery if delivered by hand or by courier, five business days after dispatch by registered mail, and on the date faxed (unless it is faxed after the addressee's normal business hours, in which case it shall be deemed received on the addressee's next business day), addressed to the party to whom it was sent at the address, or fax number, of such party set forth below or at such other address or fax as the party shall subsequently designate to the other party by notice given in accordance with this clause.

11.0 FORCE MAJEURE

11.1 Except for the payment of any monies required hereunder, neither party shall be deemed to be in default of this Agreement where the failure to perform or the delay in performing any obligation is due to a cause beyond its reasonable control, including, but not limited to, an act of God, act of any federal, provincial or municipal government, or order of court or administrative or regulatory authority, civil commotion, strikes, lockouts and other labour disputes, fires, floods, sabotage, earthquakes, storms, ice storms and epidemics. As soon as a party anticipates that a force majeure event may occur which will delay or prevent it from performing any of its obligations under this

Agreement, it shall promptly notify the other party and shall exercise all reasonable efforts to mitigate or limit the effect on the other party.

11.2 Once a party becomes subject to such an event of force majeure, it shall promptly notify the other party of its inability to perform, or of any delay in performing, due to an event of force majeure and shall provide an estimate, as soon as practicable, as to when the obligation will be performed. The party subject to the force majeure event shall also continue to furnish timely reports to the other party with respect to the force majeure event during the continuation of the said event and the said party shall exercise all reasonable efforts to mitigate or limit damages to the other party. The party subject to the force majeure event shall use its best efforts to continue to perform its obligations under this Agreement and to correct or cure the event or condition excusing performance and when the said party is able to resume performance of its obligations thereunder, it shall give the other party written notice to that effect and shall promptly resume performance thereunder. The time for performing the obligation shall be extended for a period equal to the time during which the party was subject to the event of force majeure. The parties shall explore all reasonable avenues available to avoid or resolve events of force majeure in the shortest time possible.

11.3 Notwithstanding the two preceding paragraphs, the settlement of any strike, lockout, restrictive work practice or other labour disturbance constituting a force majeure event shall be within the sole discretion of the party involved in such strike, lockout, restrictive work practice or other labour disturbance and nothing in the two preceding paragraphs shall require the said party to mitigate or alleviate the effects of such strike, lockout, restrictive work practice or other labour disturbance.

12.0 ASSIGNMENT

12.1 Neither this Agreement nor the rights and obligations hereunder shall be assigned by either party hereto without the prior written consent of the other, which consent shall not be unreasonably withheld; provided however that HONI shall be entitled to assign any of its rights and obligations hereunder to any of its Affiliates without having to obtain the LDC's prior written consent. Subject to the foregoing, this Agreement shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

13.0 AMENDMENTS

13.1 This Agreement may be amended only by mutual written agreement of the parties.

14.0 ENTIRE AGREEMENT

14.1 This Agreement, together with Schedules "A", "B", "C", "D", "E", "F" and "G" attached hereto, represents the entire agreement between the parties hereto respecting the subject matter hereto and supersedes all prior agreements, understandings, discussions, negotiations, representations and correspondence made by or between them respecting the subject matter hereto.

15.0 GOVERNING LAW

15.1 This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein, and the parties hereto irrevocably attorn to the exclusive jurisdiction of the courts of the Province of Ontario in the event of a dispute hereunder.

16.0 SCHEDULES

16.1 Schedules "A", "B", "C", "D", "E", "F", "G" and "H" attached hereto are to be read with and form part of this Agreement.

17.0 RELATIONSHIP OF PARTIES

17.1 Nothing in this Agreement creates the relationship of principal and agent, employer and employee, partnership or joint venture between the parties. The parties agree that they are and will at all times remain independent and are not and shall not present themselves to be the agent, employee, partner or joint venturer of the other. No representations will be made or acts taken by either party which could establish any apparent relationship of agency, employment, joint venture or partnership and neither party shall be bound in any manner whatsoever by any agreements, warranties or representations made by the other party to any other person nor with respect to any other action of the other party.

18.0 WAIVER

18.1 The failure of either party to exercise any right, power or option or to enforce any remedy or to insist upon the strict compliance with the terms, conditions and covenants under this Agreement shall not constitute a waiver of the terms, conditions and covenants herein with respect to that or any other or subsequent breach thereof nor a waiver by the party at any time thereafter to require strict compliance with all terms, conditions and covenants hereof, including the terms, conditions and covenants with respect to which the party has failed to exercise such right, power or option. Nothing shall be construed or have the effect of a waiver except an instrument in writing signed by the party which expressly waives a right, power or option under this Agreement.

19.0 SEVERABILITY

19.1 If any provision of this Agreement is found by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such provision shall be deemed severed and shall not affect the validity, legality or enforceability of the remaining provisions of this Agreement, unless such invalidity or unenforceability renders the operation of this Agreement impossible.

20.0 COUNTERPARTS

20.1 This Agreement may be executed in counterparts and the counterparts together shall constitute an original.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE NETWORKS INC.

Name: Giuliana Rossini
Title: Director Strategy + Conservation Officer
I have authority to bind the corporation.

HYDRO ONE BRAMPTON NETWORKS INC.

R. Fernandes

Name: **Remy Fernandes**
Title: **President & CEO**
Hydro One Brampton Networks Inc.
I have authority to bind the corporation.

Schedule "A"

HONI OBLIGATIONS

HONI shall perform, or shall cause to be performed, only the following Services for the LDC in relation to the LDC's RDR Initiative until December 31, 2014 (except as otherwise specified below) provided it receives from the LDC the items listed in paragraphs 1 and 5 below under "LDC Obligations".

(a) Marketing:

- Subject to the next sentence, provide the LDC with electronic copy of the promotional material promoting the RDR Initiative with a content and format determined by HONI in consultation with the LDC; the promotional material shall consist of an electronic version of the brochure and bill insert; input provided by the LDC to HONI will be utilized where mutually acceptable, however where agreement cannot be reached, HONI shall make the final determination in its sole discretion as to the content and format of the promotional material; and
- provide the installers of the Load Control Devices and Customer Information Displays with an instructional brochure explaining the operations of the Load Control Device and Customer Information Display, if applicable, that can be left behind with the Participants.

(b) Enrollment:

i. Customer Call Centre - maintain a fully automated inbound telephone Call Center, including an Interactive Voice Response ("IVR") system, and establish a "1-800" telephone number directed to the Call Center to support all inquiries and signup Participants generated from the LDC's marketing activities; HONI shall assist Residential Distribution Consumers and Small Commercial Distribution Consumers to understand the RDR Initiative and the Eligibility Criteria; if the OPA provides scripts for use on the IVR system, HONI may use such scripts on the IVR system at the Customer Call Centre;

ii. Processing of Participant applications- maintain a current database of Eligible Persons provided the LDC provides HONI with each Participant's data file as specified in paragraph 4 under "LDC Obligations" below;

iii. Application Process: manage the application process, including making the Participant Agreement, without modification from the form and substance provided in Schedule "E" attached hereto, available to each Residential Distribution Consumer and Small Commercial Distribution Consumer upon request; prior to enrolling a Distribution Consumer in the RDR Initiative and installing a Load Control Device and Customer Information Display at the Distribution Consumer's premises, HONI shall, based on the information provided by the Distribution Consumer, confirm that all Eligibility Criteria are met and shall ensure that the Participant Agreement has been fully completed and that the Distribution Consumer has evidenced its agreement (including appropriately executed where a paper copy of the Participant Agreement is used) to the terms and conditions of the Participant Agreement;

iv. Handling customer complaints and inquiries - respond directly to complaint and technical and other related inquiry calls in respect of the RDR Initiative from Residential Distribution Consumers and Small Commercial Distribution Consumers received at the Call Center; the Call Center representative will attempt to resolve the problem over the telephone using a series of scripted responses; if a complaint or inquiry cannot be resolved by either HONI or its

Subcontractor, HONI or its Subcontractor will redirect the complaint or inquiry, at the case may be, directly to the LDC for resolution;

(c) Installation of Load Control Devices and Customer Information Displays:

i. Installers - hire, train in both technical and customer service aspects, have available and manage qualified installers for the Load Control Devices and Customer Information Displays;
ii. Work Order Management, Scheduling and Planning - schedule installations and manage the installation process using the VisiTrack work order management system;
iii. Installation of Load Control Devices - by no later than December 31, 2014 and subject to the conditions [(a)-(h) inclusive] listed below, install for each Participant Load Control Device(s) on the Eligible End use Appliances selected by the Participant in the relevant Participant Agreement and a Customer Information Display:

(a) the Participant is enrolled in the RDR Initiative and is available;
(b) the LDC has provided written instructions and confirmation to HONI as per clause 4.5 of the body of the Agreement;
(c) the Participant and HONI or its Subcontractor can agree upon a date for installation;
(d) in the case of a Participant that is a tenant, HONI's Subcontractor has obtained the relevant owner's consent for the said installation(s);
(e) if, after using Commercially Reasonable Efforts, HONI is unable to install any Load Control Device, HONI shall notify the Participant that it was unable to install any Load Control Device and shall inform the LDC of same and the LDC shall terminate the Participant Agreement;

(f) if, after using Commercially Reasonable Efforts, HONI is able to install the Load Control Device(s) but is unable to install the Customer Information Display, HONI may offer to allow the Participant to continue to participate in the RDR Initiative without receiving a Customer Information Display;

(g) HONI shall not install a Load Control Device on an Eligible End Use Appliance that is not in good working condition or if the installation of the Load Control Device cannot be completed in a safe manner or where there is a risk of damage to the Eligible End Use Appliance or the Participant's premises, all as may be determined by HONI in its sole discretion;

(h) HONI shall not install a Customer Information Display for a Continuing Participant unless it has first confirmed that each Continuing Load Control Device is capable of Curtailment and the Continuing Participant agrees to the (new) Participant Agreement; HONI shall not install a Customer Information Display for a Prior Participant unless it has first confirmed that the existing load control device is capable of Curtailment and the Prior Participant agrees to the (new) Participant Agreement. If the existing load control device of a Prior Participant is not capable of Curtailment, HONI may install a (new) Load Control Device and the LDC may receive the Participant Based Funding Amount for the new Load Control Device. If the Continuing Load Control Device of a Continuing Participant is not capable of Curtailment, HONI shall service, repair or replace such Continuing Load Control Device pursuant to subparagraph (f) below;

the maximum number of installations shall be determined by HONI in its sole discretion; the Load Control Devices shall be in accordance with the Ontario Electrical Safety Authority safety standards;

iv. HONI shall not procure a Load Control Device for use in the LDC's RDR Initiative that cannot be controlled by a Control System without the LDC obtaining the prior written consent of the OPA; the LDC shall advise HONI immediately upon HONI's request as to whether the OPA has granted any such request regarding any specific Load Control Device;

v. Labeling and Documentation - Should the LDC require it, apply labels to the Load Control Devices showing a 1-800 number for Participant support;

vi. Inventory management - provide warehousing capability and an inventory control and tracking system that will track the availability of the Load Control Devices for installation; Load Control Devices will be managed by HONI on a "first in first out" basis; and

vii.where requested by the Participant, demonstrate to the Participants how to program the Load Control Device and provide a simple programming guide to the Participant via e-mail or mail;

(d) Reporting:

i. provide to the LDC by no later than January 31, 2012, a list of all Continuing Participants together with information reasonably requested by the Aggregation Operator or OPA and in a format reasonably requested by the LDC regarding each Continuing Participant and/or Continuing Load Control Device so that the Aggregation Operator may exercise Curtailment of the Continuing Load Control Devices of the Continuing Participants;

ii. provide the LDC with the following information to enable the LDC to prepare and submit to the OPA from the period from October 1, 2011 to January 1 2015 a Device Removal/Deactivation Report within seven (7) Business Days of (i) the removal of a Load Control Device from a Participant's premises, or (ii) termination of the participation of a Participant in the RDR Initiative, including due to a Termination Request:

- Participant Identifier (may be SDP ID)
- Action Requested (Removal/Termination Request)
- Why was action requested (Moving/Don't want to participate in RDR Initiative/other)

iii. provide the LDC with the following information to enable the LDC to prepare and submit to the OPA a Device Removal/Deactivation Report during the period from May 1 to September 30 within fifteen (15) Business Days of a Participant moving out of the premises where the Load Control Device was installed:

- Participant Identifier (may be SDP ID)
- Action Requested (Removal/Termination Request)
- Why was action requested (Moving/Don't want to participate in RDR Initiative/other)

iv. on a monthly basis, deliver to the LDC the information identified in Schedule "D" hereto to enable the LDC to provide to the OPA on a monthly basis a Project Completion Report for a

Continuing Participant that has become a Participant (by signing a new Participant Agreement) and that has had a Customer Information Display installed;

v. provide the LDC with the following information to enable the LDC to provide to the OPA during the period from October 1 to April 30 a Device Removal / Deactivation Report after: (i) the removal of a Load Control Device from a Participant's premises, or (ii) termination of the participation of a Participant in the RDR Initiative, including due to a Termination Request or a Participant moving out of the premises where the Load Control Device was installed and, to provide to the OPA within 15 days of the beginning of each month during said period commencing in November all such reports completed during the preceding month;

vi. provide the LDC with the information identified in Schedule "D" attached hereto to enable the LDC to provide to the OPA a report containing said information (i) within seven (7) Business Days of of the installation of a Load Control Device at the premises of a Participant (or a Prior Participant becoming a Participant if a (new) Load Control Device is not installed) during the period from May 1 to September 30; and (ii) monthly during the remainder of the year.

(e) Load Control events:

i. record the information HONI, acting reasonably, deems necessary into HONI's Yukon® "head end" server to enable the LDC to conduct load control events; the LDC's Participants shall be included in any load control events initiated for HONI's Participants unless the LDC opts out of such events and notifies HONI of same prior to HONI's intended date for the load control events; any such events shall follow the protocol provided in Schedule "H" attached hereto;

ii. if applicable, upon the receipt of an Opt Out Request from a Participant or a Continuing Participant, notify the Aggregation Operator of the Opt Out Request the same Business Day if the Opt Out Request is received prior to 5:00pm and on the next Business Day if received after 5:00pm or on a non-Business Day if: (i) the Opt Out Request is not requesting a Load Control Device to be taken out of operation for a continuous period that exceeds 48 hours; (ii) the Participant or Continuing Participant has not previously issued two Opt Out Requests during the calendar year; and (iii) the Opt Out Request is received by the LDC at least two days prior to the day the Load Control Device is requested to be taken out of operation;

(f) Maintenance:

i. maintain a record of all Participants for whom Load Control Devices have been installed; carry out the following after-installation services for purposes of maintaining the Load Control Devices and the Customer Information Displays as HONI deems necessary or as the LDC may require acting reasonably until December 31, 2014: service, repair or replace a malfunctioning Load Control Device upon becoming aware of such malfunction and service, repair or replace a malfunctioning Customer Information Display upon the reasonable request of a Participant unless HONI determines that such malfunction is the fault of the Participant;

ii. closely track all service events by describing the maintenance services performed (whether performed via telephone or actual truck rolls); and

iii. maintain HONI's Yukon® "head end" server and software until January 1, 2015.

LDC OBLIGATIONS

1. The LDC shall provide HONI with the following information by no later than ten Business Days following the Effective Date:

   (a) the Participant's LDC account name, address, daytime phone number, evening phone number and any other information reasonably required by HONI to perform the Services; and

   (b) any information, surveys and other studies concerning its customers' needs and requirements that may be relevant to the RDR Initiative.

2. The LDC shall handle and respond to all complaints, enquiries and any other communications with the Participants and Participants that it receives directly and any complaints, enquiries and any other communications with the Participants that HONI determines it or its Subcontractor cannot resolve.

3. The LDC may print and shall insert a copy of the promotional material provided to it electronically by HONI under Section 1(a) above with the bill for each Participant and mail them out both together to the said Participant.

4. The LDC shall provide HONI with the following record duly completed by the LDC for each Participant within 15 days after the Effective Date: (an update of the record will be provided on a monthly basis on the 2nd working day of the month):

Field Name	Field Sample Data
ACCOUNT_NUMBER	002301844
PREMISE_NUMBER	897975454
SERVICE_POINT_ID	999416953
METER_NUMBER	EE6038
FIRST_NAME	Clarence
LAST_NAME	Clemmons
ADD_CUST_FN	Elise
ADD_CUST_LN	Johnson
CUSTOMER_TYPE	R
LANG_PREF	E
PRIMARY_PHONE	8645872451
ALT_PHONE	9199266544
SERVICE_ADDRESS1	123 Main St
SERVICE_ADDRESS2	STE 245
SERVICE_CITY	MALAHIDE
SERVICE_STATE	ON
SERVICE_ZIP	N0L2J0
REGION	Zone 1
FEEDER_ID	412523

SERVICE LEVELS:

HONI and the LDC agree to the following service levels:

Response time for customer complaints – For emergency calls, (customers without air conditioning or hot water), a service technician will be dispatched immediately (within twenty-four hours), while non-emergency services will be routed with new installations whenever possible. If a complaint cannot be resolved by HONI or its Subcontractor, the complaint or inquiry, as the case may be, shall be forwarded to the LDC for resolution.
Wait time for requests for installation – subject to the maximum number of installations as determined by HONI and the Participant's availability and provided HONI or its Subcontractor and the Participant can agree upon a date for installation, a Load Control Device shall be installed within 30 days after receiving a request for installation from a Participant.

Schedule "B"

Receiving Party Security Safeguards Regarding Confidential Information Received from the Disclosing Party

The Receiving Party shall protect the Confidential Information by security safeguards appropriate to the sensitivity of the information.

1) The Receiving Party shall protect the Confidential Information against such risks as loss or theft, unauthorized access, disclosure, copying, use, modification or destruction, through appropriate security measures, regardless of the format in which it is held.

2) All of the Receiving Party Representatives with access to the Confidential Information shall be contractually required to respect the confidentiality of that information.

3) The Receiving Party acknowledges and agrees that the nature of the safeguards will vary depending on the sensitivity, amount, distribution and format of the information, and the method of storage. The Receiving Party shall ensure that more sensitive information will be safeguarded by a higher level of protection.

4) The Receiving Party shall ensure that methods of protection will include:

(a) physical measures, for example, locked filing cabinets and restricted access to offices;

(b) organizational measures, for example, controlling entry to data centers and limiting access to information on a "need-to-know" basis;

(c) technological measures, for example, the use of passwords and encryption; and

(d) investigative measures, in cases where the Receiving Party has reasonable grounds to believe that the Confidential Information is being inappropriately collected, used or disclosed by anyone whom in law the Receiving Party is responsible.

Schedule "C"

2011 to 2014 RDR Installation Pricing		
Line Description	**Cost**	**Frequency**
Project Management Fee	$ 8,000.00	Per month
Power Cost Thermostat Installation Fee	$ 140.08 *	Per installation
Add-a-Wire installation Fee	$ 15.45	Per installation
Switch Installation Fee	$ 92.70 *	Per installation
Service Call Fee (applicable only for years 2012, 2013 and 2014)	$ 75.00	Per visit
Customer Information Display Unit Set-up and Meter Association	$ 35.00*	Per Device
Load Control Device Cost	actual cost	Per Device
Customer Information Display Cost	actual cost	Per Device

*** The installation prices will be as follows for 2012, 2013 and 2014:**

Device	2012	2013	2014
Power Cost Thermostat Installation Fee	$ 144.28	$148.61	$153.07
Switch Installation Fee	$95.48	$98.35	$101.30
Customer Information Display Unit Set-up and Meter Association	$ 36.05	$37.13	$38.25

Schedule "D"

Installation Data		Type of Information
LDC Name	Required	
LDC Participant Identifier (may be SDP ID)	Required	
Date of Installation	Required	
Participant's name	Required	
Participant's address	Required	
Participant's Postal Code	Required	
Participant by type – Commercial or Residential	Required	C/R
Commercial business type	Required	
Participant's LDC account number		
Type of Participant	Required	New/Continuing Participant/Prior Participant
Technology Vendor and model		
Type and manufacturer of Load Control Device installed	Required	
Type and manufacturer of Customer Information Display installed	Required	Customer Information Display
Unique serial number of Load Control Device required to configure control system	Required	
Type of Appliance(s) connected	Required	AC/EWH/PP
Central Air Conditioner	Requested	Estimated Height, Length & Width (in centimetres) Or Estimated Height and Diameter (in centimetres)
Electric Water Heater	Requested	Size in gallons
Swimming Pool Pump	Requested	Size of pump in horsepower
Does customer have a programmable thermostat?	Requested	Yes / No
Is the Participant a legacy (Prior Program) RDR participant?	Requested	Yes/No
How big is the building (home or business)?	Requested	Estimated Length & Width (in meters) & # of storeys
Tenant or Owner (as indicated on the Participant Agreement	Required	Tenant / Owner
Legal Name of Installation Service Provider	Required	
Service Delivery Point Identification Number (SDP ID) (as and when available)	Requested	Yes / No
For a Continuing Participant or Prior Participant who is signing up for a Customer Information Display: Was the Continuing Load Control Device or existing load control device working?	Required	Yes/No
For a Continuing Participant or Prior Participant who is signing up for a Customer Information Display, where the Continuing Load Control Device or existing load control device is not working, action taken?	Required	Repaired or Replaced

Note: All information and data referred to in the Project Completion Report, whether or not provided to the OPA, is OPA Property.

Schedule "E"

Form of Participant Agreement

Participant Name:

(if a corporation, insert corporate legal name):________________________(**"Participant"**).

Participant Location: Street Address:

Postal Code:

Tenant/Lessee ☐ or Owner ☐ (check one)

What equipment are you enrolling in the program? (check as many as appropriate)

Central Air Conditioner ☐

Electric Water Heater ☐

Swimming Pool Pump ☐

Are you a current *peaksaver®* (or SmartStat) participant? YES ☐ or NO ☐

Are you interested in having a Customer Information Display installed YES ☐ or NO ☐

Are you a Residential ☐ or Commercial Customer ☐ (check one)

What business type are you (if Commercial)? (please print)

References to "you" or "your" in this agreement are references to the Participant.

You have applied to participate in the Residential and Small Commercial Demand Response Initiative (the "**Initiative**") offered by [LDC], your local electricity distributor (the "**LDC**"). Alternatively, you may already be a participant in the prior version of this Initiative marketed as ***peaksaver®*** (or SmartStat) and are applying to receive a free Customer Information Display. This agreement is entered into between you and the LDC and will govern your participation in the Initiative.

If the LDC accepts your agreement, you will be entitled to receive one or more devices ("**Device**"), in the form of a relay-based control device, installed in or on your premises that from time to time adjusts how much electricity one or more enrolled items of equipment will use. If accepted as a new participant or as a continuing participant from the prior program, you will be entitled to receive a Customer Information Display that will display your electricity consumption and electricity cost information (subject to you programming the current electricity cost information into the Customer Information Display). You may also experience the benefits resulting from potentially reduced electricity usage during certain periods of the year. You will also have certain obligations.

In consideration of the installation of one or more Devices in your home or small business and/or your receipt of a free Customer Information Display, you agree to the following terms and conditions:

1. You represent and warrant that you are either a residential electricity distribution customer or a small commercial electricity distribution customer of the LDC and that the person signing this agreement is:

    (a) an individual 18 years or older and is the owner of the premises;

    (b) an individual 18 years or older and is the tenant or lessee of the premises and has the authority to install the Device(s) and Customer Information Display either as a condition of your lease or has the written consent or authorization of the owner of the premises; or

    (c) if the Participant is a corporation, authorized to bind the corporation which is the owner of the premises or lessee of the premises with the authority to install the Device(s) and Customer Information Display either as a condition of its lease or it has written consent or authorization of the owner of the premises.

    You further represent that each appliance to which a Load Control Device is to be connected or attached is and shall be in good working order, and has been and will continue to be maintained and inspected at reasonable intervals.

2. You agree to permit the Device(s) and Customer Information Display to be installed in or on the equipment and at the location indicated above by the LDC and/or the LDC's contractors. If the LDC determines at its sole discretion that a Device cannot be installed, including for safety or access reasons or lack of funds, this agreement will terminate without payment or liability by either party.

3. You agree that the LDC will, pursuant to an agreement with the Ontario Power Authority (the **"OPA"**), allow the OPA and/or the OPA's contractors to control each Device installed in or on your premises by interrupting power to the equipment to which the Device is connected for not more than four hours per day during certain periods of the year. This may mean that, in the case of a Device attached to an air conditioner, there may be an increase in the temperature in your premises; in the case of a Device attached to a water heater, there may be reduction in the availability of hot water; and in the case of a Device attached to a swimming pool pump, the swimming pool pump will be inoperative. You further acknowledge and agree that no person or entity except the OPA or a person or entity designated by the OPA shall have the right to control or dispatch the Devices and exercise load control and you further agree not to authorize anyone else to control any Devices installed in or on your premises.

4. You agree not to move, remove, tamper with, disable or damage the Device(s) that are installed in or on your premises. You also agree not to remove, disable or damage the Customer Information Display. Any failure to comply with these obligations will be at your sole risk for any damage that may result including damage to the equipment or your premises or injury to any person.

5. You agree to allow a representative of your LDC to have reasonable access to your premises in order to inspect, test, repair, replace and service the Devices and Customer Information Display as the LDC deems necessary.

6. You may submit a request in writing or by telephone to the LDC to terminate your participation in the Initiative and have the Device(s) cease operation. The LDC will comply with such request within at least ten (10) business days.

7. On two days advance notice, you may request by phone, in writing or by internet (if available) to the LDC that the electricity use of your equipment not be adjusted for a period not to exceed 48 hours. You may make this opt-out request no more than twice per year.

8. You agree and acknowledge that: (i) the LDC's contractor is independent of the LDC and that the LDC makes no representation, warranty, endorsement or recommendation of any kind with regard to the "Initiative"; (ii) the LDC does not guarantee energy cost savings or other benefits arising from this Initiative; (iii) the Customer Information Display may not display real time consumption and costing information; and (iv) neither the LDC, the OPA, nor their respective successors, assignors, affiliates, employees, agents, officers, directors, service providers and such affiliates, respective officers, directors or employees or any of their heirs, successors or assigns (collectively, the "**Initiative Operators**") will be liable for any loss, damage or injury to persons or property, including without limitation any economic loss, loss of good will, loss of profit or any direct, indirect, special or consequential damages, and any costs or losses, expenses, fees, liabilities, allegations, causes of action, suits, proceedings, debts, penalties and demands arising therefrom or connected therewith of any nature or kind whatsoever arising from or related to the installation of the Device(s) or Customer Information Display, or the interruption of power to any equipment to which a Device is connected, the Initiative or any matter related to this agreement, including, without limitation, any acts or omissions of any Initiative Operator and you hereby release the Initiative Operators of, from and against any and all of the foregoing. You agree to indemnify the Initiative Operators if you or any member of your family, customer, occupant or guest seeks damages against any of them for any reason that is connected with this agreement, the Device(s) or Customer Information Display. The maximum liability of the Initiative Operators for any matter, claim or damage in connection with this agreement, the Device(s) or the Customer Information Display is limited to $250.

9. You agree to participate in any follow up surveys, studies, audits, evaluations or verifications conducted by the LDC or the OPA or their agents or service providers in connection with the Initiative. This Section 9 shall survive the termination of this agreement.

10. You consent to the collection, use, disclosure and other handling of any information provided by you to the Initiative Operators, including personal information such as your name, address, telephone number, email address and records showing historical energy use and consumption (collectively the foregoing is referred to as "**Participant Information**") by the Initiative Operators for purposes relating to the operation, administration or assessment of the Initiative, and in connection with any reporting activities relating to the Initiative, which such use will include, without limitation: (i) sharing of Participant Information among the Initiative Operators; (ii) use by the Initiative Operators of the Participant Information provided by you to conduct, analyze and report on the results of the Initiative and to conduct surveys and modify the Initiative based on such surveys; and (iii) disclosure to the Ontario Energy Board, the Independent Electricity System Operator, the Ontario Ministry of Energy or the Ontario Environmental Commissioner and/or their respective successors. You hereby acknowledge that the Participant Information may be accessible to third parties under the *Freedom of Information and Protection of Privacy Act (Ontario)* or the *Municipal Freedom of Information and Protection of Privacy Act (Ontario)*. This Section 10 shall survive the termination of this agreement.

11. You transfer and assign, or to the extent transfer or assignment is not permitted, hold in trust for, or in favour of, the LDC in its capacity as agent for and on behalf of the OPA, and not for the LDC's own benefit, all right, title and interest in and to all benefits or entitlements associated with the electricity savings or demand savings attributable to a Device, and the right to quantify and register these, including without limitation, any energy efficiency certificate, renewable energy certificate, credit, reduction right, offset, allocated pollution right, emission reduction allowance (collectively, the "**Environmental Attributes**"). Until the OPA notifies you otherwise, the LDC, in its capacity as agent, shall be entitled, unilaterally and without your consent, to deal with such Environmental Attributes on behalf of the OPA in any manner the LDC determines. You acknowledge that the OPA may direct you in the same manner as the LDC and that until the OPA notifies you otherwise the LDC may direct you to take such actions and do all such things necessary to certify, obtain, qualify and register with the relevant authorities or agencies such Environmental Attributes for the purpose of transferring, assigning, or holding in trust, such Environmental Attributes to and for the OPA and you shall comply with such directions, and you

will be entitled to reimbursement of the cost of complying with such direction, provided that the LDC, acting reasonably, has approved such cost in writing prior to the cost being incurred by you. This Section 11 shall survive the termination of this agreement.

12. As between you and the LDC, the LDC does not own nor will it own the Devices or Customer Information Display installed on or in your premises and title to the Devices and the Customer Information Display shall at all times be and remain with you. Nothing in this Agreement or otherwise shall have the effect of passing title to the Devices or Customer Information Display to the LDC.

13. You acknowledge and agree that: (i) you have independently assessed the risk of installing Devices or Customer Information Display in or on your premises and you accept such risk; (ii) the Devices and Customer Information Display have been selected and obtained through normal commercial channels, and the LDC makes no representation or warranty, express, implied, statutory or otherwise, including any representation or warranty as to merchantability, design, capabilities, suitability, durability or fitness for use or for a particular purpose, with regard to the Devices and Customer Information Display or any part thereof or the installation thereof or otherwise; (iii) the energy cost savings and other benefits described in connection with the Initiative are based on estimates, and actual results may differ; and (iv) the Devices and Customer Information Display are intended for use only as directed and improper use may result in injury or damage.

14. The LDC shall not be in default, and shall not be deemed to be in default, of this agreement by reason of delay or the failure or inability to perform its obligations hereunder where the said delay, failure or inability is due solely to any cause which is unavoidable or beyond the reasonable control of the LDC, including without limitation any act of God or other cause which frustrates the performance of this agreement.

15. Subject to earlier termination rights herein, this agreement shall remain in effect for as long as there is an operational Device at your premises or until you move from the premises where a Device is located. In the event a Device cannot be installed at your premises, this agreement shall terminate. If you breach any of your obligations in this contract, the LDC may terminate this agreement. The LDC may terminate this agreement at any time and for any reason by sending you a notice.

16. This agreement shall be interpreted under Ontario law. You may not assign this agreement. This agreement may be amended by the LDC with thirty (30) days notice to you.

17. Except as provided in Sections 3, 8, 9, 10, 11 and this Section 17, this agreement is solely for the benefit of:

    (a) the LDC, and its successors and assigns, with respect to your obligations under this agreement, and

    (b) you, and your successors with respect to the obligations of the LDC under this agreement;

and this agreement will not be deemed to confer upon or give to any other person any claim or other right or remedy. You appoint the LDC as the trustee for the OPA and the other Initiative Operators of the applicable provisions set out in this agreement, including Sections 3, 8, 9, 10, and this Section 17. The LDC is the OPA's agent for the purpose of Section 11.

Signature: ______________________________

Date: ______________________________

Schedule "F"

Participant Eligibility Criteria

To be an Eligible Person under the RDR Initiative, the Person must:

(a) be either a Residential Distribution Consumer or a Small Commercial Distribution Consumer located in the LDC's service area;

(b) be the owner or the lessee of the Facility in relation to which the Distribution Consumer has submitted an Application, and if the Distribution Consumer is a lessee it must have the authority to install the Load Control Device and Customer Information Display either as a condition of its lease or with the written consent/authorization of the owner of the Facility; and

(c) have a customer account with the LDC

For purposes of the above criteria, the term "Facility" means the buildings, premises or lands, or part thereof, owned or occupied by an Eligible Person or a Participant and in respect of which such Eligible Person intends to participate, or such Participant is participating, in the RDR Initiative.

Schedule "G"

Load Control Device and Customer Information Display Functional Requirements

A. Load Control Device Requirements

Load Control Devices installed pursuant to this Initiative must have the following minimum functional requirements:

1. **Communications:** Minimum one-way communication over one-way radio frequency networks directly to the Load Control Device where a single broadcast can address one or more Load Control Devices resulting in efficient communications and targeted Load Control.
   a. Supports redundant service providers so that the service providers can be remotely changed without a visit to the Load Control Device.
   b. Over-the-air (OTA) programming of addressing, plus individual control or override.

2. **Operating Requirements for Load Control Device that is a relay based switch:**
   a. **Power Source**: 240 VAC (+10% -20%) and 24, 120 and 208 VAC as optional, Frequency 60 Hz (±2%)
   b. **Temperature**: -40° F to 185° F (-40° C to +85° C).
   c. **Relative Humidity**: 0 to 95% non-condensing.
   d. **Relay Control**:
      i. 5 A at 120 VAC resistive, Form C or;
      ii. 30 A at 240 VAC resistive, Form B
   e. **Housing**: NEMA 3R injection-moulded, UV-stabilized gray polycarbonate plastic. Rain-tight per UL916.
   f. **Wiring**: Pre-wired with six foot leads with wire size suitable for contact capacity of relay to facilitate installation.

3. **Load Control Commands**:
   Load Control Device must be:
   a. Remotely and locally programmable
   b. Group addresses remotely or locally re-assignable

   Load Control Device must be able to receive the following two types of commands:
   a. Control the load for a user-specified time period, and then automatically restores. This command allows up to 240 minutes of control with 1 to 240 minutes of beginning and/or ending control time to minimize the creation of new load peaks.
   b. Initiate a sequence of control/restore cycle that allows for a cycle period of 1 to 240 minutes and 1 to 100% cycling control for Load Control Devices. Load Control Device automatically randomize initially, and then restore upon completion of a cycle count. Control percentages or periods may be changed in mid-cycle with a smooth transition into the new sequence.

4. **Cold Load Pickup**:
   To minimize feeder inrush following power outages, the Load Control Device must include a cold load pickup feature that can be enabled or disabled for the connected load.

5. **Propagation Test Commands:**
Load Control Device test command must be able to verify reception of a signal by turning on a receiver LED.

6. **Fail-Safe Operation:**
In case of any abnormality, the Load Control Device must reset and the connected load should be returned to its normal state.

7. **Compliant with Laws and Regulations**
Load Control Device must comply with applicable Laws and Regulations including ETL, CSA and ULC.

B. Customer Information Display Requirements

Each Customer Information Display installed pursuant to this Initiative must have the following minimum functional requirements. In procuring Customer Information Displays, the LDC shall procure devices that, in the LDC's sole and absolute discretion, have the greatest value to ratepayers over the Term and not simply the lowest cost alternative, subject to Section 6.1 of the Schedule.

1. Customer Information Display may use one of the following for electricity consumption data acquisition:
    a. Integrating with the LDC's Advanced Metering Infrastructure network;
    b. Communicating with a ZigBee® smart energy profile equipped meter;
    c. Eavesdropping on the Advanced Metering Infrastructure transmission; or
    d. Other solutions that meet or exceed these minimum requirements and display electricity consumption data and prices.
2. Customer Information Display must have data accuracy at 95% or better.
3. Display Screen:
    a. Numeric elements of the display may be in analog and/or digital format;
    b. Wall mounting or table top;
4. Functionality:
    a. Provide instantaneous or near real time display;
    b. Displays shall be of whole home, electricity hourly demand in power (Watt) units (and for greater certainty volt-amp readings having less than unity power factor are not acceptable), current hourly cost of energy using OEB established consumer time of use power rates and a data refresh rate of no more than 60 seconds.
    c. Must permit the manual or remote updating of the IHD to input the most current seasonal OEB consumer time of use power rates for automated use in establishing the current cost of energy in cents.
5. Security and Privacy: Security features that prevent unauthorized access to Participant information.
6. Independent Testing Requirements: Customer Information Display vendors at their cost must have the devices tested for performance and functionality by an independent test laboratory. Some of the examples of testing required include:
    a. Communications: Radio transmission must be able to communicate within broad range of household conditions.

b. Accuracy;
c. Reliability;
d. Comply with applicable Laws and Regulations and meet with all mandatory safety and other requirements including ETL, CSA or ULC certified, if applicable.

7. Products must provide ease of installation, setup and operation as required for both the Participant and LDC.
8. Power supply: 120Vac (directly or through a plug-in charger).
9. Provide a minimum one year, full replacement warranty.
10. Provide a detailed, intuitive user guide or operating manual in both English and French as a minimum.

Schedule "H"

LDC Initiated DR Curtailment Protocol

There are seven stages to the LDC Initiated DR Curtailment Protocol – LDC Standby Notice to Dispatch Administrator, Dispatch Administrator Standby Notice to Aggregation Operator, LDC Activation Notice to Dispatch Administrator, Dispatch Administrator Activation Notice to Aggregation Operator, Aggregation Operator Activation Notice, Activation Confirmation and Activation Completion Confirmation.

Conventions:

A 24 hour clock will be used in this protocol.

Eastern Prevailing Time (EPT) will be used year round. EPT is either Eastern Standard Time or Eastern Daylight Savings Time, as in effect from time to time.

Hours for potential Curtailment:

Curtailment may be requested:

Date Range or Month	**Days**	**Hours**
May 1 to September 30	Business Days only	12:00 to 19:00

Notification:

The LDC Standby Notice (as discussed below) may be issued on a non-Business Day – for example, the LDC Standby Notice could be issued on a Sunday for a Monday Curtailment or on a holiday for a Curtailment on the following Business Day.

Dispatch Administrator Contact Information:

The Dispatch Administrator contact information for notices under this protocol shall be provided by the OPA to the LDC from time to time.

Stage One - LDC Standby Notice to Dispatch Administrator

This notice is the process by which the LDC informs the Dispatch Administrator that Curtailment may be requested during a specified future period and, if applicable, in specified Groupings. The notice may be provided for a Curtailment to occur during the next day (referred to as the day-ahead), or the current day (referred to as the day-at-hand). The notice shall be provided using the form of LDC Standby Notice attached as Appendix 1 to this Exhibit.

Day-ahead notification may not be issued by the LDC later than 17:00.

Day-at-hand notification may not be given by the LDC (i) earlier than 8:00, (ii) later than 12:00, and (iii) less than three hours prior to the Activation Period.

The LDC Standby Notice may only be issued by the LDC by (i) email, and (ii) phone call to a contact specified for the Dispatch Administrator.

The LDC Standby Notice must specify the period during which Curtailment is requested.

The Dispatch Administrator will issue confirmation of receipt of the LDC Standby Notice to the LDC:

(i) if the LDC Standby Notice is issued on a Business Day, within one Business Hour of receipt;

(ii) if the LDC Standby Notice is issued on a non-Business Day, not later than 8:00 on the next following Business Day;

by email to the email address specified by the LDC in the LDC Standby Notice.

The Dispatch Administrator will reject a LDC Standby Notice:

(i) if the requested Curtailment is for the same day as a province wide Standby Notice (whether issued before or after the LDC Standby Notice); or

(ii) if it does not comply with the curtailment parameters.

Stage Two – Dispatch Administrator Standby Notice to Aggregation Operator

Upon receipt of a valid LDC Standby Notice, the Dispatch Administrator will notify the Aggregation Operator that Curtailment may be required during the period specified in the LDC Standby Notice.

Stage Three – LDC Activation Notice to Dispatch Administrator

This notice is the process by which the LDC confirms to the Dispatch Administrator that Curtailment is being requested. Upon the issuance of the LDC Activation Notice by the LDC the LDC will not have the ability to cancel the requested Curtailment. The notice shall be provided using the form of LDC Activation Notice attached as Appendix 2 to this Exhibit.

The LDC Activation Notice may only be issued to the Dispatch Administrator on the day of the Activation Period (i) not earlier than 8:00, (ii) not later than 13:00, and (iii) not less than two hours prior to the commencement of the Activation Period.

The LDC Activation Notice must specify the period during which Curtailment is requested and, if applicable, the Groupings in which the Curtailment is requested.

The Dispatch Administrator will reject a LDC Activation Notice:

(iii) if the requested Curtailment is for the same day as a province wide Standby Notice (whether issued before or after the LDC Activation Notice); or

(iv) if it does not comply with the Participant Agreement.

Stage Four – Dispatch Administrator Activation Notice to Aggregation Operator

This notice is the process by which the Dispatch Administrator informs the Aggregation Operator that Curtailment must occur.

Activation Notice will be given by the Dispatch Administrator (i) not earlier than 8:00, (ii) not later than 14:00, and (iii) not less than one hour prior to the commencement of the Activation Period.

Stage Five – Aggregation Operator Activation Notice

The Aggregation Operator Activation Notice is a notice given by the Aggregation Operator to an LDC to confirm to the LDC that Curtailment will occur within its service area during the time period specified in the applicable Dispatch Administrator Activation Notice to the Aggregation Operator.

The Aggregation Operator Activation Notice will be issued by the Aggregation Operator to the affected LDC within one Business Hour of receipt by the Aggregation Operator of the applicable Dispatch Administrator Activation Notice and will confirm the details of the Curtailment.

Stage Six – Activation Confirmation

Activation Confirmation is the process by which the Aggregation Operator confirms that Curtailment has commenced pursuant to a Dispatch Administrator Activation Notice.

Activation Confirmation will be issued by the Aggregation Operator within one Business Hour of the commencement of the Activation Period.

The Activation Confirmation will be given by the Aggregation Operator:

(v) to the Dispatch Administrator; and

(vi) to the LDC by email to the email address specified by such LDC in the LDC Activation Notice.

Stage Seven – Activation Completion Confirmation

Activation Completion Confirmation is the process by which the Aggregation Operator confirms that Curtailment has occurred and that the Activation Period has ended.

Activation Completion Confirmation will be issued no more than one Business Hour after the end of the Activation Period.

The Activation Completion Confirmation will be issued by the Aggregation Operator:

(vii) to the Dispatch Administrator; and

(viii) to the LDC by email to the email address specified by the LDC in the LDC Activation Notice.

Appendix 1 to LDC Initiated DR Curtailment Protocol

Form of LDC Standby Notice

1) Name of LDC: ____________________

2) Email address of LDC: ______________

3) Phone number of LDC: ______________

4) Date of Notice (dd/mm/yyyy): _________

5) Type of Notice (check one box only):

   a. day at hand LDC Standby Notice ☐

   b. day ahead LDC Standby Notice ☐

6) Request for Standby Notice:

   a. On Date (dd/mm/yyyy): ________

   b. Standby Start time (EPT): _______

   c. Standby Stop time (EPT): _______

7) List of Groupings in the LDC's service area requested for standby (if provided to the Aggregation Operator):

8) Name of Aggregation Operator for LDC: ________________

Appendix 2 to LDC Initiated DR Curtailment Protocol

Form of LDC Activation Notice

1) Name of LDC: ______________________

2) Email address of LDC: ________________

3) Phone number of LDC: ________________

4) Date of Notice (dd/mm/yyyy): __________

5) Request for Activation Notice:

    a. On Date (dd/mm/yyyy): ____________

    b. Activation Start time (EPT): ________

    c. Activation Stop time* (EPT): ________

*Maximum of 4 hours per event

6) List of Groupings in the LDC's service area requested for Curtailment (if provided to the Aggregation Operator):

7) Name of Aggregation Operator for LDC: ______________

THIS AGREEMENT made in duplicate this 1st day of June, 2011 (the "Effective Date").

BETWEEN:

HYDRO ONE TELECOM INC.
(the "Services Provider")

- and -

HYDRO ONE NETWORKS INC.
(the "Services Recipient")

WHEREAS:

A. The Services Recipient has engaged a third party (the "**Vendor**") to supply and configure a software application (the "**Telecommunication Expense Management Software**") for the Services Recipient to be used to manage orders, inventory, reporting, contract management and billing reconciliation for all leased telecommunications services and to function as a centralized information repository for all technical, financial and contractual information related to leased telecommunications services.
B. The Services Recipient wishes to engage the Services Provider to support the Vendor in implementing, configuring and populating the Telecommunication Expense Management Software and the Services Provider has agreed to perform said services in accordance with the terms and conditions herein.

NOW THEREFORE in consideration of the mutual covenants, terms and conditions contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby irrevocably acknowledged, the parties hereto agree as follows:

1.0 TERM

(a) Except as otherwise specified and subject to the termination rights in subparagraphs (b), (c) and (d) below of this Section 1.0, this Agreement shall be of full force and effect as of the Effective Date and shall terminate upon satisfactory completion of and payment for the services described in Section 2.0 below by the Services Provider and the Services Recipient respectively in accordance with the terms and conditions herein The Services Recipient shall commence to provide the Services on the Effective Date and shall completely perform the Services in accordance with the terms and conditions herein by no later than June 1 , 2012.

(b) When a party (the "non-Defaulting Party") becomes aware of the breach of a term, condition, representation, warranty or covenant (an "Event of Default") by the other party (the "Defaulting Party"), the non-Defaulting Party may provide the Defaulting Party with written notice of the Event of Default and the non-Defaulting Party shall allow the Defaulting Party to cure or rectify such Event of Default within 30 business days after receipt of the notice and, subject to the provisions herein, if the Event of Default is not cured within the 30-Business Day period to the non-Defaulting Party's reasonable satisfaction, the non-Defaulting Party may immediately terminate this Agreement with written notice to the Defaulting Party without penalty or liability to the non-Defaulting Party, except in the case of the Services Recipient, any monies then due and owing to the Services Provider because of any performance of the Services Provider's obligations completed up to the effective date of such termination. The immediately preceding sentence and this sentence shall survive the termination or expiry of this Agreement.

(c) Notwithstanding anything contained herein, this Agreement shall automatically terminate upon termination of the Telecommunications Services Agreement dated January 1, 2011 executed between the parties. In the event of such termination, the Services Recipient shall reimburse the Services Provider for amounts spent, incurred, committed (whether or not yet payable) by the Services Provider for services or products from and of third parties in relation to the Services to be provided hereunder and all other costs incurred by the Services Provider arising out of the said termination provided that the Services Provider provides the Services Recipient with evidence (including an invoice and all supporting documentation) reasonably satisfactory to the Services Recipient of such amounts and other costs. The immediately preceding sentence and this sentence shall survive the termination or expiry of this Agreement.

(d) All rights and remedies of the parties provided herein are not intended to be exclusive but rather are cumulative and are in addition to any other right or remedy otherwise available to the parties respectively at law or in equity and not specifically precluded herein, and any one or more of the parties' rights and remedies may from time to time be exercised independently or in combination and without prejudice to any other right or remedy the parties may have or may have exercised. The parties further agree that where any of the remedies provided for and elected by the non-defaulting party are found to be unenforceable, the non-defaulting party shall not be precluded from exercising any other right or remedy available to it at law or in equity, except to the extent specifically precluded herein. The provisions of this subparagraph (d) of this clause 1.0 shall survive the termination or expiry of this Agreement.

2.0 SERVICES AND SERVICE RECIPIENT'S OBLIGATIONS

(a) The Services Provider shall provide software implementation and configuration support services to the Services Recipient, which collectively constitute the Services and which are more particularly described in Schedule "A" attached hereto, as may be required by the Services Recipient from time to time during the term of this Agreement.

(b) The parties acknowledge and agree that the Services Provider will acquire no rights to the Telecommunication Expense Management Software other than the permissions granted herein.

(c) The Services Recipient will cause the Vendor to provide the Services Provider with timely information for the development of templates and models for use within the Telecommunication Expense Management Software as the Services Provider deems necessary in order for the Services Provider to perform the Services herein.

(d) The Services Recipient acknowledges and agrees that any information to be imported by the Services Provider into the Telecommunication Expense Management Software in accordance with Schedule "A" hereto will be limited to data that that can be migrated effectively and that the data from Granite and TelServ database will be imported directly to the Telecommunication Expense Management Software without data scrubbing or transformation

3.0 FEES PAYABLE

(a) The price for the performance of the Services for the Services Recipient shall be $ 281,750.00, exclusive of any sales and use taxes, as may be applicable. The said price for the Services shall be paid by the Services Recipient to the Services Provider by means of monthly electronic journal transfers which shall be reflected in the applicable books and records of each party In addition, each Services Recipient shall pay for any material costs which the Services Provider, acting reasonably, incurs as a result of resources, services and products that the Services Provider must purchase and that are in addition to the Services Provider's existing resources, services and products, in order to provide the said Services Recipient with specific services it requires and requests.

(b) If at any time during the performance of the Services, the Services Recipient is of the opinion that there are deficiencies in the Services provided to it, the Services Recipient shall pay the entire relevant price payable by it in full and its sole remedy shall be to follow the dispute resolution procedures outlined in Section 6.0 herein to determine what amount, if any, shall be refunded to the Services Recipient and/or what Services, if any, shall be rectified or redone by the Services Provider.

c) The parties acknowledge and agree that they qualify as specified members of a closely related group under subsection 156(1) of the Excise Tax Act (Canada), as amended (the "Act") and have jointly executed a Form GST25, to make an election under subsection 156(2) of the Act to deem the purchase and sale of the Services to be made for nil consideration for purposes of Harmonized Sales Tax.

4.0 REPRESENTATIONS AND WARRANTIES

(a) The Services Provider represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder;
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Provider; and
- (iii) all staff employed in the performance of the Services shall have the qualifications, expertise and experience which could reasonably be expected of staff of a services provider performing work similar to the Services.

(b) The Services Recipient represents and warrants that:
- (i) it has all the necessary authority and capacity to enter into this Agreement and to perform its obligations hereunder; and
- (ii) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated herein have been duly authorized by all necessary corporate action on the part of the Services Recipient.

5.0 PERFORMANCE OF THE SERVICES

(a) **Compliance with Standards and Applicable Law**: The Services Provider shall perform the Services in a diligent and professional manner and shall comply with the Services Recipient's computer data management and data access protocols contained in the Services Recipient's documents entitled "Corporate Security Standard 600-3 – Information Security Policy" dated January 17, 2000 and "Corporate Security Policy 908 – Information Security Policy" dated August 1, 2010 and any amendments thereto which may be made from time to time by the Services Recipient. The Services Provider shall comply at all times with the statutes, regulations, by-laws, standards and codes, as amended, as may be applicable to the Services Provider in respect of the Services and the performance of its obligations hereunder and it shall, at its own expense, obtain and maintain in good standing all permits and licences required by any authorities having jurisdiction to perform the Services.

(b) **Safety and Security Measures**: When any part of the Services is to be performed at any of the Services Recipient's premises, all of the Services Provider's staff engaged in the performance of the Services at the said premises shall comply with the safety and security requirements and measures in effect at the said premises.

6.0 DISPUTE RESOLUTION PROCEDURES

Any controversy, dispute, difference, question or claim arising between any of the parties in connection with the interpretation, performance, construction or implementation of this Agreement that cannot be resolved by a director or manager from each of the said parties (collectively "Dispute") shall be settled in accordance with this Section. The aggrieved party shall send the other affected party(ies) written notice identifying the Dispute, the amount involved, if any, and the remedy sought, and invoking the procedures of this Section. The Presidents of each affected party shall confer in an effort to resolve the Dispute. If the Presidents are unable to resolve the Dispute within 5 business days after receipt of the written notice of the Dispute, then the affected parties shall submit the Dispute to the President of Hydro One Inc. for resolution.

7.0 CONFIDENTIALITY

Each party (the "Receiving Party") shall maintain in strict confidence this Agreement and the existence and contents thereof and all information, analysis, conclusions, drawings, reports, specifications or other information, proprietary or otherwise, whether transmitted orally, electronically or in written form, and received in furtherance of this Agreement from any of the other parties (the "Disclosing Party") or any of the Disclosing Party's directors, officers, employees, consultants, agents or legal and other advisors (the "Disclosing Party Representatives") (collectively the "Confidential Information"). Except as permitted herein, the Receiving Party shall not publish, reproduce, or disclose, either directly or indirectly, the said Confidential Information to any third party and shall not use the said Confidential Information for any purpose other than for purposes of this Agreement without the prior written consent of the Disclosing Party. The Receiving Party may disclose the Confidential Information only to its shareholder, directors, officers, employees, consultants, agents or professional advisors (the "Receiving Party Representatives") having a need to know same and who have undertaken a like obligation to maintain its confidentiality.

For greater certainty, Confidential Information includes any and all personal information (as that term is defined in the Freedom of Information and Protection of Privacy Act (Ontario) and the Personal Information Protection and Electronic Documents Act (Canada), as they may be amended, and any and all information regarding a consumer, retailer, wholesale buyer, wholesale supplier, or a generator, provided by the Disclosing Party to the Receiving Party for purposes of this Agreement, whether or not such information was initially provided prior to the Effective Date.

The Receiving Party undertakes to protect and safeguard all Confidential Information in its possession or under its control and received by the Disclosing Party, in the manner described in Schedule "B" attached hereto. The Disclosing Party may, on reasonable notice, and during regular business hours, audit the information management practices of the Receiving Party to confirm compliance with the terms and conditions of this Section 7.0 and all applicable statutes, regulations, by-laws, standards and codes, as amended.

The Receiving Party undertakes to notify the Disclosing Party immediately upon discovery of any unauthorized use and/or disclosure of any of the Disclosing Party's Confidential Information, to co-operate with the Disclosing Party to help regain possession of such Confidential Information, and to prevent its further unauthorized use and/or disclosure.

The foregoing obligations with respect to confidentiality, use, reproduction, dissemination, publication and non-disclosure herein shall not apply to any information that:

(i) is previously known to or lawfully in the possession of the Receiving Party prior to the date of disclosure as evidenced by the Receiving Party's written record;
(ii) is independently known to or discovered by the Receiving Party, without any reference to the information or material;
(iii) is obtained by the Receiving Party from an arm's length third party having a bona fide right to disclose same and who was not otherwise under an obligation of confidence or fiduciary duty to the Disclosing Party or the Disclosing Party Representatives;
(iv) is or becomes public knowledge through no fault or omission of, or breach of this Agreement by the Receiving Party or the Receiving Party Representatives; or
(v) is required to be disclosed pursuant to a final judicial or governmental order or other legal process.

Confidential Information (other than this Agreement which shall be jointly owned by the parties) shall remain the sole and exclusive property of the Disclosing Party that has disclosed the Confidential Information, and the Disclosing Party shall retain all right, title and interest in and to the said Confidential Information.

The Receiving Party shall keep a record of written Confidential Information furnished to it by the Disclosing Party in a location separate from those locations where the Receiving Party has stored information in respect of other third parties for which it performs work and it shall advise the Disclosing Party of such location.

All Confidential Information furnished by the Disclosing Party (other than this Agreement), including that portion of the Confidential Information which is contained in analyses, compilations, studies or other documents prepared by the Receiving Party or by the Receiving Party Representatives, is the Disclosing Party's property and will be returned immediately to the Disclosing Party upon its request.

The obligations in this Section 7.0 shall forever survive the termination or expiration of this Agreement.

8.0 LIABILITY

Unless otherwise agreed in writing, each party shall indemnify the other party and that other party's successors and assigns, directors, officers, employees, contractors and agents from and against all direct costs or damages attributable to the indemnifying party's performance and/or non-performance of its obligations under this Agreement and any amendments or additions thereto that are mutually agreed to in writing, whether arising from or based on breach of contract, tort, negligence, strict liability or otherwise. Notwithstanding any other provision of this Agreement, neither party shall be liable for any economic loss, loss of goodwill, loss of profit or for any special, indirect or consequential damages, where the said losses or damages are incurred by the other or by any third party claiming through or under the other.

This Section 8.0 shall forever survive the termination or expiration of this Agreement.

9.0 AUTHORIZED REPRESENTATIVES

The authorized representatives of the parties hereto for purposes of this Agreement are the following:

HYDRO ONE TELECOM INC.
65 Kelfield Street,
Rexdale, Ontario M9W 5A3

Attention: **Cliff Truax**
Telephone: 416-240-6713
Telecopier: 416-240-6802

HYDRO ONE NETWORKS INC.
483 Bay St.
North Tower, 15th Floor
Toronto, Ontario M5G 2P5

Attention: **Janusz Ploski**
Telephone: (416) 345-5129
Telecopier: (416) 345-5424

All correspondence, reports, documents and/or other communication concerning this Agreement and the Schedule attached hereto shall be directed to the attention of the authorized representatives noted above and shall be deemed to be sufficiently given if delivered personally, mailed or transmitted by fax to the attention of the authorized representatives at the addresses above, and any notice so given shall be deemed to have been made and received on the date of delivery or on the 5th business day following the day of mailing of same or on the day of transmission if transmitted during normal business hours, otherwise on the next business day, as the case may be.

10.0 CHANGE OF CONTROL

In the event of a change of control of the Services Provider, this Agreement shall immediately terminate. A change of control shall mean, as applicable, a purchase of more than fifty (50) percent of the outstanding capital by a non-affiliate third party.

11.0 ASSIGNMENT

Neither this Agreement nor any rights and obligations shall be assigned by either party without the prior written consent of the other party, which consent shall not be unreasonably withheld. Subject to the foregoing, this Agreement shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

12.0 RELATIONSHIP OF PARTIES:

Nothing in this Agreement creates the relationship of principal and agent, employer and employee, partnership or joint venture between the parties. The parties agree that they are and will at all times remain independent and are not and shall not present themselves to be the agent, employee, partner or joint venturer of the other. No representations will be made or acts taken by either party which could establish any apparent relationship of agency, employment, joint venture or partnership and neither party shall be bound in any manner whatsoever by any agreements, warranties or representations made by the other party to any other person nor with respect to any other action of the other party.

13.0 SCHEDULES

Schedules "A" and "B" attached hereto are to be read with and form part of this Agreement.

14.0 AMENDMENTS

This Agreement may be amended only by mutual written agreement of the Parties.

15.0 COUNTERPARTS

This Agreement may be executed in counterparts and the counterparts together shall constitute an original.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE NETWORKS INC.

Name: Monique Jobin
Title: Director, Supply Chain Service
I have authority to bind the corporation

HYDRO ONE TELECOM INC.

Name: Paul Marchant
Title: President and CEO
I have authority to bind the corporation.

Schedule "A"

DESCRIPTION OF SERVICES:

The Services Provider shall provide the Services Recipient with the following Implementation and Configuration Support services for a new Telecommunication Expense Management software:

(a) prepare production, backup, and development environments to support the installation of the Telecommunication Expense Management Software;

(b) provide leased circuit records and invoices to the Vendor;

(c) subject to Section 2.0(d) of the Agreement, import all information from the Services Recipient's Granite Inventory and the existing TelServ applications into the Telecommunication Expense Management Software;

(d) build an MS-Excel file t to allow read-only access to the historical records in TelServ. The Services Provider will ensure that the file will contain information from TelServ schemas including:
- CDS
- Leased Circuits
- Stations
- Entrances

(e) implement application management capability (e.g. alarm monitoring, backups, etc.);

(f) decommission the Services Recipient's existing TelServ application server; and

(g) provide the Vendor will timely information for the development of templates and models for use within the Telecommunication Expense Management Software as the Vendor deems necessary in order for the Vendor to perform the services it has agreed to perform for the Services Recipient.

Schedule "B"

Receiving Party Security Safeguards Regarding Confidential Information Received from the Disclosing Party

The Receiving Party shall protect the Confidential Information by security safeguards appropriate to the sensitivity of the information.

1) The Receiving Party shall protect the Confidential Information against such risks as loss or theft, unauthorized access, disclosure, copying, use, modification or destruction, through appropriate security measures, regardless of the format in which it is held.

2) All of the Receiving Party Representatives with access to the Confidential Information shall be contractually required to respect the confidentiality of that information.

3) The Receiving Party acknowledges and agrees that the nature of the safeguards will vary depending on the sensitivity, amount, distribution and format of the information, and the method of storage. The Receiving Party shall ensure that more sensitive information will be safeguarded by a higher level of protection.

4) The Receiving Party shall ensure that methods of protection will include:

(a) physical measures, for example, locked filing cabinets and restricted access to offices;

(b) organizational measures, for example, controlling entry to data centers and limiting access to information on a "need-to-know" basis;

(c) technological measures, for example, the use of passwords and encryption; and

(d) investigative measures, in cases where the Receiving Party has reasonable grounds to believe that the Confidential Information is being inappropriately collected, used or disclosed by anyone whom in law the Receiving Party is responsible.

HYDRO ONE TRANSMISSION FINANCIAL STATEMENTS
HISTORIC YEARS

Included in this exhibit are the Historic Hydro One Transmission Financial Statements as follows:

Attachment 1: 2009 Transmission Financial Statements
Attachment 2: 2010 Transmission Financial Statements
Attachment 3: 2011 Transmission Financial Statements

HYDRO ONE NETWORKS INC.

TRANSMISSION BUSINESS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2009

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
AUDITORS' REPORT

To the Shareholder of **Hydro One Networks Inc.**

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

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

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

These financial statements are solely for the information and use of the Directors of Hydro One Networks Inc. for filing with the Ontario Energy Board. These financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

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

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
April 21, 2010

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Year ended December 31 (Canadian dollars in millions)	**2009**	**2008**
Revenues		
Transmission tariff *(Note 15)*	1,120	1,164
Other	27	47
	1,147	1,211
Costs		
Operation, maintenance and administration *(Note 15)*	436	389
Depreciation and amortization *(Note 3)*	242	253
	678	642
Income before financing charges and provision for payments in lieu of corporate income taxes	469	569
Financing charges *(Notes 4 and 15)*	176	173
Income before provision for payments in lieu of corporate income taxes	293	396
Provision for payments in lieu of corporate income taxes *(Notes 5 and 15)*	5	39
Net income and comprehensive income	288	357

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
BALANCE SHEETS

December 31 (Canadian dollars in millions)	**2009**	**2008**
Assets		
Current assets:		
Accounts receivable (net of allowance for doubtful accounts - $3 million; 2008- $1 million) *(Note 15)*	119	119
Regulatory assets *(Note 8)*	12	9
Materials and supplies	12	11
Future income tax assets *(Notes 2 and 5)*	12	-
Other	10	8
	165	147
Fixed assets *(Note 6)*:		
Fixed assets in service	10,852	10,291
Less: accumulated depreciation	4,012	3,805
	6840	6,486
Construction in progress	1,015	735
Future use land, components and spares	97	87
	7,952	7,308
Other long-term assets:		
Regulatory assets *(Note 8)*	701	119
Intangible assets (net of accumulated amortization) *(Notes 2 and 7)*	129	94
Other	7	10
	837	223
Total assets	8,954	7,678

See accompanying notes to Financial Statements.

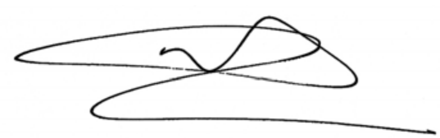
HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
BALANCE SHEETS (continued)

December 31 (Canadian dollars in millions)	**2009**	**2008**
Liabilities		
Current liabilities:		
Inter-company demand facility *(Note 15)*	87	72
Accounts payable and accrued charges *(Note 15)*	227	238
Regulatory liabilities *(Note 8)*	39	13
Accrued interest	46	39
Long-term debt payable within one year *(Notes 9, 10 and 15)*	403	268
	802	630
Long-term debt *(Notes 9, 10 and 15)*	3,779	3,408
Other long-term liabilities:		
Employee future benefits other than pension *(Note 12)*	399	386
Regulatory liabilities *(Note 8)*	12	27
Future income tax liabilities *(Notes 2 and 5)*	545	-
Environmental liabilities *(Note 13)*	144	114
Long-term accounts payable and other liabilities	7	7
	1,107	534
Total liabilities	5,688	4,572
Contingencies and commitments *(Notes 17 and 18)*		
Excess of assets over liabilities *(Note 2)*	3,266	3,106
Total liabilities and excess of assets over liabilities	8,954	7,678

See accompanying notes to Financial Statements.

On behalf of the Board:

Laura Formusa
Chair



Sandy Struthers
Director

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
STATEMENTS OF CASH FLOWS

Year ended December 31 (Canadian dollars in millions)	**2009**	**2008**
Operating activities		
Net income	288	357
Environmental expenditures	(2)	(3)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	232	239
Revenue difference deferral account	-	(73)
Transmission earnings sharing	-	(28)
Export and wheeling fees	(12)	(11)
External revenue variance account	12	-
Other regulatory asset and liability accounts	(1)	9
Future income taxes	2	-
Amortization of debt costs	-	1
	519	491
Changes in non-cash balances related to operations *(Note 16)*	9	36
Net cash from operating activities	528	527
Financing activities		
Allocated long-term debt issued	775	630
Allocated long-term debt retired	(268)	(316)
Payments to Hydro One to finance dividends	(138)	(113)
Other	1	3
Net cash from financing activities	370	204
Investing activities		
Capital expenditures		
Fixed assets	(866)	(649)
Intangible assets	(52)	(55)
	(918)	(704)
Other assets	5	7
Net cash used in investing activities	(913)	(697)
Net change in inter-company demand facility	(15)	34
Inter-company demand facility, January 1	(72)	(106)
Inter-company demand facility, December 31	(87)	(72)

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF THE TRANSMISSION BUSINESS

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

Hydro One Networks Inc. (Hydro One Networks or the Company) was incorporated on March 4, 1999 under the *Business Corporations Act* (Ontario) and is a wholly owned subsidiary of Hydro One. The Company owns and operates Hydro One's regulated transmission and distribution businesses. The regulated transmission business (the Transmission Business) operates a high-voltage electrical transmission network that represents almost all of the licensed transmission capacity in Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). The financial statements have been prepared for the specific use of the OEB. Consolidated financial statements of Hydro One for the year ended December 31, 2009 have been prepared and are publicly available.

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

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

Rate-setting

The rates of the Company's electricity Transmission Business are subject to regulation by the OEB.

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

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

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

On May 30, 2008, Hydro One Networks submitted an application to the OEB to adjust UTRs effective January 1, 2009. On August 28, 2008, the OEB approved the application and the decision resulted in an average increase of 9% in the revenue requirement allocation from UTRs to reflect the completion of repayment to customers of the amounts recorded in the ESM and the RDDA at the end of 2008.

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

The OEB has the general authority to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities. The Transmission Business' regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Transmission Business has recorded regulatory liabilities, which represent amounts incurred in different periods than would be the case had the Transmission Business been unregulated. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a specific regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made. The specific regulatory assets and liabilities recognized at December 31, 2009 are disclosed in Note 8**.**

Revenue Recognition

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as power is transmitted and delivered to customers.

Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Corporate Income and Capital Taxes

Under the *Electricity Act, 1998*, Hydro One Networks is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Taxation Act* (Ontario) (*Corporations Tax Act* (Ontario), prior to 2009) as modified by the *Electricity Act, 1998*, and related regulations.

Effective January 1, 2009, the Company adopted amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, *Income Taxes* and CICA Handbook Section 1100, *Generally Accepted Accounting Principles*. These amended sections establish new standards for the recognition, measurement, presentation and disclosure of future income tax assets and liabilities of rate-regulated enterprises.

For transactions and events that cause temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, the adoption of these amended sections requires the recognition of future income tax assets and liabilities, and correspondingly the recognition of regulatory liabilities and assets.

As a result of adopting these amended standards, on January 1, 2009, the Company's Transmission Business recognized current future income tax assets of $8 million and long term future tax liabilities of $437 million. The Transmission Business also recognized corresponding long-term regulatory assets of $450 million and current regulatory liabilities of $11 million. An adjustment to the retained earnings of Hydro One Networks of $15 million was recorded as at January 1, 2009 for the cumulative earnings impact of future income tax assets and liabilities as at December 31, 2008 that are excluded from the rate-setting process. The portion of the adjustment that pertains to the Transmission Business is $10 million, which is reflected in excess of assets over liabilities.

Current Income Taxes

The provision for current taxes and the assets and liabilities recognized for the current and prior periods are measured at the amounts receivable from or payable to the OEFC.

Future Income Taxes

Future income taxes are provided for using the liability method and are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Future income tax liabilities are generally recognized on all taxable temporary differences and future tax assets are recognized to the extent that it is more likely than not to be realized from taxable profits available against which deductible temporary differences can be utilized.

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to the Statement of Operations and Comprehensive Income.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the "more likely than not" criterion. Previously unrecognized future income tax assets are reassessed at each balance sheet date and are recognized to the extent that they have become more likely than not of being recovered from future taxable profits.

The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-setting process.

Inter-Company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries and, implicitly, by the regulated businesses of these subsidiaries. The inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Transmission Business to and from the pooled cash accounts. Interest is earned on positive inter-company balances based on the average of the bankers' acceptance rate at the beginning and end of the month, less 0.02%. Interest is charged on overdraft inter-company balances based on the same bankers' acceptance rate, plus 0.15%.

Materials and Supplies

Materials and supplies represent consumables, spare parts and construction material held for internal construction and maintenance of fixed assets. These assets are carried at lower of average cost or net realizable value.

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

Fixed Assets

Fixed assets are capitalized at cost, which comprises materials, labour, engineering costs, overheads, depreciation on service equipment and the OEB-approved allowance for funds used during construction applicable to capital construction activities.

Fixed assets in service consist of transmission assets, communication, administration and service assets and easements. Fixed assets also include future use assets such as land, major components and spare parts, and capitalized development costs associated with deferred capital projects.

Some transmission assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Company expects to use the majority of its installed assets in perpetuity, no asset retirement obligation exists. If, at some future date, a particular site is shown not to meet the perpetuity assumption, it will be reviewed to determine if an asset retirement obligation exists. If it becomes possible to estimate the fair value cost of disposing of assets that the Company is legally required to remove, a related asset retirement obligation will be recognized at that time.

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware, grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, such as transformers, circuit breakers and switches.

Communication, Administration and Service

Communication, administration and service assets include telecommunications equipment, towers, associated buildings, administrative buildings, major computer systems, personal computers, transport and work equipment, tools, vehicles and minor fixed assets.

Easements

Easements include statutory rights of use to transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act*, *2002,* as well as other amounts related to access rights.

Construction and Development in Progress

Overhead costs, including corporate functions and services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology. Financing costs are capitalized on fixed assets under construction and intangible assets under development, based on the OEB's approved allowance for funds used during construction (2009 – 5.89%; 2008 – 5.32%).

Depreciation and Amortization

The capital costs of fixed assets and intangible assets, primarily consisting of applications software, are depreciated on a straight-line basis, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically undergoes an external review of its fixed asset and intangible asset depreciation and amortization rates, as required by the OEB. The last review resulted in changes to rates effective January 1, 2007. A summary of depreciation rates for the various classes of assets is included below:

	Depreciation rates (%)	
	Range	Average
Transmission	1% - 2%	2%
Communication, Administration and Service	1% -15%	5%
Easements	1%	1%

Intangible assets are primarily included within the communication, administration and service classification above and these assets are amortized on a straight-line basis. The amortization rate for computer applications software and other assets is approximately 11%. Depreciation rates for easements are based on their contract life. The majority of easements is held in perpetuity and is not depreciated.

In accordance with group depreciation practices, the original cost of normal fixed asset and intangible asset retirements is charged to accumulated depreciation or amortization, with no gain or loss reflected in results of operations. Gains and losses on sales of fixed assets and losses on premature retirements are charged to results of operations as adjustments to depreciation expense. Depreciation expense also includes the costs incurred to remove fixed assets.

The estimated service lives of fixed or intangible assets are subject to periodic review. Any changes arising out of such a review are implemented on a remaining service life basis consistent with their inclusion in rates.

Intangible Assets

Intangible assets represent computer applications software and other assets. These assets are carried at cost net of accumulated amortization. The cost of computer applications is comprised of materials, labour, overheads and the OEB-approved allowance for funds used during construction applicable to development activities.

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced CICA Handbook Sections 3062, *Goodwill and Other Intangible Assets* and 3450, *Research and Development Costs*. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and other intangible assets.

Upon adoption of the new accounting standard, on January 1, 2009, the Company's Transmission Business reclassified $92 million in computer applications software previously classified as fixed assets to intangible assets. In addition, the Transmission Business also reclassified other assets with a net book value of $2 million that were previously classified as long-term other assets to intangible assets.

Discounts and Premiums on Debt

Discounts and premiums are amortized over the term of the related debt using the effective interest rate method.

Financial Instruments

Comprehensive Income

Comprehensive income is composed of the Company's net income and other comprehensive income (OCI). OCI includes the amortization of net unamortized hedging losses on the Company's proportionate share of cash flow hedges, and the change in fair value on the Company's proportionate share of existing cash flow hedges to the extent that the hedge is effective. The Company amortizes its unamortized hedging losses on discontinued cash flow hedges to financing charges using the effective interest method over the term of the allocated hedged debt.

Financial Assets and Liabilities

All financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, other liabilities or available-for-sale. All financial instruments, including derivatives, are carried at fair value on the Balance Sheet except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in financing charges in the period which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in OCI until the instrument is derecognized or impaired. The Transmission Business has classified its financial instruments as follows:

Accounts receivable	Loans and receivables
Fixed-to-floating interest rate swap	Not classified
Long-term accounts receivable	Loans and receivables
Inter-company demand facility	Other liabilities
Accounts payable	Other liabilities
Long-term debt (unless otherwise specified)	Other liabilities
$150 million note due March 3, 2011	Not classified

Where long-term debt is designated as part of a hedging relationship, as in the case of the $150 million note, the long-term debt, and related hedging instrument, are not classified.

All financial instrument transactions are recorded at trade date.

Derivatives and Hedge Accounting

All derivative instruments, including embedded derivatives, are carried at fair value on the Balance Sheet unless exempted from derivative treatment as a normal purchase and sale or when it is deemed that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. All changes in fair value are recorded in financing charges unless cash flow hedge accounting is used, in which case changes in fair value are recorded in OCI to the extent that the hedge is effective.

The Company does not engage in derivative trading or speculative activities.

The Company periodically develops hedging strategies for execution taking into account risk management objectives. At the inception of a hedging relationship, the Company's documentation includes its risk management objective for establishing the hedging relationship, the identification of the hedged and hedging item, the nature of the specific risk exposure being hedged and the method for assessing effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging items that are used are effective in offsetting changes in fair values or cash flows of hedged items.

Transaction Costs

Transaction costs related to Hydro One Networks' proportionate share of the relevant Hydro One transaction, for financial assets and liabilities that are other than held-for-trading, are added to the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest method.

Financial Instrument Disclosures

Effective for the 2009 annual reporting period, the Company adopted amendments to the CICA Handbook Section 3862, *Financial Instruments – Disclosures.* This amended section improves financial instrument fair value measurement and liquidity risk management disclosures. The amendments require an entity to classify fair value measurements using a fair value hierarchy in levels ranging from 1 to 3 that reflects the significance of the inputs used in making these measurements. The amendments also provide clarification about the required liquidity risk disclosures. Upon application by the Company, the fair value hierarchy level used in the determination of the fair market value of the long-term debt has been disclosed in Note 10.

Employee Future Benefits

Employee future benefits provided by Hydro One and its subsidiaries include pension, group life insurance, health care, and long-term disability.

In accordance with the OEB's rate orders, pension costs are recorded when employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act* (Ontario). Actuarial valuations are conducted at least every three years. Pension costs are also calculated on an accrual basis. Pension costs are actuarially determined using the projected benefit method prorated on service and based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases, on the actuarial present value of accrued pension benefits. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are valued using fair values. Past service costs from plan amendments and all actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefits other than pension are recorded on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments and actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefit costs are attributed to labour and charged to operations or capitalized as part of the cost of fixed assets.

Environmental Costs

The Transmission Business records a liability for estimated future expenditures associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyl (PCBs) contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. As the Company anticipates that the related expenditures will continue to be recoverable in future rates, a regulatory asset has been recorded to reflect the future recovery of these costs from customers. The Transmission Business reviews its estimates of future environmental expenditures on an ongoing basis.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the year. Actual results could differ from estimates, including changes as a result of future decisions made by the OEB or the Province.

Emerging Accounting Changes

International Financial Reporting Standards (IFRS)

On February 13, 2008 the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian generally accepted accounting principles for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. On October 14, 2009, the Public Sector Accounting Board released a decision summary confirming that government organizations following commercial practices adhere to standards for publicly accountable entities after January 1, 2011. As such, the Company will apply IFRS to its financial statements ending December 31, 2011 with restatement of the amounts recorded on the opening IFRS balance sheet as at January 1, 2010, for comparative purposes.

The Company continues to assess the potential effects of the IFRS conversion on its financial position and results of operations. The International Accounting Standards Board (IASB) issued an exposure draft on rate-regulated activities in July, 2009 and stakeholder comments on the draft varied substantially. In February, 2010, IASB staff presented its analysis of the various responses to the IASB and summarized options for next steps in the project. In response, the IASB asked staff to revisit the specific issue of whether or not rate-regulated assets and liabilities meet the definition of assets and liabilities under the IFRS framework. The outcome of this specific review, and of the rate-regulated activities project as a whole, cannot currently be predicted. As a result, the impact of the IASB's deliberations on the Company's reporting under IFRS is not estimable at this time.

3. DEPRECIATION AND AMORTIZATION

Year ended December 31 (Canadian dollars in millions)	**2009**	**2008**
Depreciation of fixed assets in service	212	208
Amortization of intangible assets	17	10
Fixed asset removal costs	10	14
Amortization of regulatory and other assets	3	21
	242	253

4. FINANCING CHARGES

Year ended December 31 (Canadian dollars in millions)	**2009**	**2008**
Interest on long-term debt payable	223	198
Interest on inter-company demand facility	1	1
Interest accreted on regulatory accounts	-	1
Less: Interest capitalized on construction and development in progress	(46)	(27)
Other	(2)	-
	176	173

5. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for payments in lieu of corporate income taxes (PILs) differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

(Canadian dollars in millions)	**2009**	**2008**
Income before provision for PILs	293	396
Federal and Ontario statutory income tax rate	33.00%	33.50%
Provision for PILs at statutory rate	97	133
(Decrease) increase resulting from:		
Net temporary differences included in amounts charged to customers :		
Capital cost allowance in excess of depreciation and amortization	(61)	(36)
Interest capitalized for accounting purposes but deducted for tax purposes	(15)	(9)
Overheads capitalized for accounting purposes but deducted for tax purposes	(8)	(8)
Pension contributions in excess of pension expense	(6)	(5)
Employee future benefits other than pension expense in excess of cash payments	1	3
Transmission amounts paid but not recognized for accounting purposes	-	(34)
Environmental expenditures	-	(1)
Other	(4)	(5)
Net temporary differences	(93)	(95)
Net permanent differences	1	1
Total income tax provision for PILs	5	39

(Canadian dollars in millions)	**2009**	**2008**
Current income tax provision for PILs	3	39
Future income tax provision for PILs	2	-
Total income tax provision for PILs	5	39
Effective income tax rate	1.71%	9.85%

The provision for payments in lieu of current income taxes of $3 million represents the amount that is payable to the OEFC with respect to current year earnings. There is no outstanding balance due to the OEFC (2008 - $nil).

The provision for payments in lieu of future income taxes of $2 million reflects the increase in the liability for payments in lieu of future income taxes that are not expected to be recovered from the Transmission Business's customers through future rates. The increase in the liability for payments in lieu of future income taxes that is expected to be recovered from customers through future rates has resulted in an increase in regulatory assets.

Future Income Tax Assets and Liabilities

Payments in lieu of future income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Transmission Business' assets and liabilities. The tax effects of these differences are as follows:

December 31 (Canadian dollars in millions)	**2009**
Future Income Tax Assets	
Eligible Capital Expenditure	39
Employee future benefits other than pension expense in excess of cash payments	140
Environmental expenditures	38
Total future income tax assets	217
Less: current portion	12
	205

December 31 (Canadian dollars in millions)	**2009**
Future Income Tax Liabilities	
Capital cost allowance in excess of depreciation and amortization	717
Transmission amounts paid but not recognized for accounting purposes	30
Other	3
Total future income tax liabilities	750
Less: current portion	-
	750

December 31 (Canadian dollars in millions)	**2009**
Long-term future income tax assets	205
Long-term future income tax liabilities	(750)
Net long-term future income tax liability	(545)

6. FIXED ASSETS

December 31 (Canadian dollars in millions)	Fixed Assets	Accumulated Depreciation	Construction in Progress	Total
2009				
Transmission	9,467	3,452	954	6,969
Communication, administration and service	1,004	481	61	584
Easements	478	79	-	399
	10,949	4,012	1,015	7,952
2008				
Transmission	8,977	3,306	659	6,330
Communication, administration and service	922	426	76	572
Easements	479	73	-	406
	10,378	3,805	735	7,308

Financing costs are capitalized on fixed assets under construction, including allowance for funds used during construction on regulated assets, and were $44 million in 2009 (2008 - $25 million).

7. INTANGIBLE ASSETS

December 31 (Canadian dollars in millions)	Intangible Assets	Accumulated Amortization	Development in Progress	Total
2009				
Computer applications software	182	56	1	127
Other assets	4	2	-	2
	186	58	1	129
2008				
Computer applications software	121	57	28	92
Other assets	4	2	-	2
	125	59	28	94

Financing costs are capitalized on intangible assets under development, including allowance for funds used during construction on regulated assets, and were $2 million in 2009 (2008 - $2 million).

8. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. The Transmission Business has recorded the following regulatory assets and liabilities:

December 31 (Canadian dollars in millions)	**2009**	**2008**
Regulatory assets:		
Regulatory future income tax asset	552	-
Environmental	151	118
Other	10	10
Total regulatory assets	713	128
Less: current portion	12	9
	701	119
Regulatory liabilities:		
Export and wheeling fees	15	27
Regulatory future income tax liability	12	-
External revenue variance account	12	-
Other	12	13
Total regulatory liabilities	51	40
Less: current portion	39	13
	12	27

Regulatory Assets

Regulatory Future Income Tax Asset and Liability

Future income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-setting process. In the absence of rate regulated accounting, the Company's provision for PILs would have been recognized using the liability method and there would be no regulatory accounts set up for taxes to be recovered through future rates. As a result, the Transmission Business' provision for PILs would have been higher by approximately $28 million (2008 - $95 million) including the impact of a change in substantively enacted tax rates.

Environmental

The Transmission Business records a liability for the estimated future expenditures required to remediate past environmental contamination (See Note 13). Because such expenditures are expected to be recoverable in future rates, the Transmission Business has recorded an equivalent amount as a regulatory asset. In 2008, this regulatory asset increased by $105 million to reflect the additional liability recorded in respect of the issuance of Environment Canada's final PCB regulations. In 2009, the regulatory asset increased by $15 million to reflect related increases in the Transmission Business' PCB liability and by $14 million for related increases in the land assessment and remediation (LAR) liability.

The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred. The OEB has the discretion to examine and assess the prudence and the timing of recovery of all of the Transmission Business's actual environmental expenditures. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been higher by $29 million (2008 - $105 million). In addition, amortization expense in 2009 would have been lower by $2 million (2008 - $3 million) and financing charges would have been higher by $6 million (2008 - $2 million).

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

Regulatory Liabilities

Export and Wheeling Fees

Consistent with the IESO's Market Rules, an export and wheeling fee is collected by the IESO and remitted to the Company at the rate of $1 per MWh on electricity exported outside of Ontario. The amounts collected in respect of these export and wheeling fees, plus interest, were taken into consideration in the revenue requirement of Hydro One Networks as part of the Company's transmission rate application filed with the OEB in September, 2006. On August 16, 2007, the OEB issued its decision in respect of the Company's transmission rate application and approved final amounts and disposition treatments for the export and wheeling fees. The export and wheeling fees will be factored into rates over a four-year period ending December 31, 2010.

External Revenue Variance Account

On May 28, 2009, the OEB issued its decision regarding the 2009 and 2010 rates for the Transmission Business of Hydro One Networks. As part of the decision, the OEB-approved forecasted amounts related to export service revenue, external revenue from secondary land use and external revenue from station maintenance and engineering and construction work. These revenue sources are an offset to the Company's revenue requirement, and as such, the OEB requested the establishment of new variance accounts to capture any difference between the forecasted and actual revenues from these sources of external revenue. The balance reflects the excess of 2009 external revenue compared to the OEB-approved forecast.

9. DEBT

Debt represents the Transmission Business' share of various notes payable by Hydro One Networks to Hydro One.

December 31 (Canadian dollars in millions)	**2009**	**2008**
Long-term debt	4,181	3,674
Add: Unrealized hedged loss[1]	7	9
Less: Long-term debt payable within one year	(403)	(268)
Net unamortized premiums	12	9
Unamortized debt issuance costs	(18)	(16)
	3,779	3,408

[1] The unrealized hedged loss relates to the $150 million note, which is accounted for as a fair value hedge. The unrealized hedged loss is offset by the $7 million unrealized gain on the related fixed-to-floating interest rate swap agreement.

The long-term debt is unsecured and denominated in Canadian dollars. Such debt is summarized by the number of years to maturity in Note 10.

10. CARRYING AND FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying value of financial instruments as at December 31, 2009 is as follows:

(Canadian dollars in millions)	Derivatives Used for Hedging	Other Financial Instruments Used for Hedging	Held-for-Trading	Loans and Receivables	Other Financial Liabilities
Financial Assets					
Accounts receivable	-	-	-	119	-
Other assets (long-term)	7	-	-	-	-
Financial Liabilities					
Inter-company demand facility	-	-	-	-	87
Accounts payable and accrued charges[1]	-	-	-	-	224
Long-term debt	-	157	-	-	4,025

[1] Accounts payable and accrued charges do not include income taxes payable or dividends payable.

The carrying amounts of all financial instruments, except long-term debt, approximate fair value. The fair value of derivative financial instruments reflects the estimated amount that the Transmission Business, if required to settle an outstanding contract, would have been required to pay or would be entitled to receive at year end. The fair value of long-term debt, provided in the table below, is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as level 1 as the inputs used reflect quoted prices in an active market.

December 31 (Canadian dollars in millions)	**2009**		**2008**	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt[1]	4,181	4,421	3,674	3,667

[1] The carrying value of long-term debt represents the par value of the notes and debentures, other than the $150 million note which is designated as part of a hedging relationship.

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to the risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk. The Company does have foreign exchange risk as it enters into agreements to purchase materials and equipment associated with the Company's capital programs and projects that are settled in foreign currencies. This foreign exchange risk is not material, although Hydro One could in the future decide to issue foreign currency denominated debt which will be hedged back to Canadian dollars consistent with Hydro One's risk management policy. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company's Transmission Business is derived using a formulaic approach which is based on the forecast for long-term Government of Canada bond yields and the spread in 30 year "A" rated Canadian utility bonds over the 30 year benchmark Government of Canada bond yield. The Company estimates that a 1% decrease in the forecast long-term Government of Canada bond yield or the "A" rated Canadian utility spread used in determining the Company's rate of return would reduce its Transmission Business' results of operations by approximately $15 million.

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

Credit Risk

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. As at December 31, 2009, there were no significant concentrations of credit risk with respect to any class of financial assets.

In the year, the Transmission Business' provision for bad debts remained low at $3 million (2008 - $1 million). Minor adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. As at December 31, 2009, approximately 3.2% of the Transmission Business' accounts receivable was aged more than 60 days.

Hydro One manages its counter-party credit risk through various techniques including, entering into transactions with highly rated counter-parties, limiting total exposure levels with individual counterparties consistent with the Hydro One's Board-approved Credit Risk Policy, entering into master agreements which enable net settlement and the contractual right of offset, and monitoring the financial condition of counterparties. The Company's credit risk for accounts receivable is limited to the carrying amount on the Balance Sheet.

The Company uses derivative financial instruments to manage interest rate risk. The Company may enter into derivative agreements such as forward starting pay fixed interest rate swap agreements, to hedge against the effect of future interest rate movements on long-term fixed rate borrowing requirements. No such agreements were outstanding as at December 31, 2009.

Derivative financial instruments result in exposure to credit risk since there is a risk of counter-party default. As at December 31, 2009, the only derivative instrument held by the Transmission Business of the Company was a $150 million fixed-to-floating interest rate swap agreement to convert the 4.08% coupon maturing March 3, 2011 into a three month variable rate debt. The counter-party credit risk exposure on the fair value of this interest rate swap contract is $7 million as at December 31, 2009.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Short-term liquidity is provided through the inter-company demand facility with Hydro One and funds from operations. The short-term liquidity available to the Company should be sufficient to fund normal operating requirements.

As at December 31, 2009, accounts payable and accrued charges in the amount of $227 million are expected to be settled in cash at their carrying amounts within the next year. Long-term debt maturing over the next twelve months is $403 million. Interest payments over the next twelve months on the Transmission Business' outstanding debt amount to $224 million.

As at December 31, 2009, the Transmission Business' share of the long-term debt of Hydro One Networks to Hydro One is $4,181 million and the required interest payments are $3,585 million. Principal outstanding, interest payments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	Principal Outstanding on Notes and Debentures *(Canadian dollars in millions)*	Interest Payments *(Canadian dollars in millions)*	Weighted Average Interest Rate *(Percent)*
1 year	403	224	6.2
2 years	324	206	5.3
3 years	276	192	5.8
4 years	370	176	5.0
5 years	175	158	3.2
	1,548	956	5.3
6 – 10 years	675	674	5.0
Over 10 years	1,958	1,955	6.1
	4,181	3,585	5.6

11. CAPITAL MANAGEMENT

The Transmission Business' objective is to manage its capital structure consistent with the deemed capital structure for rate-setting purposes as prescribed by the OEB in its August 16, 2007 decision on transmission rates. This deemed capital structure is 60% debt and 40% common equity.

The Transmission Business considers its capital structure to consist of excess assets over liabilities, long-term debt, and the intercompany demand facility. The Transmission Business's capital structure as at December 31, 2009 and December 31, 2008 was as follows:

(Canadian dollars in millions)	**2009**	**2008**
Long-term debt payable within one year	403	268
Add: Inter-company demand facility	87	72
	490	340
Long-term debt	3,779	3,408
Excess of assets over liabilities	3,266	3,106
Total capital	7,535	6,854

12. EMPLOYEE FUTURE BENEFITS

Pension

Hydro One has a contributory defined benefit pension plan covering all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton Inc. The Hydro One Pension Plan does not segregate assets in a separate account for individual subsidiaries, nor is the cost of the benefit plans allocated to, or funded separately by, entities within the consolidated group. Accordingly, for purposes of these financial statements, the pension plan is accounted for as a defined contribution plan and no deferred pension asset or liability is recorded.

Hydro One's pension plan provides benefits based on highest three-year average pensionable earnings. For new management employees who commenced employment on or after January 1, 2004, and for new Society of Energy Professionals hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation. The measurement date used to determine plan assets and the accrued benefit obligation is December 31st. Based on the actuarial valuation filed with the Financial Services Commission of Ontario on September 20, 2007, effective for December 31, 2006, Hydro One contributed $112 million to its pension plan in respect of 2009 (2008 - $101 million), all of which is required to satisfy minimum funding requirements. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash. Contributions after 2009 will be based on an actuarial valuation effective December 31, 2009 and will depend on future investment returns, and changes in benefits or actuarial assumptions.

For Hydro One, the actuarial present value at December 31, 2009 of the accrued pension benefits, based on a projection of the valuation at December 31, 2009, was estimated to be $4,740 million (2008 - $4,007 million). Pension plan assets available for these benefits were $4,336 million (2008 - $3,836 million).

Employee Future Benefits other than Pension

During the year ended December 31, 2009, $20 million of employee future benefits other than pension costs was charged to the results of operations of the Transmission Business (2008 - $23 million), and $12 million was capitalized as part of the cost of fixed assets (2008 - $13 million). Benefits paid were $19 million (2008 - $17 million). The liability associated with employee future benefits other than pension for the Transmission Business at December 31, 2009 was $418 million (2008 - $405 million), including the current portion.

A detailed description of employee future benefits is provided in Note 12 of the Consolidated Financial Statements of Hydro One for the year ended December 31, 2009.

13. ENVIRONMENTAL LIABILITIES

December 31 (Canadian dollars in millions)	**2009**	**2008**
Environmental liabilities, January 1	118	14
Interest accretion	6	2
Expenditures	(2)	(3)
Revaluation adjustment	29	105
Environmental liabilities, December 31	151	118
Less: current portion	(7)	(4)
	144	114

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2009 and in total thereafter are as follows: 2010 - $7 million; 2011 - $11 million; 2012 - $11 million; 2013 - $21 million; 2014 - $ 18 million, and thereafter - $116 million.

Consistent with its accounting policy for environmental costs, the Company records a liability for the estimated future expenditures associated with the phase-out and destruction of PCB-contaminated insulating oil from electrical equipment and for the assessment and remediation of contaminated lands. The Company's liability is based on management's best estimate of the present value of the future expenditures expected to be required to comply with existing regulations.

There are uncertainties in estimating future environmental costs due to potential external events such as changing legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, for the PCB program, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures. Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future environmental expenditures have been discounted using factors ranging from 3.75% to 6.25%, depending on the appropriate rate for the period when increases in the obligations were first recorded.

PCB's

On September 17, 2008, Environment Canada published its final regulations governing the management, storage and disposal of PCBs. These regulations were enacted under the Canadian Environmental Protection Act, 1999. The regulations impose timelines for disposal of PCBs based on criteria including type of equipment, in-use status and PCB contamination thresholds. All PCBs in concentrations of 500 parts per million (ppm) or more, except specified equipment, had to be disposed of by the end of 2009. However, in 2009, the Company sought and received an extension until 2014 for removal of certain station equipment that could be contaminated in excess of this threshold. Under the regulations PCBs in equipment in concentrations greater than 50 ppm and less than 500 ppm, or more than 50 ppm for pole-top transformers, pole-top auxiliary electrical equipment and light ballasts must be disposed of by the end of 2025. In addition, liquids with 2 ppm or more that have been removed from equipment cannot be reused.

Management judges that the Company has very limited PCB-contaminated assets in excess of 500 ppm. Priority will be given to targeting inspection and testing work toward identifying and removing PCBs in assets that must be compliant by 2014. Assets to be disposed of by 2025 primarily consist of pole mounted distribution line transformers and light ballasts. Contaminated distribution and transmission station equipment will generally be replaced or will be decontaminated by removing PCB-contaminated insulating oil and retro filling with less than 2 ppm replacement oil.

Management's best estimate of the total estimated future expenditures to comply with PCB regulations is about $162 million. These expenditures will be incurred over the period from 2010 to 2025. As a result of its most recent cost estimate to comply with Environment Canada's PCB regulations and Environment Canada interpretations thereof, the Transmission Business has recorded a revaluation adjustment in 2009 of approximately $15 million (2008 - $105 million).

LAR

As a result of 2009 changes to provincial regulations governing land contamination mitigation and changes in acceptable regulated contamination thresholds, as well as other factors, the Company reviewed its liability for contaminated LAR. As a result of this review, the Transmission Business has recorded a $14 million revaluation adjustment, as compared to September 30, 2009 (2008 – revaluation of $nil). The Transmission Business's best estimate of the total future expenditures to complete its LAR program is about $22 million. As part of its review, the Transmission Business extended the term of its planned program for transmission properties from 2015 to 2020.

Asbestos-Containing Materials

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

14. HYDRO ONE NETWORKS' SHARE CAPITAL

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

15. RELATED PARTY TRANSACTIONS

The Province and Successor Corporations of Ontario Hydro

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

The Transmission Business received revenue for transmission services from IESO, based on uniform transmission rates approved by the OEB. Transmission revenue for 2009 includes $1,119 million (2008 - $1,072 million) related to these services.

The Company has service level agreements with Ontario Hydro's successor corporations, primarily OPG. These services include field and engineering, logistics, corporate, telecommunications and information technology services. Revenues of the Transmission Business related to the provision of construction and equipment maintenance services to the other successor corporations were $12 million in each of 2009 and 2008. Operation, maintenance and administration costs of the Transmission Business related to the purchase of services from these successor corporations were less than $2 million in 2009 and less than $1 million in 2008.

Under the *Ontario Energy Board Act, 1998*, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters. In 2009, the Transmission Business incurred $4 million (2008 - $4 million) in OEB fees.

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

Hydro One and Subsidiaries

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

The Company has entered into various agreements with Hydro One and its subsidiaries related to the provision of corporate functions and services, supply management, computer support and operational services such as environmental, forestry and line services. Revenues of the Transmission Business include $1 million (2008 - $1 million) related to the provision of services to Hydro One and its subsidiaries and operation, maintenance and administration costs of the Transmission Business include $13 million (2008 - $12 million) related to the purchase of services from Hydro One and its subsidiaries.

The Company's debt, including the portion allocated to the Transmission Business, is due to Hydro One. Financing charges include interest expense on this debt in the amount of $223 million (2008 - $198 million). In addition, balances payable or receivable under the inter-company demand facility are due to or from Hydro One. Financing charges of the Transmission Business include interest expense on this facility in the amount of $1 million (2008 - $1 million).

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

December 31 (Canadian dollars in millions)	**2009**	**2008**
Accounts receivable	102	94
Accounts payable and accrued charges	(34)	(33)

16. STATEMENTS OF CASH FLOWS

For the purposes of the Statements of Cash Flows, "cash and cash equivalents" refers to the Balance Sheet item "inter-company demand facility."

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

Year ended December 31 (Canadian dollars in millions)	**2009**	**2008**
Accounts receivable increase	-	(4)
Materials and supplies increase	(1)	(1)
Accounts payable and accrued charges (decrease) increase	(14)	14
Accrued interest increase	7	6
Employee future benefits other than pension increase	13	23
Other	4	(2)
	9	36
Supplementary information:		
Interest paid	224	192
Payments in lieu of corporate income taxes	42	80

17. CONTINGENCIES

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

18. COMMITMENTS

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

19. SUBSEQUENT EVENTS

On January 22, 2010, Hydro One issued $500 million in notes under its Medium-Term Note (MTN) Program. The issue was an additional offering of 3.13% notes maturing on November 19, 2014, originally issued on November 19, 2009. The total amount outstanding for this issue for Hydro One is now $750 million. On the same date, Hydro One Networks issued notes payable to Hydro One in the amount of $250 million with the same maturity date. The Transmission Business' share of the additional offering was $150 million. The total amount outstanding for this issue is now $500 million of which the Transmission Business' share is $325 million.

On January 22, 2010, Hydro One entered into two $250 million notional principal amount fixed-to-floating interest rate swaps to convert $500 million of Hydro One's 3.13% coupon note maturing November 19, 2014, into three-month variable rate debt. On the same date, Hydro One Networks entered into one $250 million notional principal amount fixed-to-floating interest rate swap to convert $250 million of its note payable maturing November 19, 2014, into three-month variable rate debt. The Transmission Business' share of the swap is $150 million.

On March 15, 2010, Hydro One issued $300 million in notes under its MTN program. The issue was an offering of 4.40% notes maturing on June 1, 2020. On the same date, Hydro One Networks issued notes payable to Hydro One in the same amount and with the same maturity date. The Transmission Business' share of the offering was $180 million.

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

On March 15, 2010, Hydro One issued $200 million in notes under its MTN Program. The issue was an additional offering of 5.49% notes maturing on July 16, 2040, originally issued on July 16, 2009. On the same date, Hydro One Networks issued notes payable to Hydro One in the same amount and with the same maturity date. The Transmission Business' share of the additional offering was $120 million.The total amount outstanding for this issue is now $500 million of which the Transmission Business' share is $330 million.

20. COMPARATIVE FIGURES

The comparative Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2009 Financial Statements.

HYDRO ONE NETWORKS INC.

TRANSMISSION BUSINESS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2010

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
INDEPENDENT AUDITORS' REPORT

To the Directors of Hydro One Networks Inc.

We have audited the accompanying financial statements of the Transmission Business (a business of Hydro One Networks Inc.), which comprise the balance sheet as at December 31, 2010, the statements of operations and comprehensive income, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the basis of accounting in Note 2 to the financial statements.

Management's Responsibility for the Financial Statements

Management of Hydro One Networks Inc. is responsible for the preparation of these financial statements in accordance with basis of accounting in Note 2 to the financial statements; this includes determining that the basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements as at December 31, 2010 are prepared, in all material respects, the financial position of the Transmission Business (a business of Hydro One Networks Inc.) in accordance with basis of accounting as set out in Note 2 to the financial statements.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 to the financial statement, which describes the basis of accounting and composition of the Hydro One Networks Inc. that comprise Transmission Business. In particular, in preparing these financial statements, corporate long-term debt, shared functions and services costs and payments in lieu of corporate income taxes have been allocated to the Transmission Business (a business of Hydro One Networks Inc.) using the method of allocation described in Note 2 to the financial statements. As a result of this basis of accounting, these financial statements may not necessarily be identical to the financial position, results of operations and cash flows that would have resulted had the Transmission Business (a business of Hydro One Networks Inc.) historically operated on a stand-alone basis. The financial statements are prepared to assist Hydro One Networks Inc to comply with its reporting requirements of Ontario Energy Board. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Hydro One Networks Inc. and the Ontario Energy Board and should not be used by parties other than Hydro One Networks Inc. or the Ontario Energy Board.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
April 18, 2011
Toronto, Canada

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Year ended December 31 (Canadian dollars in millions)	**2010**	**2009**
Revenues		
Transmission tariff *(Note 16)*	1,287	1,120
Other	20	27
	1,307	1,147
Costs		
Operation, maintenance and administration *(Note 16)*	426	436
Depreciation and amortization *(Note 3)*	273	242
	699	678
Income before financing charges and provision for payments in lieu of corporate income taxes	608	469
Financing charges *(Notes 4 and 16)*	195	176
Income before provision for payments in lieu of corporate income taxes	413	293
Provision for payments in lieu of corporate income taxes *(Notes 5 and 16)*	40	5
Net income and comprehensive income	373	288

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
BALANCE SHEETS

December 31 (Canadian dollars in millions)	**2010**	**2009**
Assets		
Current assets:		
Accounts receivable (net of allowance for doubtful accounts - $2 million; 2009- $3 million) *(Notes 13 and 16)*	135	114
Regulatory assets *(Note 8)*	15	12
Materials and supplies	13	12
Future income tax assets *(Note 5)*	16	12
Other	2	7
	181	157
Fixed assets *(Note 6)*:		
Fixed assets in service	11,666	10,852
Less: accumulated depreciation	4,234	4,012
	7,432	6,840
Construction in progress	1,111	1,014
Future use land, components and spares	89	97
	8,632	7,951
Other long-term assets:		
Regulatory assets *(Note 8)*	660	574
Intangible assets (net of accumulated amortization) *(Note 7)*	119	130
Other	2	7
	781	711
Total assets	9,594	8,819

See accompanying notes to Financial Statements.

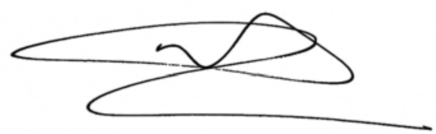
HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
BALANCE SHEETS (continued)

December 31 (Canadian dollars in millions)	**2010**	**2009**
Liabilities		
Current liabilities:		
Inter-company demand facility *(Note 16)*	83	82
Accounts payable and accrued charges *(Notes 13 and 16)*	241	227
Regulatory liabilities *(Note 8)*	20	39
Accrued interest	51	46
Long-term debt payable within one year *(Notes 9, 10 and 16)*	324	403
	719	797
Long-term debt *(Notes 9, 10 and 16)*	4,201	3,779
Other long-term liabilities:		
Future income tax liabilities *(Note 5)*	522	415
Employee future benefits other than pension *(Note 12)*	416	399
Environmental liabilities *(Note 13)*	124	144
Regulatory liabilities *(Note 8)*	24	12
Asset retirement obligations *(Note 14)*	7	-
Long-term accounts payable and other liabilities	5	7
	1,098	977
Total liabilities	6,018	5,553
Contingencies and commitments *(Notes 18 and 19)*		
Excess of assets over liabilities *(Notes 2, 11 and 15)*	3,576	3,266
Total liabilities and excess of assets over liabilities	9,594	8,819

See accompanying notes to Financial Statements.

On behalf of the Board:

Laura Formusa
Chair



Sandy Struthers
Director

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
STATEMENTS OF CASH FLOWS

Year ended December 31 (Canadian dollars in millions)	**2010**	**2009**
Operating activities		
Net income	373	288
Environmental expenditures	(7)	(2)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	259	232
Regulatory asset and liability accounts	(12)	(1)
Future income taxes	(1)	2
Asset retirement obligation	4	-
	616	519
Changes in non-cash balances related to operations *(Note 17)*	14	12
Net cash from operating activities	630	531
Financing activities		
Allocated long-term debt issued	750	775
Allocated long-term debt retired	(403)	(268)
Payments to Hydro One Inc. to finance dividends	(63)	(138)
Other	-	1
Net cash from financing activities	284	370
Investing activities		
Capital expenditures		
Fixed assets	(928)	(866)
Intangible assets	(8)	(52)
	(936)	(918)
Other assets	21	7
Net cash used in investing activities	(915)	(911)
Net change in inter-company demand facility	(1)	(10)
Inter-company demand facility, January 1	(82)	(72)
Inter-company demand facility, December 31	(83)	(82)

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF THE TRANSMISSION BUSINESS

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

Hydro One Networks Inc. (Hydro One Networks or the Company) was incorporated on March 4, 1999 under the *Business Corporations Act* (Ontario) and is a wholly owned subsidiary of Hydro One. The Company owns and operates Hydro One's regulated transmission and distribution businesses. The regulated transmission business (the Transmission Business) operates a high-voltage electrical transmission network that represents almost all of the licensed transmission capacity in Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with the accounting policies summarized below. These policies are consistent with generally accepted accounting principles in Canada (Canadian GAAP) as contained in Part V of the Canadian Institute of Chartered Accounts (CICA) Handbook - Accounting. The financial statements have been prepared for the specific use of the OEB. Consolidated financial statements of Hydro One for the year ended December 31, 2010 have been prepared and are publicly available.

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

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

Rate-setting

The rates of the Company's electricity Transmission Business are subject to regulation by the OEB.

On August 16, 2007, the OEB issued its decision in respect of Hydro One Networks' 2007 and 2008 transmission rate application. As part of that decision the OEB approved the disposition of export and wheeling fees liability and the transmission market-ready regulatory asset, which was factored into rates and refunded to customers over the four-year period ending December 31, 2010.

On May 30, 2008, Hydro One Networks submitted an application to the OEB to adjust Uniform Transmission Rates (UTRs) effective January 1, 2009.

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

On May 19, 2010 Hydro One Networks submitted an application for 2011 and 2012 transmission rates in continued support of its aging critical infrastructure and the supply mix objectives for generation, including off-coal initiatives and initiation of investments in support of the Green Energy Act (GEA). This application sought the approval of revenue requirements of approximately $1,446 million for 2011 and $1,547 million for 2012.

On December 23, 2010, the OEB issued its decision effective January 1, 2011 which resulted in a revenue requirement of $1,346 million for 2011 and a revenue requirement of $1,658 million for 2012. The change in our 2012 revenue requirement resulted in a higher revenue requirement than originally submitted due to the OEB directing Hydro One to adopt International Financial Reporting Standards (IFRS) accounting for overheads capitalized resulting in a $200 million increase in 2012.

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Transmission Business' regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Transmission Business has recorded regulatory liabilities, which represent amounts incurred in different periods than would be the case had the Transmission Business been unregulated. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a specific regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made. The specific regulatory assets and liabilities recognized at December 31, 2010 are disclosed in Note 8**.**

Revenue Recognition

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as power is transmitted and delivered to customers.

Revenue also includes amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Corporate Income and Capital Taxes

Under the *Electricity Act, 1998*, Hydro One Networks is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (*Corporations Tax Act* (Ontario), prior to 2009) as modified by the *Electricity Act, 1998*, and related regulations.

Effective January 1, 2009, the Company adopted amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, *Income Taxes* and CICA Handbook Section 1100, *Generally Accepted Accounting Principles*. These amended sections establish new standards for the recognition, measurement, presentation and disclosure of future income tax assets and liabilities of rate-regulated enterprises.

For transactions and events that cause temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, the Company recognized future income tax assets and liabilities, and corresponding regulatory liabilities and assets, as a result of adopting these amended standards on January 1, 2009.

As a result of adopting these amended standards, an adjustment to the retained earnings of Hydro One Networks of $15 million was recorded as at January 1, 2009 for the cumulative earnings impact of future income tax assets and liabilities as at December 31, 2008 that are excluded from the rate-setting process. The portion of the adjustment that pertains to the Transmission Business is $10 million, which is reflected in excess of assets over liabilities.

Current Income Taxes

The provision for current taxes and the assets and liabilities recognized for the current and prior periods are measured at the amounts receivable from or payable to the OEFC.

Future Income Taxes

Future income taxes are provided for using the liability method and are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Future income tax liabilities are generally recognized on all taxable temporary differences and future tax assets are recognized to the extent that it is more likely than not to be realized from taxable profits available against which deductible temporary differences can be utilized.

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to the Statement of Operations and Comprehensive Income.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the “more likely than not” criterion. Previously unrecognized future income tax assets are reassessed at each balance sheet date and are recognized to the extent that they have become more likely than not of being recovered from future taxable profits.

The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-setting process.

Inter-Company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries and, implicitly, by the regulated businesses of these subsidiaries. The inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Transmission Business to and from the pooled cash accounts. Interest is earned on positive inter-company balances based on the average of the bankers’ acceptance rate at the beginning and end of the month, less 0.02%. Interest is charged on overdraft inter-company balances based on the same bankers’ acceptance rate, plus 0.15%.

Materials and Supplies

Materials and supplies represent consumables, spare parts and construction material held for internal construction and maintenance of fixed assets. These assets are carried at lower of average cost or net realizable value.

Fixed Assets

Fixed assets are capitalized at cost, which comprises materials, labour, engineering costs, overheads, depreciation on service equipment and the OEB-approved allowance for funds used during construction applicable to capital construction activities.

Fixed assets in service consist of transmission assets, communication, administration and service assets and easements. Fixed assets also include future use assets such as land, major components and spare parts, and capitalized development costs associated with deferred capital projects.

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware, grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, such as transformers, circuit breakers and switches.

Communication, Administration and Service

Communication, administration and service assets include telecommunications equipment, towers, buildings associated with communication assets, administrative buildings, major computer systems, personal computers, transport and work equipment, tools, vehicles and minor fixed assets.

Easements

Easements include statutory rights of use to transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act*, *2002,* as well as other amounts related to access rights.

Intangible Assets

Intangible assets represent computer applications software and other assets. These assets are capitalized at cost, which comprises materials, purchased software, labour and consulting, engineering, overheads and the OEB-approved allowance for funds used during construction applicable to capital construction activities within regulated businesses.

Construction and Development in Progress

Overhead costs, including corporate functions and services costs, are capitalized on a fully-allocated basis, consistent with an OEB-approved methodology. Financing costs are capitalized on rate-regulated fixed assets under construction and intangible assets under development, based on the OEB's approved allowance for funds used during construction (2010 – 4.34%; 2009 – 5.89%).

Depreciation and Amortization

The capital costs of fixed assets and intangible assets, primarily consisting of applications software, are depreciated or amortized on a straight-line basis, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external review of its fixed asset and intangible asset depreciation and amortization rates, as required by the OEB. The last review resulted in changes to rates effective January 1, 2007. A summary of depreciation rates for the various classes of assets is included below:

	Depreciation rates (%)	
	Range	Average
Transmission	1% - 2%	2%
Communication, Administration and Service	1% -15%	5%
Easements	1%	1%

The costs of intangible assets are primarily included within the communication, administration and service classification above and these assets are amortized on a straight-line basis. The amortization rate for computer applications software and other intangible assets is approximately 11%. Depreciation rates for easements are based on their contract life. The majority of easements are held in perpetuity and are not depreciated.

In accordance with group depreciation practices, the original cost of fixed assets or intangible assets that are normally retired is charged to accumulated depreciation or amortization, with no gain or loss reflected in current results of operations. Gains and losses on sales of fixed assets and losses on premature retirements are charged to results of operations as adjustments to depreciation expense. Depreciation expense also includes the costs incurred to remove fixed assets.

The estimated service lives of fixed or intangible assets are subject to periodic review. Any changes arising out of such a review are implemented on a remaining service life basis consistent with their inclusion in electricity rates.

Discounts and Premiums on Debt

Discounts and premiums are amortized over the term of the related debt using the effective interest rate method.

Financial Instruments

Comprehensive Income

Comprehensive income is comprised of the Transmission Business' net income and other comprehensive income (OCI). OCI includes the amortization of net unamortized hedging losses on the Company's proportionate share of Hydro One's cash flow hedges, and the change in fair value on the Company's proportionate share of existing cash flow hedges to the extent that the hedge is effective. Unamortized hedging losses on discontinued cash flow hedges are amortized to financing charges using the effective interest method over the term of the allocated hedged debt.

Financial Assets and Liabilities

All financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, other financial liabilities or available-for-sale. All financial instruments, including derivatives, are carried at fair value on the Balance Sheet except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in financing charges in the period which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in OCI until the instrument is derecognized or impaired. The Transmission Business has classified its financial instruments as follows:

Accounts receivable	Loans and receivables
Fixed-to-floating interest rate swap	Not classified
Inter-company demand facility	Other financial liabilities
Accounts payable	Other financial liabilities
Long-term debt (unless otherwise specified)	Other financial liabilities
$150 million of a $250 million note due March 3, 2011	Not classified
$150 million of a $500 million note due November 19, 2014	Not classified

In March 2008 and January 2010, Hydro One issued notes for long-term financing under its Medium-Term Note (MTN) Program in the amounts of $250 million and $500 million, respectively. The $250 million issue and $250 million of the $500 million issue were pushed down to Hydro One Networks through the issuance of inter-company debt with $150 million of each issue allocated to the Transmission Business. These amounts were designated as part of a hedging relationship. As at December 31, 2010, the derivative instruments include $300 million fixed-to-floating interest rate swap agreements to convert the $300 million of debt into three-month variable-rate debt.

All financial instrument transactions are recorded at trade date.

Derivative Instruments and Hedge Accounting

All derivative instruments, including embedded derivatives, are carried at fair value on the Balance Sheet unless exempted from derivative treatment as a normal purchase and sale or when it is deemed that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. All changes in fair value are recorded in financing charges unless cash flow hedge accounting is used, in which case changes in fair value are recorded in OCI to the extent that the hedge is effective. The gain or loss related to the ineffective portion, if any, is recorded in financing charges.

The Company does not engage in derivative trading or speculative activities.

The Company periodically develops hedging strategies for execution taking into account risk management objectives. At the inception of a hedging relationship, the Company formally documents the hedging relationship between the hedged item and the hedging instrument, its risk management objective for establishing the hedging relationship, the nature of the specific risk exposure being hedged, and the method for assessing effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging items that are used are effective in offsetting changes in fair values or cash flows of hedged items.

Transaction Costs

Transaction costs related to Hydro One Networks' proportionate share of the relevant Hydro One transaction, for financial assets and liabilities that are other than held-for-trading, are added to the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest method.

Financial Instrument Disclosures

The fair market value of the Company's long-term debt is determined using the fair value hierarchy levels disclosed in Note 10.

Employee Future Benefits

Employee future benefits provided by Hydro One and its subsidiaries include pension, group life insurance, health care, and long-term disability.

In accordance with the OEB's rate orders, pension costs are recorded when employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act* (Ontario). Actuarial valuations are conducted at least every three years. Pension costs are also calculated on an accrual basis. Pension costs are actuarially determined using the projected benefit method prorated on service and based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases, on the actuarial present value of accrued pension benefits. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are valued using fair values. Past service costs from plan amendments and all actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefits other than pension are recorded on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments and actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefit costs are attributed to labour and charged to operations or capitalized as part of the cost of fixed assets.

Environmental Costs

The Transmission Business records a liability for estimated future expenditures associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyl (PCBs) contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. As the Company anticipates that the related expenditures will continue to be recoverable in future rates, a regulatory asset has been recorded to reflect the future recovery of these costs from customers. The Transmission Business reviews its estimates of future environmental expenditures on an ongoing basis.

Asset Retirement Obligations

When required by force of law or regulation, the Transmission Business records an asset retirement obligation based on the present value of the estimated fair value expenditures to remove certain assets and mitigate related sites. Where the Transmission Business anticipates that the related expenditures will be recoverable in future rates, a corresponding amount is capitalized as a cost of the related fixed assets. Some of the Transmission Business' assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Transmission Business expects to use the majority of its facilities in perpetuity, no asset retirement obligation currently exists. If, at some future date, a particular facility is shown not to meet the perpetuity criterion, it will be reviewed to determine whether a measurable asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the year. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB or the Province.

Emerging Accounting Changes

IFRS

On February 13, 2008 the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian generally accepted accounting principles for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. On October 14, 2009, the Public Sector Accounting Board released a decision summary confirming that government organizations following commercial practices adhere to standards for publicly accountable entities after January 1, 2011. On September 10, 2010, the AcSB decided to permit rate-regulated entities to defer their IFRS implementation date to January 1, 2012. As such, the Company, as a subsidiary of Hydro One, will apply IFRS to its financial statements ending December 31, 2012 with restatement of the amounts recorded on the opening IFRS balance sheet as at January 1, 2011, for comparative purposes. The Company continues to assess the impact of conversion to IFRS on its results of operations.

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

3. DEPRECIATION AND AMORTIZATION

Year ended December 31 (Canadian dollars in millions)	**2010**	**2009**
Depreciation of fixed assets in service	231	212
Amortization of intangible assets	21	17
Fixed asset removal costs	14	10
Amortization of regulatory and other assets	7	3
	273	242

4. FINANCING CHARGES

Year ended December 31 (Canadian dollars in millions)	**2010**	**2009**
Interest on long-term debt payable	242	223
Interest on inter-company demand facility	(1)	1
Less: Interest capitalized on construction and development in progress	(44)	(46)
Other	(2)	(2)
	195	176

5. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

(Canadian dollars in millions)	**2010**	**2009**
Income before provision for PILs	413	293
Federal and Ontario statutory income tax rate	31.00%	33.00%
Provision for PILs at statutory rate	128	97
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers :		
Capital cost allowance in excess of depreciation and amortization	(57)	(61)
Interest capitalized for accounting purposes but deducted for tax purposes	(14)	(15)
Overheads capitalized for accounting but deducted for tax purposes	(8)	(8)
Pension contributions in excess of pension expense	(7)	(6)
Employee future benefits other than pension expense in excess of cash payments	1	1
Environmental expenditures	(2)	-
Other	(2)	(4)
Net temporary differences	(89)	(93)
Net permanent differences	1	1
Total income tax provision for PILs	40	5
Current income tax provision for PILs	41	3
Future income tax provision for PILs	(1)	2
Total income tax provision for PILs	40	5
Effective income tax rate	9.69%	1.71%

The provision for payments in lieu of current income taxes of $41 million represents the amount payable to the OEFC with respect to current year earnings. The outstanding balance due to the OEFC at December 31, 2010 is approximately $6 million (2009 - $9 million recoverable).

The payments in lieu of future income taxes recoverable of $1 million reflects the decrease in the liability for payments in lieu of future income taxes that are not expected to be recovered from the Transmission Business's customers through future rates.

Future Income Tax Assets and Liabilities

Payments in lieu of future income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Transmission Business' assets and liabilities. The tax effects of these differences are as follows:

December 31 (Canadian dollars in millions)	**2010**	**2009**
Future Income Tax Assets		
Eligible Capital Expenditure	37	39
Employee future benefits other than pension expense in excess of cash payments	147	139
Environmental expenditures	34	38
Other	4	1
Total future income tax assets	222	217
Less: current portion	16	12
	206	205

December 31 (Canadian dollars in millions)	**2010**	**2009**
Future Income Tax Liabilities		
Capital cost allowance in excess of depreciation and amortization	698	590
Amounts paid but not recognized for accounting purposes	29	30
Other	1	-
Total future income tax liabilities	728	620
Less: current portion	-	-
	728	620

December 31 (Canadian dollars in millions)	**2010**	**2009**
Long-term future income tax assets	206	205
Long-term future income tax liabilities	(728)	(620)
Net long-term future income tax liability	(522)	(415)

The increase in the liability for payments in lieu of future income taxes that is expected to be recovered from customers through future rates has resulted in an increase in regulatory assets.

6. FIXED ASSETS

December 31 (Canadian dollars in millions)	Fixed Assets	Accumulated Depreciation	Construction in Progress	Total
2010				
Transmission	10,186	3,623	1,070	7,633
Communication, administration and service	1,086	529	41	598
Easements	483	82	-	401
	11,755	4,234	1,111	8,632

December 31 (Canadian dollars in millions)	Fixed Assets	Accumulated Depreciation	Construction in Progress	Total
2009				
Transmission	9,467	3,452	954	6,969
Communication, administration and service	1,004	481	60	583
Easements	478	79	-	399
	10,949	4,012	1,014	7,951

Financing costs are capitalized on fixed assets under construction, including allowance for funds used during construction on regulated assets, and were $44 million in 2010 (2009 - $44 million).

7. INTANGIBLE ASSETS

December 31 (Canadian dollars in millions)	Intangible Assets	Accumulated Amortization	Development in Progress	Total
2010				
Computer applications software	190	77	4	117
Other assets	4	2	-	2
	194	79	4	119
2009				
Computer applications software	182	56	2	128
Other assets	4	2	-	2
	186	58	2	130

Financing costs are capitalized on intangible assets under development, including allowance for funds used during construction on regulated assets, and were $nil in 2010 (2009 - $2 million).

8. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. The Transmission Business has recorded the following regulatory assets and liabilities:

December 31 (Canadian dollars in millions)	**2010**	**2009**
Regulatory assets:		
Regulatory future income tax asset	522	425
Environmental	134	151
Pension cost variance account	11	3
Long-term project development cost account	7	2
Other	1	5
Total regulatory assets	675	586
Less: current portion	15	12
	660	574

December 31 (Canadian dollars in millions)	**2010**	**2009**
Regulatory liabilities:		
External revenue variance account	29	15
Regulatory future income tax liability	8	12
Export and wheeling fees	3	12
Other	4	12
Total regulatory liabilities	44	51
Less: current portion	20	39
	24	12

Regulatory Assets

Regulatory Future Income Tax Asset and Liability

Future income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-making process. In the absence of rate-regulated accounting, the Company's provision for PILs would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the Transmission Business' provision for PILs would have been higher by approximately $76 million (2009 - $28 million) including the impact of a change in substantively enacted tax rates.

Environmental

The Transmission Business records a liability for the estimated future expenditures required to remediate past environmental contamination (See Note 13). Because such expenditures are expected to be recoverable in future rates, the Transmission Business has recorded an equivalent amount as a regulatory asset. In 2010, this regulatory asset decreased by $17 million (2009 – increased by $15 million) to reflect related changes in the Company's PCB liability and decreased by $1 million (2009 – increased by $14 million) for a change in the land assessment and remediation (LAR) liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred. The OEB has the discretion to examine and assess the prudence and the timing of recovery of all of the Transmission Business's actual environmental expenditures. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been lower by $18 million (2009 - higher by $29 million). In addition, amortization expense in 2010 would have been lower by $7 million (2009 - $2 million) and financing charges would have been higher by $8 million (2009 - $6 million).

Pension cost variance account

The pension cost variance account was established to track the difference between the actual pension costs incurred by the Transmission Business and estimated pension costs approved by the OEB. The balance in this account reflects the excess of pension costs paid compared to OEB-approved amounts. On May 28, 2009, the OEB announced its decision regarding the Company's rate application in respect of the Transmission Business for 2009 and 2010 rates. As part of this decision, the OEB approved recovery of the proposed balance in this account plus accrued interest for recovery over 18 months ending December 31, 2010. In the December 23, 2010 decision on 2011 and 2012 transmission rates, the OEB approved the December 31, 2009 balance, including accrued interest, to be recovered over a one-year period from January 1, 2011 to December 31, 2011. In the absence of rate-regulated accounting, revenue would have been lower by $8 million in 2010 (2009 - $3 million).

Long-term project development cost account

On May 28, 2009 the OEB approved the creation of a deferral account to record Hydro One's costs of preliminary work to advance certain transmission projects identified in its 2009 and 2010 transmission rate application. On March 25, 2010, the OEB issued a decision amending the scope of the account to include the 20 major transmission projects identified in the September 21, 2009 request from the Government of Ontario. In its December 23, 2010 decision, the OEB approved the recovery of the December 31, 2009 balance, including accrued interest, over a one-year period from January 1, 2011 to December 31, 2011. The Company anticipates that it will seek recovery for the remaining balance in its next transmission rate application. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been higher by $5 million (2009 - $2 million).

Regulatory Liabilities

External Revenue Variance Account

In its May 28, 2009 decision, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use and external revenue from station maintenance and engineering and construction work. These revenue sources are an offset to the Company's revenue requirement, and as such, the OEB requested the establishment of new variance accounts to capture any difference between the approved forecast and actual revenues from these sources of external revenue. The balance reflects the excess of external revenue compared to the OEB-approved forecast. The OEB's December 23, 2010 decision approved the disposition of the December 31, 2009 balance, including accrued interest, over a one-year period from January 1, 2010 to December 31, 2011.

Export and Wheeling Fees

Consistent with the Independent Electricity System Operator's (IESO) IESO's Market Rules, an export and wheeling fee is collected by the IESO and remitted to the Company at the rate of $1 per MWh on electricity exported outside of Ontario. The amounts collected in respect of these export and wheeling fees, plus interest, were taken into consideration in the revenue requirement of Hydro One Networks as part of the Company's transmission rate application filed with the OEB in September, 2006. On August 16, 2007, the OEB issued its decision in respect of the Company's transmission rate application and approved final amounts and disposition treatments for the export and wheeling fees. The export and wheeling fees were factored into rates over a four-year period ending December 31, 2010.

9. DEBT

Debt represents the Transmission Business' share of various notes payable by Hydro One Networks to Hydro One.

December 31 (Canadian dollars in millions)	**2010**	**2009**
Long-term debt	4,528	4,181
Add: Unrealized hedged loss[1]	3	7
Less: Long-term debt payable within one year	(324)	(403)
Net unamortized premiums	13	12
Unamortized debt issuance costs	(19)	(18)
	4,201	3,779

[1] The unrealized hedged loss relates to the $150 million note and to $150 million of the $325 million note, which are accounted for as fair value hedges. The unrealized hedged loss is offset by a $3 million (2009 - $7 million) unrealized gain on the related fixed-to-floating interest rate swap agreements (see Note 2 – Financial Instruments).

The long-term debt is unsecured and denominated in Canadian dollars. Such debt is summarized by the number of years to maturity in Note 10.

10. CARRYING AND FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying value of financial instruments as at December 31, 2010 is as follows:

(Canadian dollars in millions)	Derivatives Used for Hedging	Other Financial Instruments Used for Hedging	Loans and Receivables	Other Financial Liabilities
Financial Assets				
Accounts receivable	-	-	135	-
Other assets	3	-	-	-
Financial Liabilities				
Inter-company demand facility	-	-	-	83
Accounts payable and accrued charges[1]	-	-	-	225
Long-term debt	-	303	-	4,222

[1] Accounts payable and accrued charges do not include income taxes payable or dividends payable.

The carrying amounts of all financial instruments, except long-term debt, approximate fair value. The fair value of derivative financial instruments reflects the estimated amount that the Transmission Business, if required to settle an outstanding contract, would have been required to pay or would be entitled to receive at year end. The fair value of long-term debt, provided in the table below, is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as level 1 as the inputs used reflect quoted prices in an active market.

December 31 (Canadian dollars in millions)	**2010**		**2009**	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt[1]	4,528	4,978	4,181	4,421

[1] The carrying value of long-term debt represents the par value of the notes and debentures, other than the $150 million of the $250 million note and $150 million of the $500 million note, both of which are designated as part of a hedging relationship. (see Note 2 – Financial Instruments).

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to the risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk. The Company does have foreign exchange risk as it enters into agreements to purchase materials and equipment associated with the Company's capital programs and projects that are settled in foreign currencies. This foreign exchange risk is not material, although Hydro One could in the future decide to issue foreign currency denominated debt which will be hedged back to Canadian dollars consistent with Hydro One's risk management policy. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company's Transmission Business is derived using a formulaic approach which is based on the forecast for long-term Government of Canada bond yields and the spread in 30 year "A" rated Canadian utility bonds over the 30 year benchmark Government of Canada bond yield. The Company estimates that a 1% decrease in the forecast long-term Government of Canada bond yield or the "A" rated Canadian utility spread used in determining the Company's rate of return would reduce its Transmission Business' results of operations by approximately $16 million.

Credit Risk

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. As at December 31, 2010, there were no significant concentrations of credit risk with respect to any class of financial assets.

In the year, the Transmission Business' provision for bad debts remained low at $2 million (2009 - $3 million). Minor adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. As at December 31, 2010, approximately 1.1% of the Transmission Business' accounts receivable was aged more than 60 days.

Hydro One manages its counter-party credit risk through various techniques including, entering into transactions with highly rated counter-parties, limiting total exposure levels with individual counterparties consistent with the Hydro One's Board-approved Credit Risk Policy, entering into master agreements which enable net settlement and the contractual right of offset, and monitoring the financial condition of counterparties. The Company's credit risk for accounts receivable is limited to the carrying amount on the Balance Sheet.

The Company uses derivative financial instruments to manage interest rate risk. The Company may enter into derivative agreements such as forward interest rate agreements, to hedge against the effect of future interest rate movements on long-term fixed rate borrowing requirements. No such agreements were outstanding as at December 31, 2010.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Short-term liquidity is provided through the inter-company demand facility with Hydro One and funds from operations. The short-term liquidity available to the Company should be sufficient to fund normal operating requirements.
As at December 31, 2010, accounts payable and accrued charges in the amount of $241 million are expected to be settled in cash at their carrying amounts within the next year. Long-term debt maturing over the next twelve months is $324 million. Interest payments over the next twelve months on the Transmission Business' outstanding debt amount to $238 million.

As at December 31, 2010, the Transmission Business' share of the long-term debt of Hydro One Networks to Hydro One is $4,528 million and the required interest payments are $3,948 million. Principal outstanding, interest payments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	Principal Outstanding on Notes and Debentures *(Canadian dollars in millions)*	Interest Payments *(Canadian dollars in millions)*	Weighted Average Interest Rate *(Percent)*
	324	238	5.3
2 years	276	223	5.8
3 years	370	207	5.0
4 years	325	189	3.2
5 years	150	179	3.0
	1,445	1,036	4.6
6 – 10 years	855	747	4.9
Over 10 years	2,228	2,165	6.0
	4,528	3,948	5.3

11. CAPITAL MANAGEMENT

The Transmission Business' objective is to manage its capital structure consistent with the deemed capital structure for rate-setting purposes as prescribed by the OEB in its August 16, 2007 decision on transmission rates. This deemed capital structure is 60% debt and 40% common equity.

The Transmission Business considers its capital structure to consist of excess assets over liabilities, long-term debt, and the intercompany demand facility. The Transmission Business's capital structure as at December 31, 2010 and December 31, 2009 was as follows:

(Canadian dollars in millions)	**2010**	**2009**
Long-term debt payable within one year	324	403
Add: Inter-company demand facility	83	82
	407	485
Long-term debt	4,201	3,779
Excess of assets over liabilities	3,576	3,266
Total capital	8,184	7,530

12. EMPLOYEE FUTURE BENEFITS

Pension

Hydro One has a contributory defined benefit pension plan covering all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton Inc. The Hydro One Pension Plan does not segregate assets in a separate account for individual subsidiaries, nor is the cost of the benefit plans allocated to, or funded separately by, entities within the consolidated group. Accordingly, for purposes of these financial statements, the pension plan is accounted for as a defined contribution plan and no deferred pension asset or liability is recorded.

Hydro One's pension plan provides benefits based on highest three-year average pensionable earnings. For new management employees who commenced employment on or after January 1, 2004, and for new employees represented by the Society of Energy Professionals hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation. The measurement date used to determine plan assets and the accrued benefit obligation is December 31. Based on the actuarial valuation filed with the Financial Services Commission of Ontario in September 2010, effective for December 31, 2009, Hydro One contributed $193 million to its pension plan in respect of 2010 (2009 - $112 million), $145 million of which is required to satisfy minimum funding requirements. Hydro One made an additional payment of $48 million in December 2010. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash. Contributions after 2012 will be based on an actuarial valuation effective December 31, 2012 and will depend on future investment returns, and changes in benefits or actuarial assumptions.

For Hydro One, the actuarial present value at December 31, 2010 of the accrued pension benefits, based on a projection of the valuation at December 31, 2010, was estimated to be $4,996 million (2009 - $4,566 million). Pension plan assets available for these benefits were $4,699 million (2009 - $4,336 million).

Employee Future Benefits other than Pension

During the year ended December 31, 2010, $22 million of employee future benefits other than pension costs was charged to the results of operations of the Transmission Business (2009 - $20 million), and $15 million was capitalized as part of the cost of fixed assets (2009 - $12 million). Benefits paid were $18 million (2009 - $19 million). The liability associated with employee future benefits other than pension for the Transmission Business at December 31, 2010 was $437 million (2009 - $418 million), including the current portion.

A detailed description of employee future benefits is provided in Note 12 of the Consolidated Financial Statements of Hydro One for the year ended December 31, 2010.

13. ENVIRONMENTAL LIABILITIES

December 31 (Canadian dollars in millions)	Polychlorinated Biphenyls (PCB)	Land Assessment and Remediation (LAR)	Total
2010			
Environmental liabilities, January 1	131	20	151
Interest accretion	7	1	8
Expenditures	(5)	(2)	(7)
Revaluation adjustment	(17)	(1)	(18)
Environmental liabilities, December 31	116	18	134
Less: Current portion	9	1	10
	107	17	124

2009			
Environmental liabilities, January 1	111	7	118
Interest accretion	6	-	6
Expenditures	(1)	(1)	(2)
Revaluation adjustment	15	14	29
Environmental liabilities, December 31	131	20	151
Less: Current portion	6	1	7
	125	19	144

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2010 and in total thereafter are as follows: 2011 - $10 million; 2012 - $10 million; 2013 - $20 million; 2014 - $18 million; 2015 - $14 million and thereafter - $87 million. Of the total estimated future expenditures, $139 million relate to PCB (2009 - $162 million) and $20 million to LAR (2009 - $22 million).

Consistent with the Company's accounting policy for environmental costs, the Transmission Business records a liability for the estimated future expenditures associated with the removal and destruction of PCB-contaminated insulating oils and related electrical equipment and for the assessment and remediation of chemically-contaminated lands. The Transmission Business' recorded liability is based on management's best estimate of the present value of the future expenditures expected to be required to comply with existing regulations.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations and advances in remediation technologies. All factors used in estimating the Transmission Business' environmental liabilities represent management's best estimates of the present value cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Transmission Business' current assumptions. In addition, for the PCB program, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures. Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.
In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future environmental expenditures have

been discounted using factors ranging from 3.75% to 6.25%, depending on the appropriate rate for the period when increases in the obligations were first recorded.

PCBs

On September 17, 2008, Environment Canada published its final regulations governing the management, storage and disposal of PCBs. These regulations were enacted under the *Canadian Environmental Protection Act, 1999*. The regulations impose timelines for disposal of PCBs based on criteria including type of equipment, in-use status and PCB-contamination thresholds. All PCBs in concentrations of 500 parts per million (ppm) or more, except for specified equipment, had to be disposed of by the end of 2009. However, in 2009, the Company sought and received an extension until 2014 for the removal of PCBs from certain station equipment that could potentially be contaminated in excess of this threshold. Under the regulations, PCBs in equipment in concentrations greater than 50 ppm and less than 500 ppm, or greater than 50 ppm for light ballasts must be disposed of by the end of 2025.

Management judges that the Company currently has very few PCB-contaminated assets in excess of 500 ppm. Priority will be given to targeting inspection and testing work toward identifying and removing PCBs in assets that must be compliant by 2014. Assets to be disposed of by 2025 primarily consist of light ballasts. Contaminated transmission station equipment will generally be replaced or will be decontaminated by removing PCB-contaminated insulating oil and retrofilling with replacement oil that is less than 2 ppm.

14. ASSET RETIREMENT OBLIGATIONS

Consistent with the Company's accounting policy for asset retirement obligations, Hydro One Networks records a liability for the present value of the estimated future expenditures associated with the retirement of tangible long-lived assets that the Company is legally required to remove. A corresponding amount is recorded as an asset retirement cost that is capitalized as part of the carrying amount of the related fixed asset.

There are uncertainties in estimating future expenditures due to potential external events such as changing legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's asset retirement obligations represent management's best estimates of the costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.
In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required removal and remediation work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 3% to 5%, depending on the appropriate rate for the period when expenditures are expected to be incurred.

The Company has recorded a liability for the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The Company's liability is based on management's best estimate of the present value of the estimated future expenditures to comply with existing regulations. During the year, the Company completed a study with the aid of an expert external consultant to estimate the future expenditures required to remove asbestos prior to facility demolition. The Transmission Business' share of this obligation as at December 31, 2010 is approximately $3 million. The liability is based on the net present value of the Company's best estimate of the Transmission Business' share of future expenditures of $9 million to complete its asbestos removal activities.

The Transmission Business has also recorded a $4 million asset retirement obligation related to the decommissioning and removal of its switching station located at Ontario Power Generation's (OPG's) Abitibi Canyon Generating Station.

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

15. HYDRO ONE NETWORKS' SHARE CAPITAL

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

16. RELATED PARTY TRANSACTIONS

The Province and Successor Corporations of Ontario Hydro

The Province, OEFC, IESO, Ontario Power Authority (OPA) and OPG are related parties of the Company and its Transmission Business. In addition, the OEB is related to the Company by virtue of its status as a Provincial Crown Corporation. Transactions between these parties and the Transmission Business were as follows:

The Company received revenue for transmission services from the IESO, based upon uniform transmission rates approved by the OEB. Transmission revenue for 2010 includes $1,277 million (2009 - $1,121 million) related to these services.

The Company has service level agreements with Ontario Hydro's successor corporations, primarily OPG. These services include field and engineering, logistics, corporate, telecommunications and information technology services. Revenues related to the provision of construction and equipment maintenance services to the other successor corporations were $13 million in 2010 (2009- $12 million). Operation, maintenance and administration costs related to the purchase of services from these successor corporations were less than $1 million in 2010 and less then $2 million in 2009.

Under the *Ontario Energy Board Act*, 1998, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters. In 2010, the Transmission Business incurred $3 million (2009 - $4 million) in OEB fees.

The payments in lieu of corporate income taxes were paid or payable by the Company to the OEFC (Note 5).

Hydro One and Subsidiaries

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

The Company has entered into various agreements with Hydro One and its subsidiaries related to the provision of corporate functions and services, supply management, computer support and operational services such as environmental, forestry and line services. Revenues include $2 million (2009 - $1 million) related to the provision of services to Hydro One and its subsidiaries. Operation, maintenance and administration costs include $15 million (2009 - $14 million) related to the purchase of services from Hydro One and its subsidiaries.

The Company's debt, including the portion allocated to the Transmission Business, is due to Hydro One. Financing charges include interest expense on this debt in the amount of $242 million (2009 - $223 million). In addition, balances payable or receivable under the inter-company demand facility are due to or from Hydro One. Financing charges of the Transmission Business include interest earned on this facility in the amount of $1 million (2009 - $1 million expense).

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

December 31 (Canadian dollars in millions)	**2010**	**2009**
Accounts receivable	110	108
Accounts payable and accrued charges	(43)	(34)

17. STATEMENTS OF CASH FLOWS

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

Year ended December 31 (Canadian dollars in millions)	**2010**	**2009**
Accounts receivable increase	(21)	5
Materials and supplies increase	(1)	(1)
Accounts payable and accrued charges increase (decrease)	8	(14)
Accrued interest increase	5	7
Long-term accounts payable and other liabilities (decrease)	(2)	-
Employee future benefits other than pension increase	17	13
Other	8	2
	14	12
Supplementary information:		
Interest paid	242	224
Payments in lieu of corporate income taxes	26	42

18. CONTINGENCIES

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

19. COMMITMENTS

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

20. SUBSEQUENT EVENTS

On March 3, 2011, Hydro One repaid $250 million of maturing long-term debt. On the same date, Hydro One Networks repaid $250 million of maturing mirror debt payable to Hydro One. The Transmission Business' share of the repayment was $150 million. The related $150 million inter-company fixed-to-floating interest rate swap agreement also matured on the same day.

On February 2, 2011, the Power Workers' Union (PWU) requested that the Ministry of Labour appoint a Conciliation Officer to assist Hydro One and the PWU in finalizing a new collective agreement. Negotiations on the new agreement began on January 10, 2011. On March 23, 2011, a tentative two-party settlement was reached. The Board of Directors of Hydro One approved the settlement. The PWU is seeking ratification of the settlement by its membership.

On January 24, 2011, Hydro One issued notes under the Company's Medium-Term Note (MTN) Program. The issue consisted of $50 million floating-rate notes with a maturity date of July 24, 2015. On the same date, Hydro One Networks issued notes payable to Hydro One in the amount of $50 million with the same maturity date. The Transmission Business' share of the additional offering was $30 million.

On January 19, 2011, Hydro One issued $250 million in notes under its MTN Program. The issue was an additional offering of 2.95% notes maturing on September 11, 2015, originally issued on September 13, 2010. The total amount outstanding for this issue for Hydro One is now $500 million. On the same date, Hydro One Networks issued notes payable to Hydro One in the amount of $250 million with the same maturity date. The Transmission Business' share of the additional offering was $150 million. The total amount outstanding for this issue is now $500 million of which the Transmission Business' share is $300 million.

On January 19, 2011, Hydro One entered into two $125 million notional principal amount fixed-to-floating interest rate swaps to convert $250 million of Hydro One's 2.95% coupon note maturing September 11, 2015, into three-month variable rate debt. On the same date, Hydro One Networks entered into two $125 million notional principal amount fixed-to-floating interest rate swaps to convert $250 million of its note payable maturing September 11, 2015, into three-month variable rate debt. The Transmission Business' share of the swaps is $150 million.

On January 17, 2011, the PWU made an appeal to the Divisional Court of the Supreme Court of Canada under the *Ontario Energy Board Act, 1998* in regard to the OEB's December 23, 2010 decision approving Hydro One Networks' transmission rates for 2011 and 2012. The PWU submitted the appeal on the grounds that the decision failed to identify operations, maintenance and administration costs that the OEB considers imprudent and were therefore omitted in the calculation of the approved revenue requirement. The PWU is requesting that the OEB's determination regarding the revenue requirement and related rates be set aside and that the matter be remitted to a differently constituted panel of the OEB for a new hearing with respect to these issues. The appeal is not anticipated to impact upon the collection of the new 2011 transmission rates during the proceeding. The outcome of this appeal is not determinable at this time.

21. COMPARATIVE FIGURES

The comparative Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2010 Financial Statements.

The Company has changed the presentation of tax balances associated with certain temporary differences related to intangible assets and other regulatory account balances, to reflect how these balances will ultimately be settled. As a result, the Company reclassified the tax balances associated with these temporary differences, such that the amount of future income tax liabilities and the related net regulatory asset in the interim period balance sheet, and in the comparative December 31, 2009 balance sheet, have been reduced by approximately $160 million. The change in presentation has no impact on revenue or operating cash flow. The portion pertaining to the Transmission Business is approximately $130 million.

HYDRO ONE NETWORKS INC.

TRANSMISSION BUSINESS

FINANCIAL STATEMENTS

DECEMBER 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Directors of Hydro One Networks Inc.

We have audited the accompanying financial statements of the Transmission Business (a business of Hydro One Networks Inc.), which comprise the balance sheet as at December 31, 2011, the statement of operations and comprehensive income, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the basis of accounting in Note 2 to these financial statements.

Management's Responsibility for the Financial Statements

Management of Hydro One Networks Inc. is responsible for the preparation of these financial statements in accordance with the basis of accounting in Note 2 to these financial statements; this includes determining that the basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Transmission Business (a business of Hydro One Networks Inc.) as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with basis of accounting as set out in Note 2 to these financial statements.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 to these financial statement, which describes the basis of accounting and composition of the Hydro One Networks Inc. that comprise Transmission Business. In particular, in preparing these financial statements, corporate long-term debt, shared functions and services costs and payments in lieu of corporate income taxes have been allocated to the Transmission Business (a business of Hydro One Networks Inc.) using the method of allocation described in Note 2 to these financial statements. As a result of this basis of accounting, these financial statements may not necessarily be identical to the financial position, results of operations and cash flows that would have resulted had the Transmission Business (a business of Hydro One Networks Inc.) historically operated on a stand-alone basis. These financial statements are prepared to assist Hydro One Networks Inc. to comply with its reporting requirements of the Ontario Energy Board. As a result, these financial statements may not be suitable for another purpose. Our report is intended solely for Hydro One Networks Inc. and the Ontario Energy Board and should not be used by parties other than Hydro One Networks Inc. or the Ontario Energy Board.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
April 2, 2012

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years ended December 31 (Canadian dollars in millions)	**2011**	**2010**
Revenues		
Transmission tariff *(Note 16)*	1,353	1,287
Other	37	20
	1,390	1,307
Costs		
Operation, maintenance and administration *(Note 16)*	434	426
Depreciation and amortization *(Note 3)*	301	273
	735	699
Income before financing charges and provision for payments in lieu of corporate income taxes	655	608
Financing charges *(Notes 4 and 16)*	198	195
Income before provision for payments in lieu of corporate income taxes	457	413
Provision for payments in lieu of corporate income taxes *(Notes 5 and 16)*	77	40
Net income and comprehensive income	380	373

See accompanying notes to Financial Statements.

BALANCE SHEETS

December 31 (Canadian dollars in millions)	**2011**	**2010**
Assets		
Current assets:		
Accounts receivable (net of allowance for doubtful accounts - $2 million; 2010- $2 million) *(Note 16)*	150	135
Regulatory assets *(Note 8)*	10	15
Materials and supplies	16	13
Future income tax assets *(Note 5)*	10	16
Other	8	2
	194	181
Fixed assets *(Note 6)*:		
Fixed assets in service	12,410	11,666
Less: accumulated depreciation	4,463	4,234
	7,947	7,432
Construction in progress	1,123	1,111
Future use land, components and spares	89	89
	9,159	8,632
Other long-term assets:		
Regulatory assets *(Note 8)*	691	660
Intangible assets (net of accumulated amortization) *(Note 7)*	113	119
Other	13	2
	817	781
Total assets	10,170	9,594

See accompanying notes to Financial Statements.

BALANCE SHEETS (continued)

December 31 (Canadian dollars in millions)	**2011**	**2010**
Liabilities		
Current liabilities:		
Inter-company demand facility *(Note 16)*	181	83
Accounts payable and accrued charges *(Notes 13 and 16)*	281	241
Regulatory liabilities *(Note 8)*	7	20
Accrued interest	52	51
Long-term debt payable within one year *(Notes 9, 10 and 16)*	276	324
	797	719
Long-term debt *(Notes 9, 10 and 16)*	4,388	4,201
Other long-term liabilities:		
Future income tax liabilities *(Note 5)*	570	522
Employee future benefits other than pension *(Note 12)*	442	416
Environmental liabilities *(Note 13)*	90	124
Regulatory liabilities *(Note 8)*	47	24
Asset retirement obligations *(Note 14)*	12	7
Long-term accounts payable and other liabilities	6	5
	1,167	1,098
Total liabilities	6,352	6,018
Contingencies and commitments *(Notes 18 and 19)*		
Excess of assets over liabilities *(Notes 11 and 15)*	3,818	3,576
Total liabilities and excess of assets over liabilities	10,170	9,594

See accompanying notes to Financial Statements.

On behalf of the Board:

Laura Formusa
Chair

Sandy Struthers
Director

STATEMENTS OF CASH FLOWS

Year ended December 31 (Canadian dollars in millions)	**2011**	**2010**
Operating activities		
Net income	380	373
Environmental expenditures	(7)	(7)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	281	259
Regulatory asset and liability accounts	10	(12)
Future income taxes	(7)	(1)
Gain on interest rate swap agreements	(4)	(7)
Asset retirement obligation	4	4
Other	6	-
	664	609
Changes in non-cash balances related to operations *(Note 17)*	47	21
Net cash from operating activities	711	630
Financing activities		
Allocated long-term debt issued	455	750
Allocated long-term debt retired	(324)	(403)
Payments to Hydro One Inc. to finance dividends	(138)	(63)
Other	(3)	-
Net cash (used in) from financing activities	(10)	284
Investing activities		
Capital expenditures		
Fixed assets	(792)	(928)
Intangible assets	(18)	(8)
	(810)	(936)
Other assets	11	21
Net cash used in investing activities	(799)	(915)
Net change in inter-company demand facility	(98)	(1)
Inter-company demand facility, January 1	(83)	(82)
Inter-company demand facility, December 31	(181)	(83)

See accompanying notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF THE TRANSMISSION BUSINESS

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

Hydro One Networks Inc. (Hydro One Networks or the Company) was incorporated on March 4, 1999 under the *Business Corporations Act* (Ontario) and is a wholly owned subsidiary of Hydro One. The Company owns and operates Hydro One's regulated transmission and distribution businesses. The regulated transmission business (Transmission Business) operates a high-voltage electrical transmission network that represents almost all of the licensed transmission capacity in Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These financial statements have been prepared in accordance with the accounting policies summarized below. These policies are consistent with Canadian generally accepted accounting principles (GAAP) as contained in Part V of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting. These financial statements have been prepared for the specific use of the OEB. Consolidated financial statements of Hydro One for the year ended December 31, 2011 have been prepared and are publicly available.

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

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

Rate-setting

The rates of the Company's electricity Transmission Business are subject to regulation by the OEB.

Hydro One Networks filed a transmission rate application for 2009 and 2010 rates in September 2008. On May 28, 2009, the OEB issued its decision with reasons in respect of this application. The decision, which was effective July 1, 2009, resulted in revenue requirements of $1,180 million and $1,240 million for 2009 and 2010, respectively. The OEB decision disallowed development capital expenditures of $180 million for 2010, but the OEB agreed to reconsider these projects if additional evidence was provided. On September 4, 2009, Hydro One Networks filed the additional evidence on two projects amounting to approximately $160 million in capital expenditures. The OEB approved the supplemental evidence for inclusion in Hydro One Networks' 2010 rates. This resulted in a revised revenue requirement of $1,257 million for 2010, on the basis of an updated return on equity of 8.39%.

NOTES TO FINANCIAL STATEMENTS (continued)

On May 19, 2010 Hydro One Networks submitted an application for 2011 and 2012 transmission rates in continued support of its aging critical infrastructure and the supply mix objectives for generation, including off-coal initiatives and initiation of investments in support of the Green Energy Act (GEA). This application sought the approval of revenue requirements of approximately $1,446 million for 2011 and $1,547 million for 2012. On December 23, 2010, the OEB issued its decision with reasons effective January 1, 2011, which resulted in approved revenue requirements of $1,346 million for 2011 and $1,658 million for 2012. The approved 2012 revenue requirement was higher than that applied for, reflecting OEB direction to Hydro One Networks to adopt a modified International Financial Reporting Standards (IFRS) cost capitalization policy.

On September 6, 2011, the Company submitted its evidence to the OEB in support of its request of approval to adopt US GAAP as its approved basis for rate-setting, regulatory accounting and reporting. On November 23, 2011, the OEB approved Hydro One Network's request to adopt US GAAP and approved a revised revenue requirement for 2012 that effectively removed the impact of adopting the modified IFRS cost capitalization policy.

Regulatory Accounting

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Transmission Business' regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Transmission Business has recorded regulatory liabilities, which represent amounts incurred in different periods than would be the case had the Transmission Business been unregulated. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a specific regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in its results of operations in the period that the assessment is made. The specific regulatory assets and liabilities recognized at December 31, 2011 are disclosed in Note 8.

Revenue Recognition

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as power is transmitted and delivered to customers.

Revenue also includes amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Corporate Income and Capital Taxes

Under the *Electricity Act, 1998*, Hydro One Networks is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (*Corporations Tax Act* (Ontario), prior to 2009) as modified by the *Electricity Act, 1998*, and related regulations.

Current Income Taxes

The provision for current taxes and the assets and liabilities recognized for the current and prior periods are measured at the amounts receivable from, or payable to, the OEFC.

Future Income Taxes

Future income taxes are provided for using the liability method and are recognized on temporary differences

NOTES TO FINANCIAL STATEMENTS (continued)

between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income.

Future income tax liabilities are generally recognized on all taxable temporary differences and future tax assets are recognized to the extent that they are more likely than not to be realized from taxable income available against which deductible temporary differences can be utilized.

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to the Statement of Operations and Comprehensive Income.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the "more likely than not" criterion. Previously unrecognized future income tax assets are re-evaluated at each balance sheet date and are recognized to the extent that they have become more likely than not of being recovered from future taxable income.

The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-setting process.

Inter-Company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries and, implicitly, by the regulated businesses of these subsidiaries. The inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Transmission Business to and from the pooled cash accounts. Interest is earned on positive inter-company balances based on the average of the bankers' acceptance rate at the beginning and end of the month, less 0.02%. Interest is charged on overdraft inter-company balances based on the same bankers' acceptance rate, plus 0.15%.

Materials and Supplies

Materials and supplies represent consumables, spare parts and construction material held for internal construction and maintenance of fixed assets. These assets are carried at lower of average cost or net realizable value.

Fixed Assets

Fixed assets are capitalized at cost, which comprises materials, labour, engineering costs, overheads, depreciation on service equipment and the OEB-approved allowance for funds used during construction applicable to capital construction activities.

Fixed assets in service consist of transmission assets, communication, administration and service assets and easements. Fixed assets also include future use assets such as land, major components and spare parts, and capitalized development costs associated with deferred capital projects.

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware, grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, such as transformers, circuit breakers and switches.

Communication, Administration and Service

Communication, administration and service assets include telecommunications equipment, towers, buildings

NOTES TO FINANCIAL STATEMENTS (continued)

associated with communication assets, administrative buildings, major computer systems, personal computers, transport and work equipment, tools, vehicles and minor fixed assets.

Easements

Easements include statutory rights of use to transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002,* as well as other amounts related to access rights.

Intangible Assets

Intangible assets primarily represent computer applications software. These assets are capitalized at cost, which comprises purchased software, labour and consulting, engineering, overheads and the OEB-approved allowance for funds used during construction applicable to capital construction activities.

Construction and Development in Progress

Overhead costs, including corporate functions and services costs, are capitalized on a fully-allocated basis, consistent with an OEB-approved methodology. Financing costs are capitalized on fixed assets under construction and intangible assets under development, based on the OEB's approved allowance for funds used during construction (2011 - 4.20%; 2010 - 4.34%).

Depreciation and Amortization

The capital costs of fixed assets and intangible assets are depreciated or amortized on a straight-line basis, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external review of its fixed asset and intangible asset depreciation and amortization rates, as required by the OEB and Canadian GAAP. The last review resulted in changes to rates effective January 1, 2007. A summary of depreciation rates for the various classes of assets is included below:

	Depreciation rates (%)	
	Range	Average
Transmission	1% - 2%	2%
Communication, Administration and Service	1% - 15%	6%
Easements	1%	1%

Intangible assets are primarily included within the communication, administration and service classification above and these assets are amortized on a straight-line basis. The amortization rate for computer applications software and other intangible assets is approximately 11%. Depreciation rates for easements are based on their contract lives. The majority of easements are held in perpetuity and are not depreciated.

In accordance with group depreciation practices, the original cost of fixed assets or intangible assets that are normally retired is charged to accumulated depreciation or amortization, with no gain or loss reflected in current results of operations. Gains and losses on sales of fixed assets and losses on premature retirements are charged to results of operations as adjustments to depreciation expense. Depreciation expense also includes the costs incurred to remove fixed assets.

The estimated service lives of fixed or intangible assets are subject to periodic review. Any changes arising out of such a review are implemented on a remaining service life basis consistent with their inclusion in electricity rates.

NOTES TO FINANCIAL STATEMENTS (continued)

Financial Instruments

Recognition and measurement

All financial instruments are classified into one of the following five categories: held-to-maturity investments; loans and receivables; held-for-trading; other liabilities; or available-for-sale. All financial instruments, including derivatives, are carried at fair value on the Balance Sheets except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in financing charges in the period which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income (OCI) until the instrument is derecognized or impaired. The Transmission Business has classified its financial instruments as follows:

Assets / Liabilities	Classification	Measurement
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable	Other liabilities	Amortized cost
Inter-company demand facility	Other liabilities	Amortized cost
Long-term debt (unless otherwise specified)	Other liabilities	Amortized cost
Fixed-to-floating interest rate swaps	Not classified	Fair value
Floating-to-fixed interest rate swaps	Held-for-trading	Fair value
$150 million of a $250 million note matured on March 3, 2011	Not classified	Fair value
$150 million of a $500 million note due November 19, 2014	Not classified	Fair value
$150 million of a $500 million note due September 11, 2015	Not classified	Fair value

In March 2008, January 2010 and January 2011, Hydro One issued notes for long-term financing under its Medium-Term Note (MTN) Program in the amounts of $250 million, $500 million and $250 million, respectively. The first $250 million issue, $250 million of the $500 million issue and the second $250 million issue were mirrored within Hydro One Networks through the issuance of inter-company debt with $150 million of each issue allocated to the Transmission Business. These amounts were designated as part of a hedging relationship. As at December 31, 2011, derivative instruments include fixed-to-floating interest-rate swap agreements with a total amount of $300 million to convert $300 million of fixed-rate debt into three-month variable-rate debt as well as floating-to-fixed interest-rate swap agreements with a total amount of $330 million that locks in the rate resets on $330 million floating-rate debt for 2012. These long-term debt issues, and related hedging instruments, are not classified.

All financial instrument transactions are recorded at trade date.

Discounts and Premiums on Debt

Discounts and premiums are amortized over the term of the related debt using the effective interest rate method.

Transaction Costs

Transaction costs related to Hydro One Networks' proportionate share of the relevant Hydro One transaction, for financial assets and liabilities that are other than held-for-trading, are added to the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest method.

Derivative Instruments and Hedge Accounting

All derivative instruments, including embedded derivatives, are carried at fair value on the Balance Sheets unless exempted from derivative treatment as a normal purchase and sale or when it is deemed that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The Company does not have any significant embedded derivatives in contracts that require separate accounting and disclosure.

NOTES TO FINANCIAL STATEMENTS (continued)

All changes in fair value are recorded in financing charges unless cash flow hedge accounting is used, in which case changes in fair value are recorded in OCI to the extent that the hedge is effective. The gain or loss related to the ineffective portion, if any, is recorded in financing charges.

The Company does not engage in derivative trading or speculative activities.

Hydro One periodically develops hedging strategies for execution taking into account risk management objectives. At the inception of a hedging relationship, Hydro One formally documents the hedging relationship between the hedged item and the hedging instrument, its risk management objective for establishing the hedging relationship, the nature of the specific risk exposure being hedged, and the method for assessing effectiveness of the hedging relationship. Hydro One also assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging items that are used are effective in offsetting changes in fair values or cash flows of the hedged items.

Comprehensive Income

Comprehensive income is comprised of the Transmission Business' net income and OCI. OCI includes the amortization of net unamortized hedging losses on the Company's proportionate share of Hydro One's discounted cash flow hedges, and the change in fair value on the Company's proportionate share of existing cash flow hedges to the extent that the hedge is effective. The Company amortizes its unamortized hedging losses on discontinued cash flow hedges to financing charges using the effective interest method over the term of the allocated hedged debt.

Financial Instrument Disclosures

All financial instruments measured at fair value are categorized into one of the three levels of hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical instruments in an active market;
Level 2 – inputs do not have quoted prices but are observable for the asset or liability, either directly or indirectly; and
Level 3 – inputs that are not based on observable market data.

The fair market value of the Company's long-term debt is determined using the fair value hierarchy levels disclosed in Note 10.

Employee Future Benefits

Employee future benefits provided by Hydro One and its subsidiaries include pension, group life insurance, health care, and long-term disability.

In accordance with the OEB's rate orders, pension costs are recorded when employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act* (Ontario). Actuarial valuations are conducted at least every three years. Pension costs are also calculated on an accrual basis. Pension costs are actuarially determined using the projected benefit method prorated on service and based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases, on the actuarial present value of accrued pension benefits. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are valued using fair values. Past service costs from plan amendments and all actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefits other than pension are recorded on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments and actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefit costs are attributed to labour and charged to operations or capitalized as part of the cost of fixed and intangible assets.

Environmental Costs

The Transmission Business records a liability for estimated future expenditures associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyl (PCB) contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. As the Company anticipates that the related expenditures will continue to be recoverable in future rates, a regulatory asset has been recorded to reflect the future recovery of these costs from customers. The Transmission Business reviews its estimates of future environmental expenditures on an ongoing basis.

Asset Retirement Obligations

When required by force of law or regulation, the Transmission Business records an asset retirement obligation based on the present value of the estimated fair value expenditures to remove certain assets and mitigate related sites. Where the Transmission Business anticipates that the related expenditures will be recoverable in future rates, a corresponding amount is capitalized as a cost of the related fixed assets. Some of the Transmission Business' assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Transmission Business expects to use the majority of its facilities in perpetuity, no asset retirement obligation currently exists. If, at some future date, a particular facility is shown not to meet the perpetuity criterion, it will be reviewed to determine whether a measurable asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time. The asset retirement obligations recorded to date are primarily related to the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of the Company's facilities and the decommissioning of certain switching stations.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Financial Statements, and the reported amounts of revenues and expenses for the year. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB or the Province.

Emerging Accounting Changes

Accounting Framework

The Company previously anticipated it would apply International Financial Reporting Standards (IFRS) to the Financial Statements of its regulated businesses for fiscal periods beginning on or after January 1, 2012. In the absence of a definitive plan for a new project to consider the issuance of a rate-regulated accounting standard by the International Accounting Standards Board, Hydro One began evaluating the option of adopting US GAAP in lieu of IFRS in the first quarter of this year. On July 7, 2011, Hydro One filed an application with the Ontario Securities Commission (OSC) for exemptive relief from the requirements of section 3.2 of National Instrument 52-107 *Acceptable Accounting Policies and Auditing Standards* that would otherwise require it to file Financial Statements based on IFRS starting with reporting periods commencing after January 1, 2012. Hydro One's application requested approval to instead adopt US GAAP, without becoming a Securities and Exchange Commission registrant, for its 2012, 2013 and 2014 fiscal years. On July 21, 2011, the OSC approved Hydro One's application and granted it the requested exemptive relief. Hydro One's Board of Directors has approved a resolution authorizing it to report under US GAAP.

As a result, the Company, as a subsidiary of Hydro One, will prepare its December 31, 2012 Financial Statements prepared based on US GAAP with two years of comparative restatement. The Company's opening US GAAP Balance Sheet will be based on a retrospective application of US GAAP. The Company anticipates that its current application of Canadian GAAP for rate-regulated activities will generally be consistent with US GAAP. Any

NOTES TO FINANCIAL STATEMENTS (continued)

differences between Canadian and US GAAP and their impact on the Company's Financial Statements will be assessed as part of the Company's US GAAP conversion project.

On September 6, 2011, the Company submitted its evidence to the OEB in support of its request of approval to adopt US GAAP as the approved basis for rate-setting and regulatory accounting and reporting for its Transmission Business in preference to modified IFRS. On November 23, 2011, the OEB approved the Company's request.

3. DEPRECIATION AND AMORTIZATION

Years ended December 31 (Canadian dollars in millions)	**2011**	**2010**
Depreciation of fixed assets in service	250	231
Amortization of intangible assets	22	21
Fixed asset removal costs	20	14
Amortization of regulatory and other assets	9	7
	301	273

4. FINANCING CHARGES

Years ended December 31 (Canadian dollars in millions)	**2011**	**2010**
Interest on long-term debt payable *(Note 16)*	242	242
Interest on inter-company demand facility	1	(1)
Other	1	(2)
Less: Interest capitalized on construction and development in progress	(46)	(44)
	198	195

5. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

(Canadian dollars in millions)	**2011**	**2010**
Income before provision for PILs	457	413
Federal and Ontario statutory income tax rate	28.25%	31.00%
Provision for PILs at statutory rate	129	128
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(27)	(57)
Interest capitalized for accounting purposes but deducted for tax purposes	(13)	(14)
Overheads capitalized for accounting but deducted for tax purposes	(7)	(8)
Pension contributions in excess of pension expense	(7)	(7)
Environmental expenditures	(2)	(2)
Employee future benefits other than pension expense in excess of cash payments	2	1
Other	1	(2)
Net temporary differences	(53)	(89)
Net permanent differences	1	1
Total income tax provision for PILs	77	40

NOTES TO FINANCIAL STATEMENTS (continued)

(Canadian dollars in millions)	**2011**	**2010**
Current income tax provision for PILs	83	41
Future income tax provision for PILs	(6)	(1)
Total income tax provision for PILs	77	40
Effective income tax rate	16.85%	9.69%

The provision for payments in lieu of current income taxes of $83 million represents the amount payable to the OEFC with respect to current year income. The outstanding balance due to the OEFC at December 31, 2011 is approximately $36 million (2010 - $6 million recoverable).

The payments in lieu of future income taxes recoverable of $6 million reflects the decrease in the liability for payments in lieu of future income taxes that are not expected to be recovered from the Transmission Business's customers through future rates.

Future Income Tax Assets and Liabilities

Payments in lieu of future income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Transmission Business' assets and liabilities. The tax effects of these differences are as follows:

December 31 (Canadian dollars in millions)	**2011**	**2010**
Future Income Tax Assets		
Employee future benefits other than pension expense in excess of cash payments	155	147
Eligible Capital Expenditure	36	37
Environmental expenditures	25	34
Other	1	4
Total future income tax assets	217	222
Less: current portion	12	19
	205	203
Current future income tax assets	12	19
Current future income tax liabilities	(2)	(3)
Net current future income tax assets	10	16
Future Income Tax Liabilities		
Capital cost allowance in excess of depreciation and amortization	760	698
Amounts paid but not recognized for accounting purposes	17	29
Other	-	1
Total future income tax liabilities	777	728
Less: current portion	2	3
	775	725
Long-term future income tax assets	205	203
Long-term future income tax liabilities	(775)	(725)
Net long-term future income tax liability	(570)	(522)

The increase in the liability for payments in lieu of future income taxes that is expected to be recovered from customers through future rates has resulted in an increase in regulatory assets.

NOTES TO FINANCIAL STATEMENTS (continued)

6. FIXED ASSETS

December 31 (Canadian dollars in millions)	Cost	Accumulated Depreciation	Construction in Progress	Total
2011				
Transmission	10,888	3,807	1,078	8,159
Communication, administration and service	1,126	572	45	599
Easements	485	84	-	401
	12,499	4,463	1,123	9,159
2010				
Transmission	10,186	3,623	1,070	7,633
Communication, administration and service	1,086	529	41	598
Easements	483	82	-	401
	11,755	4,234	1,111	8,632

Financing costs are capitalized on fixed assets under construction, including allowance for funds used during construction on regulated assets, and were $46 million in 2011 (2010 - $44 million).

7. INTANGIBLE ASSETS

December 31 (Canadian dollars in millions)	Cost	Accumulated Amortization	Development in Progress	Total
2011				
Computer applications software	205	99	5	111
Other assets	4	2	-	2
	209	101	5	113
2010				
Computer applications software	190	77	4	117
Other assets	4	2	-	2
	194	79	4	119

8. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. The Transmission Business has recorded the following regulatory assets and liabilities:

December 31 (Canadian dollars in millions)	**2011**	**2010**
Regulatory assets:		
Future income tax regulatory asset	583	522
Environmental	100	134
Pension cost variance	13	11
Long-term project development cost	5	7
Other	-	1
Total regulatory assets	701	675
Less: current portion	10	15
	691	660

NOTES TO FINANCIAL STATEMENTS (continued)

December 31 (Canadian dollars in millions)	**2011**	**2010**
Regulatory liabilities:		
External revenue variance	38	29
Future income tax regulatory liability	7	8
PST savings deferral	3	3
Other	6	4
Total regulatory liabilities	54	44
Less: current portion	7	20
	47	24

Regulatory Assets

Future Income Tax Regulatory Asset and Liability

Future income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Company's provision for PILs would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the Transmission Business' provision for PILs would have been higher by approximately $46 million (2010 - $76 million) including the impact of a change in substantively enacted tax rates.

Environmental

The Transmission Business records a liability for the estimated future expenditures required to remediate past environmental contamination (See Note 13). Because such expenditures are expected to be recoverable in future rates, the Transmission Business has recorded an equivalent amount as a regulatory asset. In 2011, this regulatory asset decreased by $32 million (2010 - $17 million) to reflect a revaluation adjustment in the Company's PCB liability and decreased by $1 million (2010 - $1 million) for a change in the land assessment and remediation (LAR) liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred. The OEB has the discretion to examine and assess the prudence and the timing of recovery of all of the Transmission Business's actual environmental expenditures. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been lower by $33 million (2010 - $18 million). In addition, amortization expense in 2011 would have been lower by $7 million (2010 - $7 million) and financing charges would have been higher by $6 million (2010 - $8 million).

Pension cost variance

The pension cost variance account was established to track the difference between the actual pension costs incurred by the Transmission Business and estimated pension costs approved by the OEB. The balance in this account reflects the excess of pension contributions paid compared to OEB-approved amounts. On May 28, 2009, the OEB announced its decision regarding the Company's rate application in respect of the Transmission Business for 2009 and 2010 rates. As part of this decision, the OEB approved recovery of the proposed balance in this account plus accrued interest for recovery over 18 months ending December 31, 2010. In the December 23, 2010 decision on 2011 and 2012 transmission rates, the OEB approved the December 31, 2009 balance, including accrued interest, to be recovered over a one-year period from January 1, 2011 to December 31, 2011. In the absence of rate-regulated accounting, revenue would have been lower by $1 million in 2011 (2010 - $8 million).

Long-term project development cost

On May 28, 2009 the OEB approved the creation of a deferral account to record the Transmission Business' costs of preliminary work to advance certain transmission projects identified in its 2009 and 2010 transmission rate

NOTES TO FINANCIAL STATEMENTS (continued)

application. On March 25, 2010, the OEB issued a decision amending the scope of the account to include the 20 major transmission projects identified in the September 21, 2009 request from the Province. In its December 23, 2010 decision, the OEB approved the recovery of the December 31, 2009 balance, including accrued interest, over a one-year period from January 1, 2011 to December 31, 2011. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been lower by $2 million (2010 - higher by $5 million).

Regulatory Liabilities

External Revenue Variance

In its May 28, 2009 decision, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use and external revenue from station maintenance and engineering and construction work. These revenue sources are an offset to the Company's revenue requirement, and as such, the OEB requested the establishment of new variance accounts to capture any difference between amounts factored into the approved revenue requirement and actual amounts received. The balance reflects the excess of external revenue compared to the OEB-approved amounts. On December 23, 2010, the OEB approved the disposition of the December 31, 2009 balance, including accrued interest, over a one-year period from January 1, 2011 to December 31, 2011.

PST savings deferral

The Company is required to record the impact from the implementation of the HST sales tax regime from July 1, 2010 to December 31, 2010. The variance amounts recognized in the account reflect Provincial Sales Tax (PST) amounts in approved revenue requirements after the implementation of the HST. These amounts will be refunded to ratepayers in future years.

9. DEBT

Debt represents the Transmission Business' share of various notes payable by Hydro One Networks to Hydro One.

December 31 (Canadian dollars in millions)	**2011**	**2010**
Long-term debt	4,659	4,528
Add: Unrealized marked-to-market loss[1]	14	3
Less: Long-term debt payable within one year	(276)	(324)
Net unamortized premiums	11	13
Unamortized debt issuance costs	(20)	(19)
	4,388	4,201

[1] The unrealized marked-to-market loss relates to the $150 million note which matured on March 3, 2011; $150 million of the $325 million note maturing November 19, 2014; and $150 million of the $300 million note maturing September 11, 2015, which are accounted for as fair value hedges. The unrealized marked-to-market loss is offset by a $14 million (2010 - $3 million) unrealized gain on the related fixed-to-floating interest rate swap agreements.

The long-term debt is unsecured and denominated in Canadian dollars. Such debt is summarized by the number of years to maturity in Note 10.

NOTES TO FINANCIAL STATEMENTS (continued)

10. CARRYING AND FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying value of financial instruments as at December 31, 2011 is as follows:

(Canadian dollars in millions)	Derivatives Used for Hedging	Other Financial Instruments Used for Hedging	Loans and Receivables	Other Financial Liabilities
Financial Assets				
Accounts receivable	-	-	150	-
Other assets	14	-	-	-
Financial Liabilities				
Inter-company demand facility	-	-	-	181
Accounts payable and accrued charges[1]	-	-	-	236
Long-term debt	-	314	-	4,350

[1] Accounts payable and accrued charges do not include income taxes payable or dividends payable.

The carrying amounts of all financial instruments, except long-term debt, approximate fair value. The fair value of derivative financial instruments reflects the estimated amount that the Transmission Business, if required to settle an outstanding contract, would have been required to pay or would be entitled to receive at year end. The fair value of long-term debt, provided in the table below, is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as level 1 as the inputs used reflect quoted prices in an active market.

December 31 (Canadian dollars in millions)	**2011**		**2010**	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt[1]	4,659	5,497	4,528	4,978

[1] The carrying value of long-term debt represents the par value of the notes and debentures, other than the amounts which are designated as part of a hedging relationship.

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to the risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk. The Company does have foreign exchange risk as it enters into agreements to purchase materials and equipment associated with the Company's capital programs and projects that are settled in foreign currencies. This foreign exchange risk is not material, although Hydro One could in the future decide to issue foreign currency denominated debt which will be hedged back to Canadian dollars consistent with Hydro One's risk management policy. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company's Transmission Business is derived using a formulaic approach which is based on the forecast for long-term Government of Canada bond yields and the spread in 30 year "A" rated Canadian utility bonds over the 30 year benchmark Government of Canada bond yield. The Company estimates that a 1% decrease in the forecast long-term Government of Canada bond yield or the "A" rated Canadian utility spread used in determining the Company's rate of return would reduce its Transmission Business' results of operations by approximately $18 million.

NOTES TO FINANCIAL STATEMENTS (continued)

Credit Risk

Financial assets create credit risk that a counter-party will fail to discharge an obligation, causing a financial loss. As at December 31, 2011, there were no significant concentrations of credit risk with respect to any class of financial assets.

In the year, the Transmission Business' provision for bad debts was $2 million (2010 - $2 million). Minor adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. As at December 31, 2011, approximately 1% of the Transmission Business' accounts receivable was aged more than 60 days.

Hydro One manages its counter-party credit risk through various techniques including, entering into transactions with highly rated counter-parties, limiting total exposure levels with individual counterparties consistent with the Hydro One's Board-approved Credit Risk Policy, entering into master agreements which enable net settlement and the contractual right of offset, and monitoring the financial condition of counterparties. The Company's credit risk for accounts receivable is limited to the carrying amount on the Balance Sheet.

Hydro One uses derivative financial instruments to manage interest rate risk. Hydro One, and the Company, may enter into derivative agreements such as forward interest rate agreements, to hedge against the effect of future interest rate movements on long-term fixed rate borrowing requirements. No such agreements were outstanding as at December 31, 2011.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Short-term liquidity is provided through the inter-company demand facility from Hydro One and funds from operations. The short-term liquidity available to the Company should be sufficient to fund normal operating requirements.

As at December 31, 2011, accounts payable and accrued charges in the amount of $236 million are expected to be settled in cash at their carrying amounts within the next year. Long-term debt maturing over the next twelve months is $276 million. Interest payments over the next twelve months on the Transmission Business' outstanding debt amount to $240 million.

As at December 31, 2011, the Transmission Business' share of the long-term debt of Hydro One Networks to Hydro One is $4,659 million and the required interest payments are $4,112 million. Principal outstanding, interest payments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	Principal Outstanding on Notes and Debentures *(Canadian dollars in millions)*	Interest Payments *(Canadian dollars in millions)*	Weighted Average Interest Rate *(Percent)*
1 year	276	240	5.8
2 years	370	224	5.0
3 years	325	205	3.2
4 years	330	195	2.9
5 years	270	180	4.7
	1,571	1,044	4.3
6 – 10 years	585	771	5.0
Over 10 years	2,503	2,297	5.8
	4,659	4,112	5.2

11. CAPITAL MANAGEMENT

The Transmission Business' objective is to manage its capital structure consistent with the deemed capital structure for rate-setting purposes as prescribed by the OEB in its August 16, 2007 decision on transmission rates. This deemed capital structure is 60% debt and 40% common equity.

The Transmission Business considers its capital structure to consist of excess assets over liabilities, long-term debt, and the inter-company demand facility. The following table summarizes this capital structure:

(Canadian dollars in millions)	**2011**	**2010**
Long-term debt payable within one year	276	324
Add: Inter-company demand facility	181	83
	457	407
Long-term debt	4,388	4,201
Excess of assets over liabilities	3,818	3,576
Total capital	8,663	8,184

12. EMPLOYEE FUTURE BENEFITS

Pension

Hydro One has a contributory defined benefit pension plan covering all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton Inc. The Hydro One Pension Plan does not segregate assets in a separate account for individual subsidiaries, nor is the cost of the benefit plans allocated to, or funded separately by, entities within the consolidated group. Accordingly, for purposes of these financial statements, the pension plan is accounted for as a defined contribution plan and no deferred pension asset or liability is recorded.

Hydro One's pension plan provides benefits based on highest three-year average pensionable earnings. For new management employees who commenced employment on or after January 1, 2004, and for new employees represented by the Society of Energy Professionals hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation. The measurement date used to determine plan assets and the accrued benefit obligation is December 31. Based on the actuarial valuation filed with the Financial Services Commission of Ontario in September 2010, effective for December 31, 2009, Hydro One contributed $152 million to its pension plan in respect of 2011 (2010 - $193 million), $148 million of which is required to satisfy minimum funding requirements (2010 - $145 million). Hydro One made an additional payment of $48 million in December 2010 and an additional payment of $4 million in 2011 related to a partial plan wind-up. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash. Future contributions will depend on future investment returns, and changes in benefits or actuarial assumptions.

For Hydro One, the actuarial present value at December 31, 2011 of the accrued pension benefits, based on a projection of the valuation at December 31, 2011, was estimated to be $5,461 million (2010 - $4,996 million). Pension plan assets available for these benefits were $4,682 million (2010 - $4,699 million).

Employee Future Benefits other than Pension

During the year ended December 31, 2011, $26 million of employee future benefits other than pension costs were charged to the results of operations of the Transmission Business (2010 - $22 million), and $18 million was capitalized as part of the cost of fixed assets (2010 - $15 million). Benefits paid were $18 million (2010 - $18 million). The liability associated with employee future benefits other than pension for the Transmission Business at December 31, 2011 was $463 million (2010 - $437 million), including the current portion.

NOTES TO FINANCIAL STATEMENTS (continued)

A detailed description of employee future benefits is provided in Note 12 of the Consolidated Financial Statements of Hydro One for the year ended December 31, 2011.

13. ENVIRONMENTAL LIABILITIES

December 31 (Canadian dollars in millions)	Polychlorinated Biphenyls (PCB)	Land Assessment and Remediation (LAR)	Total
2011			
Environmental liabilities, January 1	116	18	134
Interest accretion	5	1	6
Expenditures	(6)	(1)	(7)
Revaluation adjustment	(32)	(1)	(33)
Environmental liabilities, December 31	83	17	100
Less: current portion	9	1	10
	74	16	90

December 31 (Canadian dollars in millions)	Polychlorinated Biphenyls (PCB)	Land Assessment and Remediation (LAR)	Total
2010			
Environmental liabilities, January 1	131	20	151
Interest accretion	7	1	8
Expenditures	(5)	(2)	(7)
Revaluation adjustment	(17)	(1)	(18)
Environmental liabilities, December 31	116	18	134
Less: current portion	9	1	10
	107	17	124

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2011 and in total thereafter are as follows: 2012 - $10 million; 2013 - $12 million; 2014 - $13 million; 2015 - $4 million; 2016 - $4 million and thereafter - $78 million. Of the total estimated future expenditures, $104 million relate to PCB (2010 - $139 million) and $17 million to LAR (2010 - $20 million).

Consistent with the Company's accounting policy for environmental costs, the Transmission Business records a liability for the estimated future expenditures associated with the removal and destruction of PCB-contaminated insulating oils and related electrical equipment and for the assessment and remediation of chemically-contaminated lands.

On September 17, 2008, Environment Canada published its final regulations governing the management, storage and disposal of PCBs. These regulations were enacted under the *Canadian Environmental Protection Act, 1999*. The regulations impose timelines for disposal of PCBs based on criteria including type of equipment, in-use status and PCB-contamination thresholds. All PCBs in concentrations of 500 parts per million (ppm) or more, except for specified equipment, had to be disposed of by the end of 2009. However, in 2009, the Company sought and received an extension until 2014 for the removal of PCBs from certain station equipment that could potentially be contaminated in excess of this threshold. Under the regulations, PCBs in equipment in concentrations greater than 50 ppm and less than 500 ppm, or greater than 50 ppm for light ballasts must be disposed of by the end of 2025.

Management judges that the Company currently has very few PCB-contaminated assets in excess of 500 ppm. Priority will be given to targeting inspection and testing work toward identifying and removing PCBs in assets that

NOTES TO FINANCIAL STATEMENTS (continued)

must be compliant by 2014. Assets to be disposed of by 2025 primarily consist of light ballasts. Contaminated transmission station equipment will generally be replaced or will be decontaminated by removing PCB-contaminated insulating oil and retrofilling with replacement oil that is less than 2 ppm.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations and advances in remediation technologies. All factors used in estimating the Transmission Business' environmental liabilities represent management's best estimates of the present value cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Transmission Business' current assumptions. In addition, for the PCB program, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures. Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future environmental expenditures have been discounted using factors ranging from 3.75% to 6.25%, depending on the appropriate rate for the period when increases in the obligations were first recorded.

14. ASSET RETIREMENT OBLIGATIONS

Consistent with the Company's accounting policy for asset retirement obligations, Hydro One Networks records a liability for the present value of the estimated future expenditures associated with the retirement of tangible long-lived assets that the Company is legally required to remove. A corresponding amount is recorded as an asset retirement cost that is capitalized as part of the carrying amount of the related fixed asset.

The Company has recorded a liability for the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The Company's liability is based on management's best estimate of the present value of the estimated future expenditures to comply with existing regulations. In 2010, the Company completed a study with the aid of an expert external consultant to estimate the future expenditures required to remove asbestos prior to facility demolition. The present value of the estimated future expenditures is $4 million. The amount of interest recorded is nominal and there have been no expenditures associated with this obligation.

In 2011, the Company recorded a $4 million asset retirement obligation related to the future decommissioning and removal of one of its switching stations. Including the obligation recorded in respect of another switching station in 2010, the present value of the estimated future expenditures to discharge these obligations is about $8 million. Interest recorded on this amount in the year was nominal and there have been no expenditures associated with these obligations to date.

There are uncertainties in estimating future expenditures due to potential external events such as changing legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's asset retirement obligations represent management's best estimates of the costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required removal and remediation work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 3% to 5%, depending on the appropriate rate for the period when expenditures are expected to be incurred.

15. HYDRO ONE NETWORKS' SHARE CAPITAL

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

16. RELATED PARTY TRANSACTIONS

The Province and Successor Corporations of Ontario Hydro

The Province, OEFC, IESO, Ontario Power Authority (OPA) and Ontario Power Generation Inc. (OPG) are related parties of the Company and its Transmission Business. In addition, the OEB is related to the Company by virtue of its status as a Provincial Crown Corporation. Transactions between these parties and the Transmission Business were as follows:

The Company received revenue for transmission services from the IESO, based upon uniform transmission rates approved by the OEB. Transmission revenue for 2011 includes $1,366 million (2010 - $1,277 million) related to these services.

The Company has service level agreements with Ontario Hydro's successor corporations, primarily OPG. These services include field and engineering, logistics, corporate, telecommunications and information technology services. Revenues related to the provision of construction and equipment maintenance services to the other successor corporations were $10 million in 2011 (2010 - $13 million). Operation, maintenance and administration costs related to the purchase of services from these successor corporations were less than $1 million in both 2011 and 2010.

Under the *Ontario Energy Board Act*, 1998, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters. In 2011, the Transmission Business incurred $4 million (2010 - $3 million) in OEB fees.

PILs, property taxes and capital taxes were paid or payable by the Company to the OEFC (Note 5).

Hydro One and Subsidiaries

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

The Company has entered into various agreements with Hydro One and its subsidiaries related to the provision of corporate functions and services, supply management, computer support and operational services such as environmental, forestry and line services. Revenues include $1 million (2010 - $2 million) related to the provision of services to Hydro One and its subsidiaries. Operation, maintenance and administration costs include $15 million (2010 - $13 million) related to the purchase of services from Hydro One and its subsidiaries.

The Company's debt, including the portion allocated to the Transmission Business, is due to Hydro One. Financing charges include interest expense on this debt in the amount of $242 million (2010 - $242 million). In addition, balances payable or receivable under the inter-company demand facility are due to or from Hydro One. Financing charges of the Transmission Business include interest expense on this facility in the amount of $1 million (2010 - $1 million earned).

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

December 31 (Canadian dollars in millions)	**2011**	**2010**
Accounts receivable	118	110
Accounts payable and accrued charges	(74)	(43)

17. STATEMENTS OF CASH FLOWS

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

Year ended December 31 (Canadian dollars in millions)	**2011**	**2010**
Accounts receivable increase	(11)	(14)
Materials and supplies increase	(3)	(1)
Accounts payable and accrued charges increase	40	8
Accrued interest increase	1	5
Long-term accounts payable and other liabilities increase (decrease)	2	(2)
Employee future benefits other than pension increase	26	17
Other	(8)	8
	47	21

Supplementary information:	**2011**	**2010**
Interest paid	242	242
Payments in lieu of corporate income taxes	45	26

18. CONTINGENCIES

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

19. COMMITMENTS

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

20. SUBSEQUENT EVENTS

On January 13, 2012, Hydro One issued $300 million in 3.20% notes under its MTN program with a maturity date of January 13, 2022. On the same date, Hydro One Networks issued 3.22% notes payable to Hydro One in the amount of $280 million, with the same maturity date. The Transmission Business' share of the offering was $154 million.

21. COMPARATIVE FIGURES

The comparative Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2011 Financial Statements.

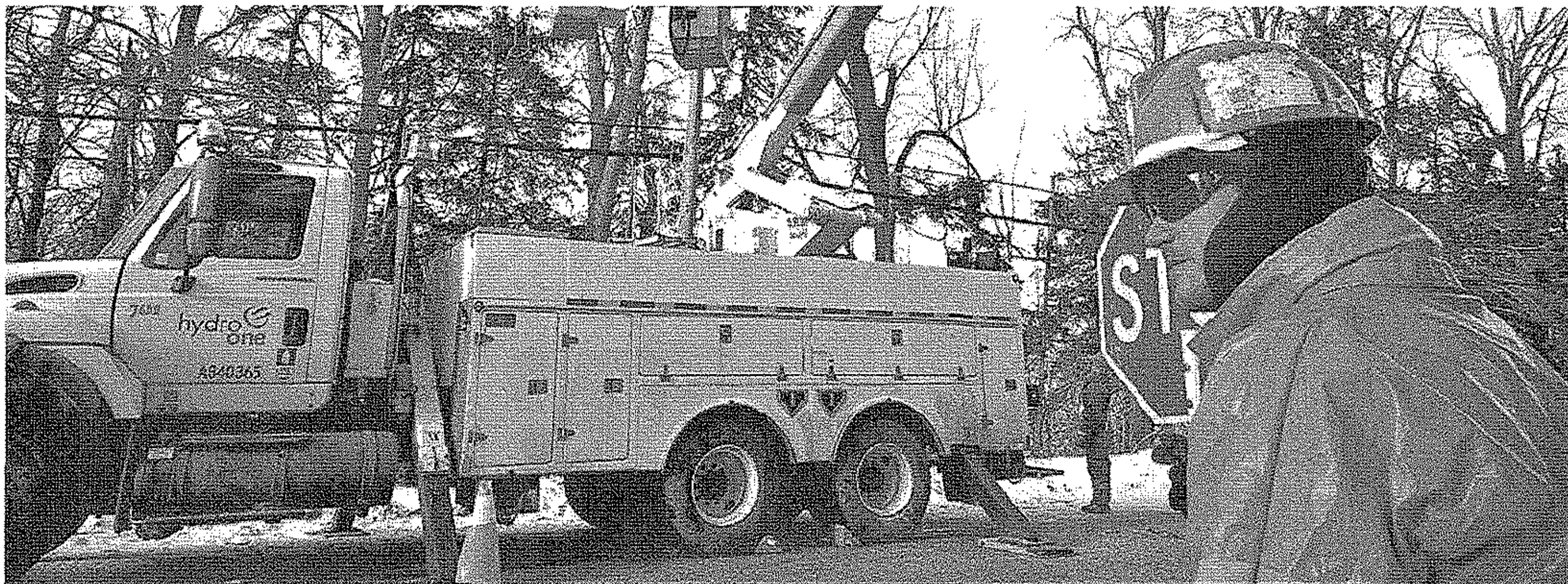
HYDRO ONE NETWORKS INC.
TRANSMISSION
Pro Forma Statement of Income
Bridge Year (2012) and Test Years (2013 and 2014)
Year Ending December 31
($ Millions)

Line No.	Particulars	2012 (a)	2013 (b)	2014 (c)
	Revenues			
1	Retail power & energy	1,388	1,433	1,526
2	Commodity flow-through	-	-	-
3	LV	-	-	-
4	Other	40	33	33
5		1,428	1,466	1,560
	Costs			
6	OM&A	444	453	460
7	Cost of power	-	-	-
8	Depreciation	337	349	377
9	Capital tax	-	-	-
10		781	803	837
11	Earnings before interest and income tax	647	664	723
12	Interest expense	207	226	234
13	Earnings before income tax	441	438	489
14	Income tax	57	50	58
15	Net income	384	387	431

TRANSFORMINGENERGY

2010 ANNUAL REPORT

hydroOne



Reliable. Productive. Sustainable.

Every hour of every day, Hydro One works to ensure Ontario has a safe, reliable and cost-effective electricity system. It takes time to build a system like ours. We make prudent and logical investments and we build our system to last.

Hydro One Inc.
Is a holding company with subsidiaries that operate in the business areas of electricity transmission and distribution and telecom services.

Hydro One Networks Inc.
Represents the majority of our business, which is regulated by the Ontario Energy Board. It is involved in the planning, construction, operation and maintenance of our transmission and distribution networks.

Hydro One Brampton Networks Inc.
Distributes electricity to one of the fastest-growing urban centres in Canada, just 30 kilometres outside of Toronto.

Hydro One Remote Communities Inc.
Operates and maintains the generation and distribution assets used to supply electricity to 21 remote communities across northern Ontario that are not connected to the province's electricity transmission grid.

Hydro One Telecom Inc.
Markets our fibre-optic capacity to business customers. This business represents less than 1 per cent of our total assets.

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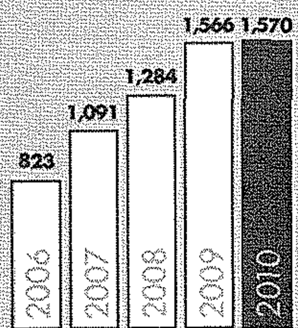
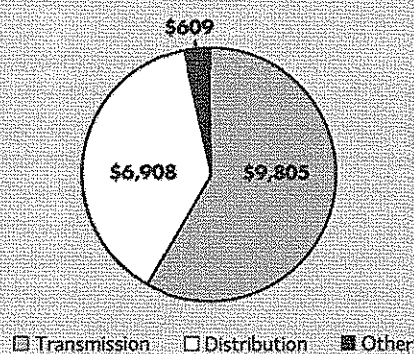
CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

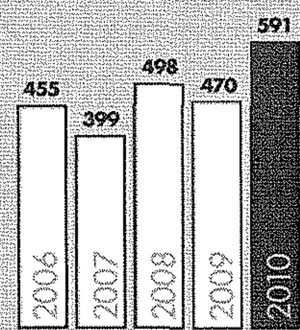
Capital Expenditures
(Canadian dollars in millions)



Total Assets
December 31, 2010
(Canadian dollars in millions)



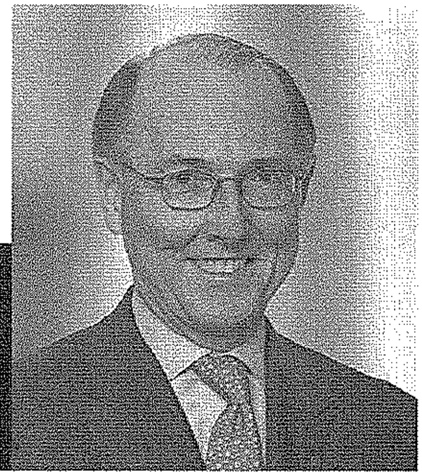
Net Income
(Canadian dollars in millions)



Year ended December 31 *(Canadian dollars in millions)*	**2010**	2009	$ Change	% Change
Revenues	**5,124**	4,744	380	8
Purchased power	**2,474**	2,326	148	6
Operating costs	**1,661**	1,594	67	4
Net income	**591**	470	121	26
Net cash from operations	**1,164**	892	272	30
Average Ontario 60-minute peak demand (MW)[1]	**21,572**	20,798	774	4
Distribution – units distributed to customers (TWh)[1]	**29.1**	28.9	0.2	1

[1] System-related statistics include preliminary figures for December.

LETTER FROM THE CHAIR



Our electricity system continued to perform reliably, safely and effectively this past year, at a time of investing heavily to maintain and upgrade aging infrastructure and to accommodate the various demands of the Green Energy Act and of the Province's Long-Term Energy Plan to encourage renewable energy generation.

Hydro One's core mandate is the safe, reliable and cost-effective transmission and distribution of electricity to Ontario homes and businesses. In carrying out that mandate, Hydro One has a second mandate to operate as a commercial enterprise.

The Board of Directors is responsible for overseeing the management of the business and affairs of Hydro One and, as such, for overseeing the implementation of both mandates. In doing so, the Board has a general fiduciary responsibility and duty of care to act in the best interest of Hydro One. The Board has a more specific responsibility to act pursuant to the terms of our existing Memorandum of Agreement with the Province of Ontario – respecting mandate, governance, responsibilities, performance expectations and executive compensation.

I believe the Board performed very well in 2010 in accordance with such oversight responsibilities.

Our electricity system continued to perform reliably, safely and effectively this past year, at a time of investing heavily to maintain and upgrade aging infrastructure and to accommodate the various demands of the Green Energy Act and of the Province's Long-Term Energy Plan to encourage renewable energy generation.

These investments have had significant rate ramifications. The Board is very aware of, and sensitive to, the impact of rate increases on our customers, and we will continue to seek productivity improvements to mitigate the costs of these heavy investments.

At the same time, we delivered increased value to our shareholder. We maintained our long-term "A" credit rating, which enabled us to continue to borrow on advantageous terms, thus mitigating the costs of our work plan.

A major oversight tool for the Board is the Corporate Scorecard, which measures management's performance in accordance with and against the approved Strategic Plan and annual Business Plan. I am pleased to report that, for 2010, the goals of the Corporate Scorecard were met on balance. While management compensation was frozen pursuant to the *Restraint Act*, appropriate short-term incentive compensation was paid to management in accordance with our existing plan as permitted by the *Restraint Act*.

The Board approved a significant senior management reorganization, which we believe will enhance the performance of the organization. We also approved the creation of a new pension-investment function and the creation of a new position of Chief Investment and Pension Officer, which should improve performance of the pension fund over the longer term.

I want to thank all our employees, and my colleagues on the Board of Directors, for their commitment to Hydro One and its various stakeholders.

James Arnett

James Arnett
Chair of the Board of Directors
Hydro One Inc.

LETTER FROM THE PRESIDENT AND CEO

It is critical that we maintain an effective balance between our customers' needs and the urgent need to sustain our critical transmission and distribution assets and connect new sources of renewable energy.

2010 was a year of solid progress on many fronts. We are confident in our ability to achieve our longer-term mission and vision, which will enable us to continue serving our customers safely, reliably and cost-effectively.

We are investing in Ontario's energy future. Our focus is on prudently maintaining and expanding our distribution and transmission systems while moving to adopt the technologies that will improve our value to our customers and our shareholder. It is critical that we maintain an effective balance between our customers' needs and the urgent need to sustain our critical transmission and distribution assets and connect new sources of renewable energy.

We know that meeting the expectations of the people of Ontario is a demanding task as our sector goes through a dynamic period of growth and change. We are listening to our customers and renewing our electricity system to enable clean and renewable sources of electricity. As we make prudent and efficient investments in Ontario's electricity grid, I am confident that Hydro One will continue to deliver on our promise of value in many different ways in the years ahead.

We will continue to operate a safe and reliable system and look for increased efficiencies while building the system of tomorrow. Our customers deserve value for the price of the services they pay for and we remain committed to providing that value and to improving our customers' satisfaction with Hydro One. We will also continue to improve the sustainability of our operations and enhance our customers' ability to manage their energy costs and efficiency.

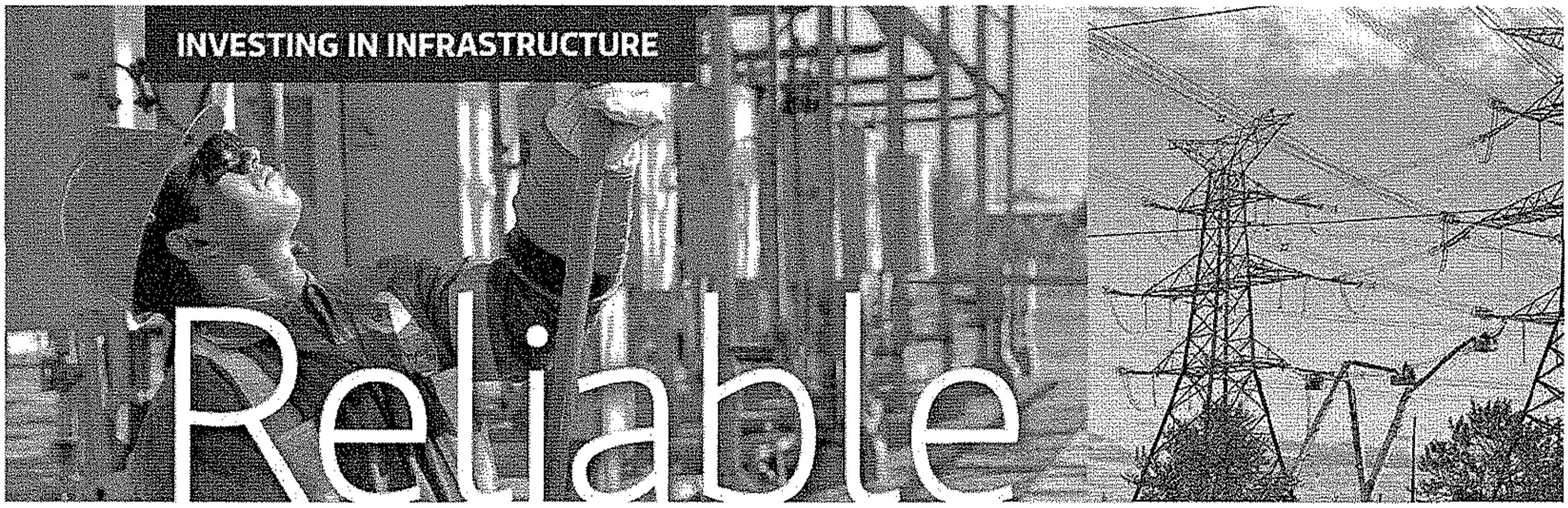
As always, our focus must be on the safety of our employees. Our Journey to Zero program will enable us to fulfill our commitment to our co-workers and their families to be safe in our work. We must be relentless in our pursuit of this goal.

I'd like to thank the employees of Hydro One for their dedication and hard work as the industry continues to change and transform. Together, we are industry leaders in developing the Smart Grid, we are facilitators in connecting renewable energy and we are a financially responsible Company providing value to our customers and the Province of Ontario.

L Formusa

Laura Formusa
President and CEO, Hydro One Inc.

INVESTING IN INFRASTRUCTURE



Reliable

Improvements to system reliability

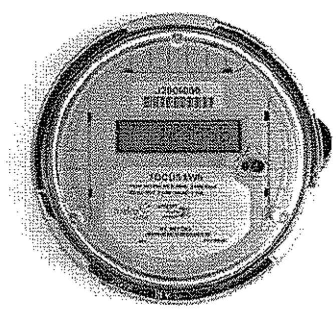
Improving the reliability of Ontario's electricity system means knowing when and where to make upgrades and repairs. By using analytical information like outage occurrences and inspection results, we ensure that the most important upgrades are done first.

In 2010, we invested $1.57 billion in capital expenditures to improve system reliability and performance, address an aging power system, facilitate the connection of new generation and improve service to our customers.

Long-term initiatives like the 500-kV transmission line unbundling project from Cherrywood TS to Claireville TS provide operational and maintenance flexibility.

Work on the Bruce to Milton Transmission Reinforcement Project moved ahead on schedule with tower construction underway on segments of the line where approvals have been obtained and land rights have been acquired. The project is expected to be in service by late 2012 and will deliver approximately 3,200 MW of new, renewable and nuclear power from the Huron-Grey-Bruce area.

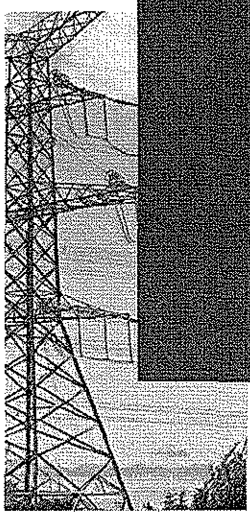
$1.57 billion invested in improving our system.



Smart meter, smart grid

Ontario's electricity grid is getting smarter. We completed the installation of more than 1.3 million smart meters of which more than 1.1 million are enabled to support Time-of-Use pricing. This is one of the largest deployments of smart meters undertaken by any utility in North America. We converted more than 553,000 customers to Time-of-Use pricing, exceeding the Ontario Energy Board's monthly cumulative Time-of-Use target.

1.3 million smart meters installed across the Province.

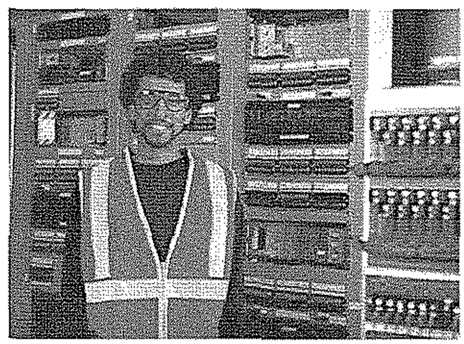


HYDRO ONE CONTINUES TO MAINTAIN AND EXPAND OUR DISTRIBUTION AND TRANSMISSION SYSTEMS WHILE ENSURING THE RELIABLE DELIVERY OF POWER TO THE PROVINCE OF ONTARIO AND OUR CUSTOMERS.

The Long-Term Energy Plan is pointing our industry in an exciting new direction. It maps out an integrated approach to the development of Ontario's electricity system and enables renewable technology.

On the cutting edge of innovation

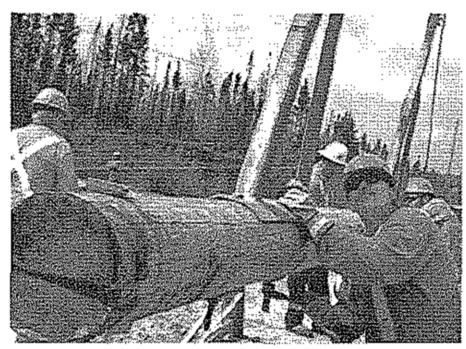
Innovation is playing a key role in the future of Ontario's electricity system. Hydro One has partnered with Ryerson University to establish the Centre for Urban Energy, which will research innovative and practical solutions to urban energy issues. This partnership will help Hydro One identify solutions for integrating new technologies and develop the future leaders of the energy sector.



Hydro One has also partnered with the University of Western Ontario and the University of Waterloo to promote the development of innovative electrical engineering solutions to connect clean and renewable energy. These partnerships also include funding student scholarships and awards.

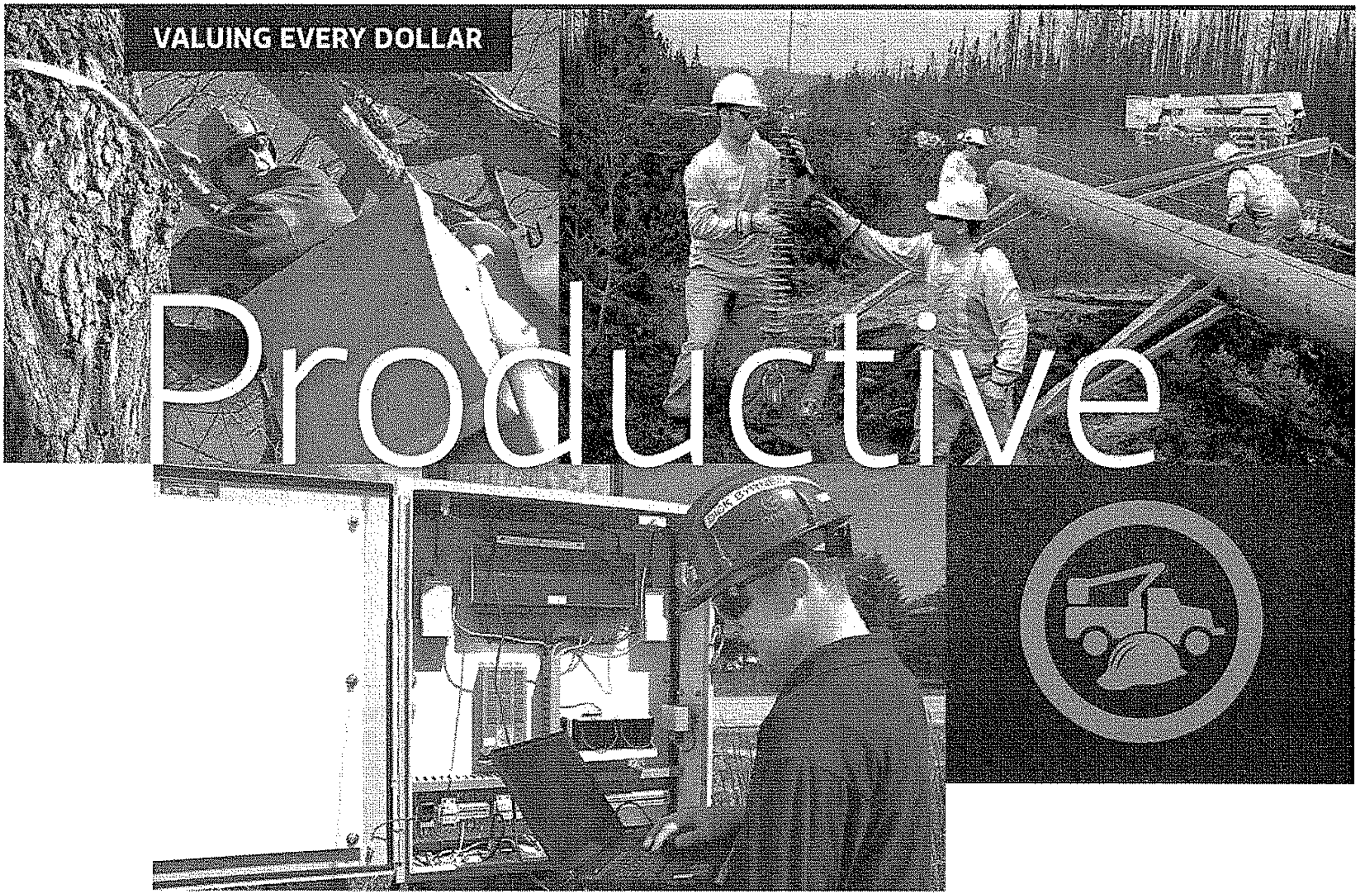
We are there when our customers need us

In 2010, high winds, snow, forest fires and tornadoes caused numerous outages across the Province. But customers can count on our highly-trained staff to respond rapidly and communities can depend on our mobile response efforts, which see crews from unaffected areas arriving to help get the power back on quickly. For example, when Chapleau lost power due to a forest fire, Hydro One crews travelled from across Ontario to rebuild 15 single and twin pole structures as soon as the fire was under control.



VALUING EVERY DOLLAR

Productive



Strong financial performance

Total revenues for 2010 were $5,124 million, an increase of $380 million from 2009. Transmission revenues of $1,307 million and distribution revenues of $3,754 million reflected various rate increases in support of necessary work program requirements and the impact of higher temperatures experienced this summer.

We also maintained an "A" credit rating, which means the Company is able to access the long-term debt markets at a reasonable cost. This is critical to completing our work programs cost-effectively. During the year, we successfully issued $1.5 billion of debt financing through our Medium-Term Note Program.

For more than a century, the electricity sector in Ontario has delivered a safe, reliable and cost-effective supply of electricity.

Cost-cutting measures

As Ontario's largest electricity transmission and distribution company, Hydro One must find ways to balance sustainment of assets and affordability of electricity. Employees across the Company are helping to find ways to reduce costs and improve productivity.

Some areas which Hydro One has improved productivity and provided value to customers include:

- $34 million in savings in 2010 by moving to standardized planning and reporting.
- Automated meter reading associated with smart meters is expected to reduce costs by taking meter reads and detecting meter issues remotely rather than dispatching staff.

PROVIDING VALUE TO OUR CUSTOMERS MEANS ENSURING EVERY DOLLAR SPENT IS A DOLLAR SPENT WISELY. HYDRO ONE IS FINDING WAYS TO INCREASE PRODUCTIVITY AND BE TRANSPARENT AND ACCOUNTABLE TO ALL ONTARIANS.

Measuring productivity

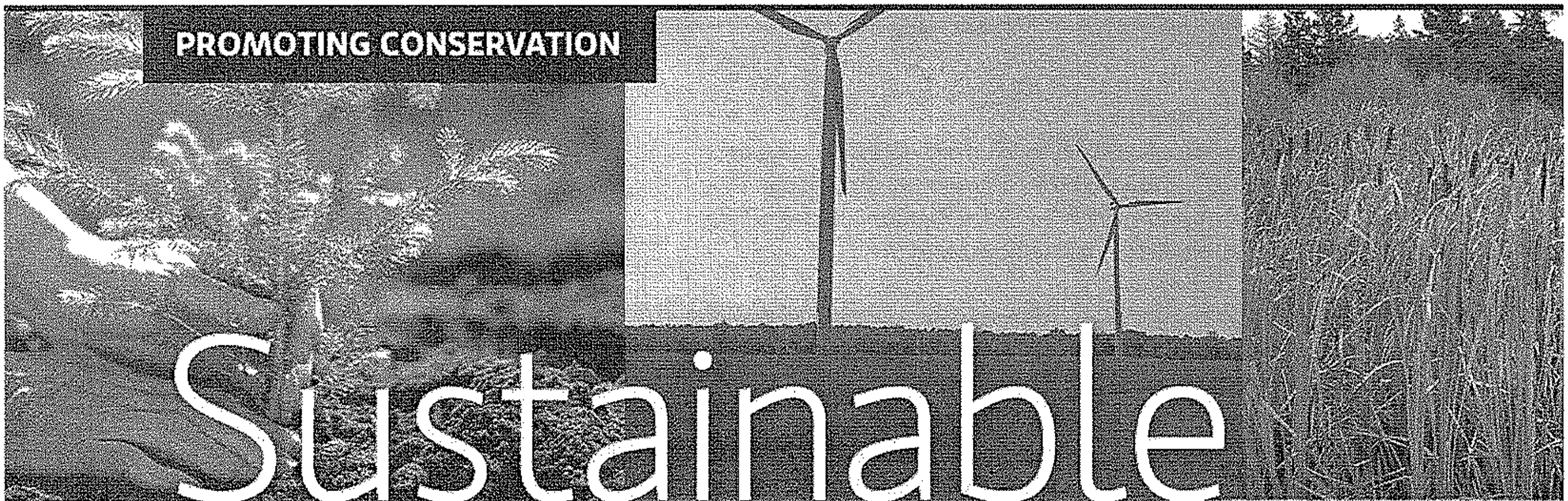
In 2009, we introduced two rigorous new performance metrics: Cost per Asset Value for transmission and Cost per Line Length for distribution. We met both targets in 2010 with a transmission unit cost of 4.6 per cent per transmission asset and a distribution unit cost of $6,600 per kilometre of line. We will continue to measure and benchmark productivity every year, with the goal of placing in the top quartile when measured against comparable North American utilities.

Connecting renewable energy

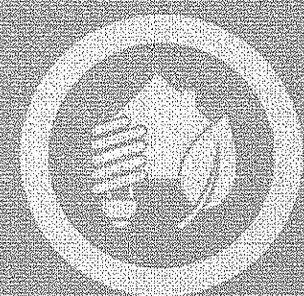
Connecting solar, wind, hydro-electric and biomass generation to the electricity grid allows the Province to replace coal generation with clean power. Hydro One plays an important role in the connection of renewable energy projects under the Feed-In Tariff (FIT) and Micro Feed-In Tariff (microFIT) programs. In 2010, we connected 2,397 microFIT projects. In addition, since 2003, we have connected more than 2,000 megawatts of renewable generation and more than 4,500 megawatts of natural gas generation. That's enough to power 42,000 homes for a year.

We connected 2,397 microFIT projects to our system in 2010.

PROMOTING CONSERVATION



Sustainable



AS PARTNERS IN POWERFUL COMMUNITIES ACROSS ONTARIO, HYDRO ONE PROMOTES SUSTAINABLE DECISION MAKING. BY MAKING GREENER CHOICES, OUR EMPLOYEES AND OUR CUSTOMERS ARE REDUCING THEIR IMPACT ON THE ENVIRONMENT.

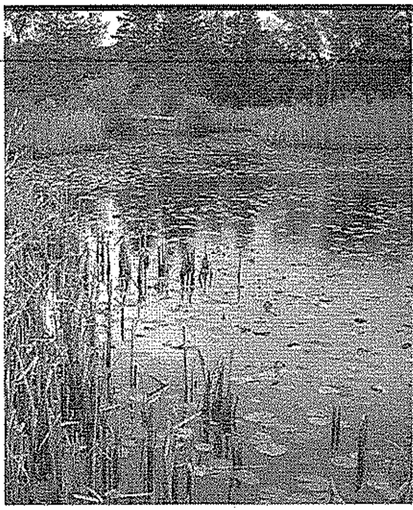
Making Greener Choices

Greener Choices, a grassroots employee-run environmental group in the Company, was established in 2008 to reduce greenhouse gases produced by Hydro One. It focuses on three areas, fleet, facilities and employees. In 2010, retrofits were conducted at the Central Maintenance System facility that reduced energy consumption by 280,000 kWh through lighting upgrades. Greener Choices is also taking aim at Hydro One's fleet, getting hybrids on the road and retiring vehicles that are no longer needed. Through these efforts and others, the Greener Choices program prevented the release of 2,595 tonnes of CO_2 into the atmosphere in 2010. That's like taking more than 500 cars off the road.

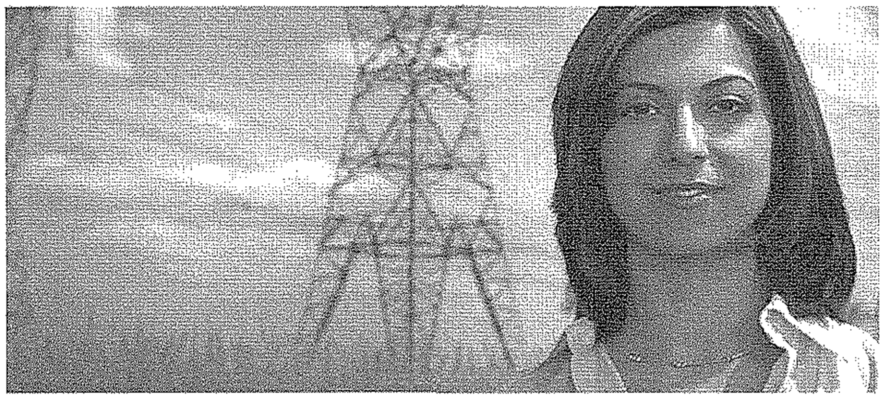
Release of 2,595 tonnes of CO_2 prevented by Greener Choices initiatives.

Sustainability Company of the Year

The Canadian Electricity Association named Hydro One the Sustainability Company of the Year. This honour is in recognition of our ongoing efforts to reduce environmental impacts in all aspects of our operations, including fleet and facilities, through our conservation and demand management programs and through our support for biodiversity projects in local communities.



Hydro One has a strong and positive corporate giving culture. Our employees give generously to our charity campaign, volunteer their time in their local communities and are taking steps to reduce their environmental impact.



Hydro One received the Canadian Electricity Association annual Environmental Commitment Award for our Biodiversity Initiative for the Bruce to Milton Transmission Reinforcement Project. This project will create and enhance natural habitats in the communities touched by the project. We are working on this in partnership with First Nations and Métis communities and community-based agencies and stakeholders.

Customer conservation and demand management programs

Hydro One is helping to build a conservation culture within Ontario and our customers are leading the way. By retiring inefficient fridges and freezers and making energy retrofits to their homes, 1.5 million customers have helped save 500 million kWh of electricity since 2005. That's enough to power approximately 42,000 homes for a year, resulting in reductions in greenhouse gas emissions savings of more than 86,000 tonnes of CO_2.

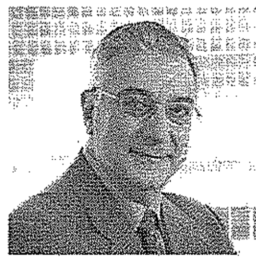
Our customers helped reduce demand for electricity by **500 million kWh.**

Journey to Zero

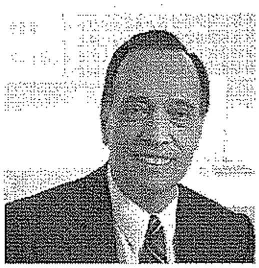
Achieving an injury-free workplace starts with each and every employee. That's why the Journey to Zero program was launched in 2009, aimed at identifying opportunities to improve Hydro One's health and safety performance. In 2010, we had a frequency of 2.8 medical attentions and 0.05 lost-time injuries per 200,000 hours worked. This exceeded our target of 3.6 medical attentions and 0.23 lost-time injuries per 200,000 hours worked.

HYDRO ONE
SENIOR MANAGEMENT

Laura Formusa
President and Chief Executive Officer, Hydro One Inc.

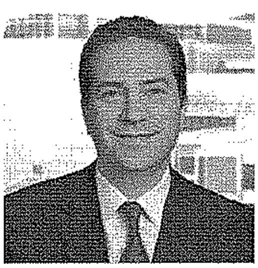


Joe Agostino
General Counsel

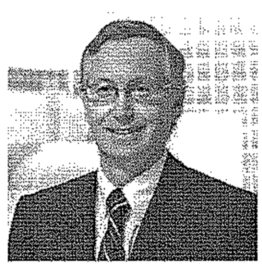


John Fraser
Senior Vice-President, Internal Audit and Chief Risk Officer

Peter Gregg
Executive Vice-President, Operations



Carmine Marcello
Executive Vice-President, Strategy



Sandy Struthers
Executive Vice-President and Chief Financial Officer

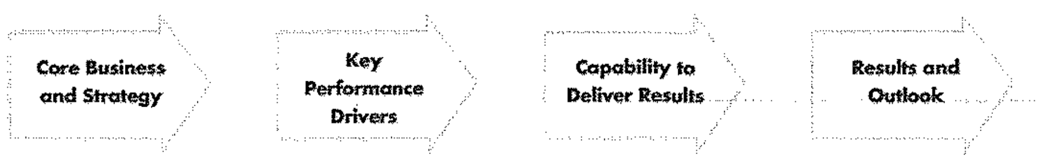
MANAGEMENT'S
DISCUSSION AND ANALYSIS

We prepare our financial statements in Canadian dollars in accordance with accounting principles generally accepted in Canada. The following discussion is based upon our Consolidated Financial Statements for the years ended December 31, 2010 and 2009.

EXECUTIVE SUMMARY

We are wholly owned by the Province of Ontario (the Province), and our Transmission and Distribution Businesses are regulated by the Ontario Energy Board (OEB). Our mission and vision have been refined to recognize the unique role we play in the economy of the province and as a provider of critical infrastructure to all our customers. We will be an innovative and trusted company delivering electricity safely, reliably and efficiently to create value for our customers. We operate as a commercial enterprise with an independent Board of Directors. Our strategic plan is driven by our values: health and safety, stewardship, excellence and innovation. Safety is of utmost importance to us because we work in an environment that can be hazardous. We take our responsibility as stewards of critical provincial assets seriously. We demonstrate sound stewardship by managing our assets in a manner that is commercial and transparent and values our customers. We strive for excellence by being trained, prepared and equipped to deliver high-quality service. We value innovation because it allows us to increase our productivity and develop enhanced methods to meet the needs of our customers. In 2010, we continued to focus on our core businesses, substantially maintained and improved our performance in various key areas of the Company, and made important contributions to the rebuilding of Ontario's core infrastructure while preparing to meet the requirements of the Green Energy Act (GEA).

We manage our business using the following governance structure:



Core Business and Strategy

Our corporate strategy is based on our mission and vision and our values. Our strategic goals, which are discussed on page 4, encompass the core values that drive our business. Our strategy touches every part of our core business: health and safety; our customers; innovation; the reliability and efficiency of our systems; the environment; our workforce; shareholder value; and productivity.

Key Performance Drivers

We have identified performance drivers critical to achieving our strategic goals. Each driver is specific to measuring our success in achieving a specific goal. We establish specific performance targets against each driver every year aimed at achieving our strategic goals over time. For example, we calculate lost-time injury frequencies and medical attentions to measure our progress toward an injury-free workplace and the duration and frequency of unplanned interruptions to measure the success of our initiatives to increase the reliability of our transmission and distribution systems. Reduced carbon emissions demonstrate our commitment to protecting the environment. These and other key performance drivers are included in our discussion of our performance measures beginning on page 5.

Capability to Deliver Results

We continued to use a balanced scorecard approach and set 18 stretch targets for 2010 as we strive to manage our key performance drivers and deliver results each and every year. This year we met or exceeded 14 of 18 targets, representing an improvement over last year when we met or exceeded 8 of 13 stretch targets. We are on target to enable clean and renewable energy in Ontario with the implementation of our Bruce to Milton Project that will create Ontario's new clean energy corridor.

We continue to prioritize safety in the workplace, adding a new performance measure this year. We exceeded our target for lost-time injuries by 78% and exceeded our new target for medical attentions by 22%. We are focused on balancing customer needs in the changing electricity sector and achieved an overall satisfaction score of 89% for both our transmission and distribution customers. The results of our efforts are fully discussed in the section Performance Measures and Targets, beginning on page 5. Our capability to deliver results in each of our strategic areas is limited by risks inherent in the regulatory environment, our business, our workforce and the economic environment. These risks, as well as our strategies to mitigate them, are discussed beginning on page 25.

Results and Outlook

During 2010, our financial fundamentals remained strong, with current year net income of $591 million. Our OEB-approved revenue requirements for our Transmission and Distribution Businesses for 2010 were $1,257 million and $1,146 million, respectively. The approved rates support our work programs required to sustain our critical infrastructure and invest in a sustainable electricity system that supports renewable and cleaner generation. We maintained "A" category credit ratings and successfully issued $1,500 million in debt financing, while repaying $600 million of debt maturing in the year. A full discussion of our results of operations and financing activities can be found beginning on pages 14 and 18, respectively.

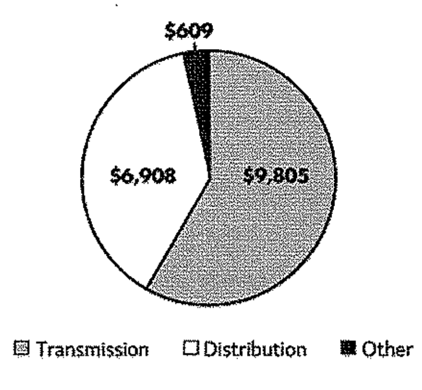
In 2010, we invested more than $1.5 billion in capital expenditures to improve system reliability and performance, address an aging power system, facilitate new generation and improve service to customers. Our estimated future capital expenditures for 2011 and 2012 have decreased marginally from those previously disclosed as a result of various letters received from the Minister of Energy, the introduction of a Long-Term Energy Plan (LTEP) and an OEB policy to further competition for transmission development. Similarly, we eliminated requirements for Green Transmission projects for new lines from our budgeted expenditures and refined our requirements to support distributed generation. The impacts were partially offset by requirements associated with our existing grid. We continue to focus on addressing aging infrastructure, including critical stations that serve industry and major customer load areas. Our future capital expenditures are more fully discussed beginning on page 21.

OVERVIEW

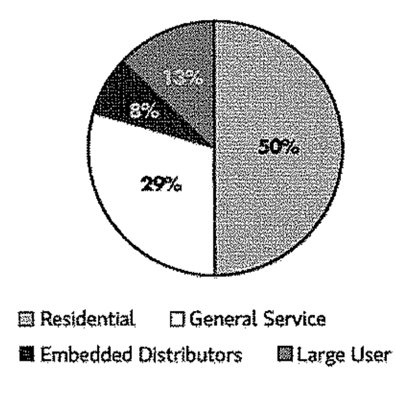
Transmission

Substantially all of Ontario's electricity transmission system is owned and operated by our Company. Our transmission system forms an integrated transmission grid that is monitored, controlled and managed centrally from our Ontario Grid Control Centre. Our system operates over relatively long distances and links major sources of generation to transmission stations and larger area load centres. In 2010, we earned total transmission revenues of $1,307 million primarily by transmitting approximately 142 TWh of electricity, directly or indirectly, to substantially all consumers of electricity in Ontario. Our transmission system is one of the largest in North America, and is linked to five adjoining jurisdictions through 26 interconnections. Through these interconnections, we can accommodate imports of about 4,600 MW and exports of approximately 6,000 MW of electricity. In terms of assets, our Transmission Business is our largest business segment, representing approximately 57% of our total assets.

Total Assets
December 31, 2010 (CAD $ millions)



2010 Distribution Revenues



Distribution

Our distribution system is the largest in Ontario and spans roughly 75% of the province. We serve approximately 1.3 million rural and urban customers, local distribution companies (LDCs) connected to the distribution system, and 412 large user customers. We also operate small, regulated generation and distribution systems in a number of remote communities across Northern Ontario that are not connected to Ontario's electricity grid. We earned total distribution revenues in 2010 of $3,754 million. As illustrated in the accompanying chart, about half of our distribution revenues are earned from our residential customers. In terms of assets, our Distribution Business represents approximately 40% of our total assets.

Other

Our other business segment contributed revenues of $63 million in 2010 and has assets of about $609 million, which constitute 3% of our total assets. This segment primarily represents the operations of our wholly owned subsidiary, Hydro One Telecom Inc. (Hydro One Telecom), which markets fibre-optic capacity to telecommunications carriers and commercial customers with broadband network requirements, including a dedicated optical network providing secure, high-capacity connectivity across numerous health care locations in Ontario.

Our Strategy

Our corporate strategy is based on our mission and vision and our values. Our mission and vision is to be an innovative and trusted company delivering electricity safely, reliably and efficiently to create value for our customers. Our values represent our core beliefs:

Health and safety: Nothing is more important than the health and safety of our employees and those who work on our property, as well as maintaining a safe environment for the public.

Excellence: We achieve excellence through continuous training, ensuring we are prepared and equipped to deliver high-quality service.

Stewardship: We invest in our assets and people to build a safe, environmentally sustainable electricity network in a commercial manner.

Innovation: We innovate through new processes, people and technology to allow us to find better ways to meet the needs of our customers.

We have eight strategic objectives that do not stand alone and are inextricably linked with one another. They drive the fulfillment of our mission and vision.

Creating an injury-free workplace and maintaining public safety. Health and safety must be integrated into all that we do. We must continue to create a passion for preventing injury. We will strengthen our already strong safety culture through our Journey to Zero initiative and achieve world-class results. We will continue to reinforce that nothing is more important than the health and safety of our employees.

Satisfying our customers. We will meet our commitments, make customers our focus in our planning, communicate effectively, coordinate across lines of business, and maximize opportunities to improve our corporate image.

Continuous innovation. Innovation is critical to achieving our mission and vision and represents one of our core values. Over the next two decades, we will install innovative solutions that improve the reliability and efficiency of the transmission and distribution systems and provide our customers with more capability to manage their power costs.

Building and maintaining reliable, cost-effective power delivery systems. Our transmission strategy is to provide a robust and reliable provincial grid that accommodates Ontario's emerging generation profile, manages an aging asset base and meets demand requirements through prudent expansion and effective maintenance. Our distribution strategy is focused on incorporating smart grid technology, providing reliable service over a diverse geography, supporting the connection of renewable generation, seeking efficiencies through productivity initiatives and remaining open to opportunities to rationalize the distribution sector.

Protecting and sustaining the environment. Consistent with our value of stewardship, Hydro One plays a central role in reducing Ontario's carbon footprint through the delivery of clean and renewable energy and through measures that allow our customers to manage and reduce their energy use.

Employee engagement. We believe our primary strength is the capability of our people. In order to sustain this advantage, we must address the issues of labour demographics, diversity, development of critical core competencies, and skill and knowledge retention. Our labour strategy will enable us to make significant gains in the areas of labour flexibility, productivity improvement and cost reduction.

Maintenance of a commercial culture that increases value for our shareholder. We are committed to keeping rates as low as possible for our customers, and delivering income and dividends to our shareholder. This is possible through our focus on reducing costs, managing our assets effectively and increasing productivity.

Productivity improvement and cost-effectiveness. To achieve our mission and vision, we must constantly strive for productivity through efficiency and effective management of costs. Productivity is key to meeting our other strategic objectives and, in particular, to achieving value for our customers and our shareholder.

We recognize the pivotal role innovation will play in building a smart electricity grid that supports a clean environment for Ontario. We are committed to becoming the industry leader in putting innovative solutions to work for the well-being of the Ontario economy and its residents.

Performance Measures and Targets

We measure and target our performance by using a balanced scorecard approach. Key performance drivers are closely monitored throughout the year to ensure that we achieve our strategic objectives. In 2010, we met or exceeded 14 of 18 stretch targets. Overall, we are making progress towards achieving our strategic goals.

Creating an injury-free workplace and maintaining public safety

The potentially hazardous nature of our business requires a continuous focus on safety. Our people underpin everything we do, and as a result, safety is paramount. Our efforts to achieve an injury-free workplace are measured by our lost-time injury frequency and our newly added reportable medical attentions frequency. Overall, we exceeded our challenging 2010 target of 0.23 lost-time injuries per 200,000 hours worked, which is also a considerable improvement over our 2009 results. We also exceeded our 2010 target of 3.6 medical attentions per 200,000 hours worked. Medical attentions are incidents reported to the Workplace Safety and Insurance Board that are more serious than basic first aid. While we monitor both of these measures to identify possible situations that may increase the risk of injury, medical attentions are considered a leading indicator. These injuries range from physical strains to those caused by electrical contacts. We continuously emphasize the improvement of safety performance and strive to achieve zero lost-time injuries by ensuring that all staff are appropriately trained and equipped for the hazards they may face. This involves continued coaching and mentoring, and building on our learning and experience.

At the end of 2009, we launched our Journey to Zero initiative aimed at identifying key opportunities for improvement in our health and safety system in order to achieve world-class health and safety performance. During 2010 we formed a steering committee for this initiative, held workshops to prioritize the opportunities identified at the end of last year and developed an action plan to address the top areas for improvement. In October 2010, we were pleased to be informed by the Workplace Safety and Insurance Board that we had passed our Workwell audit, a comprehensive independent review of all aspects of our workplace health and safety program including policies, standards, training, records, performance and employee representation.

We continue to promote public safety and the safe use of electricity through public service announcements and education programs in schools to teach children how to stay safe. We also continue to work with law enforcement agencies to combat copper theft, which endangers our employees and the public.

Satisfying our customers

Customer satisfaction is vital to our success. This is measured by a combination of independent surveys and transactional measures conducted for each of our customer segments. In 2010, the overall satisfaction level for both our distribution and transmission customers exceeded our targets. For our Distribution Business, overall customer satisfaction survey results of 89% exceeded our target of 81%. While we achieved consistent results compared to the prior year within our large distribution customer and residential and small business customer segments, we significantly increased customer satisfaction among distribution-connected generators. Satisfaction in this group was impacted by addressing concerns from last year's surveys, clarifying processes and enhancing communications with customers. Connection application volumes are increasing and we remain focused on managing customer expectations.

For our transmission customers, we experienced slightly lower results for our LDC customers than planned and are assessing the results to improve processes next year. However, our overall transmission customer survey results were offset by a significant improvement in our transmission-connected generator customer satisfaction as a result of addressing concerns noted in last year's surveys. We continue to strive for customer service excellence. We continue to make our customers a high priority, and implement targeted strategies designed to meet the unique needs of each customer segment and address their concerns through a range of initiatives to improve customer satisfaction levels.

Continuous innovation

We are committed to identifying and providing innovative solutions that will improve the reliability and efficiency of electricity delivery and provide our customers with more capability to manage their power consumption. Among our continuous innovation initiatives in 2010, smart meters remained a priority. We have more than 1,314,000 smart meters installed to date, of which approximately 1,140,000 meters are enabled to support time-of-use billing. This represents a significant step forward in supporting the Smart Grid initiative. We fell short of our target of 1,170,000 meters enabled to support time-of-use billing due to challenges encountered related to the communications network needed to address the diverse needs of the geography across the province. We continue to anticipate that our OEB commitments will be met in 2011.

A new measure for continuous innovation this year monitors green grid initiatives, which are an integral part of the GEA. These initiatives include establishing a communications network in the Greater Owen Sound area to test business applications for a smart electricity grid, developing a business case for further deployment of the communications network to the province, and developing utility solutions for the current challenges around installing and operating large numbers of distributed generation on our distribution system. We successfully achieved all 12 milestones related to these initiatives.

Building and maintaining reliable, cost-effective power delivery systems

As stewards of the province's electricity grid, we aim to maintain and build trust in our operations. In 2010, we continued our focus on this strategic priority by investing in the key assets of the electricity delivery system and by operating the existing system for our customers in a safe, reliable and efficient fashion. In addition, our aim is to meet the growing demand for renewable generation. The reliability of our transmission and distribution systems is measured by the duration of unplanned customer interruptions throughout the year and our transmission system is further measured by the frequency of unplanned customer interruptions. In 2010, our transmission system met our reliability targets for both frequency and duration of interruptions. The transmission frequency of customer unplanned interruptions met the target for the year. The transmission duration of unplanned customer interruptions was 9.1 minutes, significantly exceeding the target of 16.0 minutes, and significantly improved from 19.7 minutes in 2009.

Due to a number of challenges experienced in the last quarter of the year, the reliability of our distribution system was impacted in terms of duration of interruptions. Two severe winter storms affected the reliability of our distribution system. The duration of interruptions for our distribution customers was 7.1 hours, or 0.2 hours higher than target and 0.1 hours higher than last year. We are conscious that residential customers and businesses of all sizes require reliable service, and consequently, we will continue to strive to improve the reliability of both our transmission and distribution systems.

Protecting and sustaining the environment

As stewards of significant electricity assets, we have implemented a number of environmental initiatives aimed at instilling environmental awareness and action within our corporate culture. In 2010, we assessed two key metrics related to the Bruce to Milton Project and greenhouse gas reductions. We met our milestone targets related to the Bruce to Milton Project, which will create Ontario's new clean energy corridor. Successful completion of the Bruce to Milton Project will increase transmission capability to deliver 1,700 MW of renewable generation identified in the area, as well as about 1,500 MW of power from the refurbished units at the Bruce Power Facility. On December 16, 2009, we received conditional Environmental Assessment approval for the project. Preparation of this environmental assessment involved three years of technical and environmental field work, and extensive consultation with land owners, interest groups, elected officials and First Nations and Métis communities. This year, we were recognized by the CEA, receiving an Environmental Commitment Award for our extensive Biodiversity Initiative related to the Bruce to Milton Project. This initiative goes beyond our traditional approach to biodiversity, using innovative ways of mitigating the effects of woodlot clearing. Our Biodiversity Initiative will develop and support a number of stewardship and biodiversity opportunities such as replanting grasslands, removal of invasive species and restoring forests in the communities affected by the Bruce to Milton Project. We are funding 23 locally-designed biodiversity projects located on public lands within the four watersheds the Bruce to Milton Project crosses. These projects will help to ensure environmental sustainability and will maintain and enhance the natural habitat. This initiative is being undertaken in collaboration with First Nations and Métis communities and community-based stakeholders and agencies.

We take our responsibility to reduce our carbon footprint very seriously. We did not meet our overall greenhouse gas reduction target as a result of not being able to verify our specific target to reduce sulphur hexafluoride emissions. However, we did exceed the target for the reduction of greenhouse gas emissions from other programs. In 2010, we removed approximately 2,595 metric tonnes of greenhouse gases from the environment, exceeding our target of 1,250 metric tonnes from these other initiatives that were aimed at improved deliveries of bio-diesel fuel at Hydro One Remotes, better efficiency of fleet utilization, including our Tire Smart Program, the purchase of fuel-efficient and hybrid vehicles and green initiatives at our facilities. Our continued commitment to the people of Ontario has been recognized again this year by Corporate Knights Inc., an independent company focused on promoting and reinforcing sustainable development in Canada. We were named one of the top five Corporate Citizens in Canada, our third top-ten ranking in three years.

We have a publicly available environmental policy and are committed to protecting the environment for current and future generations. Adhering to this policy, we have many initiatives within our Company aimed at fulfilling our commitment to protect the environment, some of which are linked to a specific performance measure. All of our environmental initiatives are part of an internal program called Greener Choices. Greener Choices was created to help our Company become more energy-efficient and to reduce the emissions and environmental impacts of our fleet and our facilities. Our initiatives fall under four categories: helping our employees to be more aware of what they can do to reduce their environmental impacts; creating a culture of conservation within our Company; making our facilities more energy-efficient; and reducing the emissions of our fleet of vehicles.

Skill development and knowledge retention

Given the retirement profile of our employees, we are in a period of significant demographic change. This change is taking place across the electricity sector and we have taken a leadership role to address the transition. We have embarked on an aggressive workforce renewal program that will lead to a diverse, fully engaged workforce. In addition to our partnership with four community colleges, we strengthened our association with various Canadian universities as part of a comprehensive strategy to meet our staffing needs well into the future. We also helped to establish the Ryerson University Centre for Urban Energy (the Centre). Our goal to attract and retain future sector leaders involves demonstrating that Hydro One is an employer of choice. In addition, we aim to facilitate retention and mentoring by focusing on employee engagement. We measure employee engagement across all lines of business using a confidential employee engagement survey. The grand mean score in 2010 was 3.70 out of 5, an improvement from the 2009 score of 3.63, but slightly lower than the 2010 target of 3.73. Detailed results of the 2010 survey will be used to actively address lower-performance areas and effectively implement targeted strategies designed to increase engagement levels.

Maintenance of a commercial culture that increases value for our shareholder

In 2010, we continued our commitment to maintain strong financial fundamentals. Our targets included net income and our credit ratings, which were both achieved. Net income for the year exceeded target mainly as a result of the higher temperatures experienced during the summer combined with effective cost management. A discussion of our financial results can be found on page 14 and of our liquidity and capital resources on page 18.

Our financial performance and the business environment in which we operate are taken into consideration in setting both our short-term and long-term credit ratings. During 2010, our long-term and short-term debt credit ratings remained unchanged. Credit ratings are provided by DBRS Limited, Moody's Investors Service Inc. and Standard & Poor's Rating Services Inc. (S&P). Maintaining credit ratings in the "A" category allows us to continue to access the long-term debt markets. We have been able to successfully secure sufficient and cost-effective debt financing. Our current credit ratings facilitate ongoing access to debt markets at a reasonable cost to fund the infrastructure requirements of our system.

Productivity improvement and cost-effectiveness

In 2010, we remained focused on workplace productivity and its contribution as an enabler of our work programs. For our Transmission Business, productivity is measured using the cost per asset value, which is calculated as capital and maintenance program expenditures as a percentage of transmission assets. For our Distribution Business, the calculation is normalized for line length due to the rural nature of our service territory. The targets for both measures were to achieve top-quartile results when benchmarked against comparable North American utilities. Transmission and distribution productivity results for the year were both on target.

Two additional corporate measures were implemented this year. The Collaborative Planning Index measures the effectiveness of workflow between key lines of business as a result of improved integration and teamwork. The other new measure assesses the savings derived from our entity-wide information system replacement and improvement project, placed in service in 2009. In 2010, we slightly exceeded our Collaborative Planning Index target of 85%, a measure based on the average of three metrics related to the release of work, planning and order filling. We have also exceeded our target savings of $28 million related to the entity-wide information system replacement and improvement project, with actual savings of approximately $34 million. We will continue to build on the success of our new entity-wide information system to increase the cost effectiveness of work program planning, processing and execution to achieve reductions in our labour unit costs.

REGULATION

Our electricity Transmission and Distribution Businesses are licensed and regulated by the OEB. The OEB sets rates following oral or written public hearings. Our transmission revenues primarily include our transmission tariff, which is based on the uniform province-wide transmission rates approved by the OEB for all transmitters across Ontario. Our distribution revenues primarily include our distribution tariff, which is also based on OEB-approved rates, and the recovery of the cost of purchased power used by our customers. Consequently, our Distribution Business does not have commodity price risk. Transmission and distribution tariff rates are set based on an approved revenue requirement that provides for cost recovery and includes a return on deemed common equity. In addition, the OEB approves rate riders to allow for the recovery or disposition of specific regulatory assets and liabilities over a specified timeframe.

Electricity Rates

Under the current market structure, low-volume and designated consumers pay electricity rates established through the Regulated Price Plan (RPP) and wholesale electricity consumers pay a blend of regulated, contract and wholesale spot market prices. The OEB sets prices for RPP customers based on a two-tiered electricity pricing structure with seasonal consumption thresholds. Unexpected shortfalls or overpayments associated with the RPP are temporarily financed by the Ontario Power Authority (OPA). Prices are reviewed every six months and may change based on an updated OEB forecast and any accumulated differences between the amount that customers paid for electricity and the amount paid to generators in the previous period. Effective May 1, 2010, we started migrating our customers to time-of-use (TOU) rates and have a plan in place to transition the majority of our RPP customers to TOU rates in 2011. On September 16, 2010, we filed an application with the OEB for an exemption from mandated time-of-use pricing, affecting approximately 150,000 customers located in very rural and sparsely populated portions of our service territory that are currently out of reach of our smart meter telecommunications infrastructure. In early 2011, the OEB approved our request for an extension until the end of 2012.

As announced in its 2010 fall economic update, the Province introduced the *Ontario Clean Energy Benefit Act, 2010*, which is designed to assist Ontario electricity consumers through the transition to a cleaner electricity system. Under this Act, eligible residential, farm and small business consumers receive financial assistance in the amount of a 10% credit with respect to the total cost of electricity on their bills, including tax. This assistance is being provided to eligible customers for a five-year period, beginning January 1, 2011. In January 2011, our Company issued its first bills to customers with this credit applied to their electricity costs.

Customers that are not eligible for the RPP and wholesale customers pay the market price for electricity, adjusted for the difference between market prices and prices paid to generators under the *Electricity Act, 1998*. The Independent Electricity System Operator (IESO) is responsible for overseeing and operating the wholesale market as well as ensuring the reliability of the integrated power system.

Green Energy Act and Long-Term Energy Plan

In addition to the oversight role of the OEB, and the market-monitoring and coordination role of the IESO, the OPA was created through the *Electricity Restructuring Act, 2004* to ensure the long-term supply of electricity, facilitate load management and conservation, and assist with the stability of rates for RPP customers, among other roles. As part of its mandate, and consistent with the Province's direction regarding supply mix, the OPA developed the Integrated Power System Plan (IPSP), which was submitted for OEB review and approval in August 2007. On September 17, 2008, the Province directed the OPA to review a portion of its proposed IPSP focusing on renewable energy and conservation as well as to undertake an enhanced process of consultation with First Nations and Métis communities. As a result of the Minister of Energy and Infrastructure's directive, the OEB adjourned its review of the IPSP on October 2, 2008.

On May 14, 2009, the GEA was passed in the Ontario Legislature. On September 21, 2009, to support the GEA and help bring renewable energy to the grid our Company received a letter from the then Minister of Energy and Infrastructure requesting us to immediately proceed with the planning and implementation of 20 major transmission projects. On May 7, 2010, the Minister of Energy and Infrastructure requested our Company to focus on those items that are essential to the safe and reliable operation of our existing assets or projects already under development and approved by the OEB, or are critical to the connection of renewable generation projects that have been identified by the OPA as part of the government's green energy agenda. As a result, we decided to suspend our work on the 20 major transmission projects. On August 26, 2010, the OEB released its new policy on the Framework for Transmission Project Development Plans. This policy sets out a framework for new transmission investment in Ontario by introducing competition for transmission development through an open bid process.

An amendment to the deemed licence conditions of the *Ontario Energy Board Act, 1998*, as set out in the GEA, requires that distributors provide priority connection access for qualified renewable energy generation facilities and prepare plans for approval by the OEB that identify expansion or reinforcement of the distribution system required to accommodate the connection of renewable energy generation facilities.

The OPA continues to procure new, cleaner and renewable generation in Ontario. On October 1, 2009, the OPA launched the Feed-In-Tariff (FIT) Program in accordance with the directive issued by the Minister of Energy and Infrastructure to the OPA. The program is designed to procure energy from a wide range of renewable energy sources, including wind, solar, photovoltaic, bio-energy and waterpower up to 50 MW.

On November 23, 2010, the Ministry of Energy released Ontario's LTEP which sets out the Province's expected electricity needs until 2030 and supports the continued procurement of new, cleaner generation. The LTEP addresses seven key areas: demand, supply, conservation, transmission, Aboriginal communities, capital investments and electricity prices. In conjunction with the release of its LTEP, the Province released a draft Supply Mix Directive for consultation. The draft Supply Mix Directive outlines the goals to be achieved through a new detailed long-term plan and directs the OPA to prepare an IPSP to meet those goals, as set out in the LTEP. The comment period for the draft Supply Mix Directive expired on January 7, 2011. It is anticipated that a Supply Mix Directive will be formally issued to the OPA and will form the basis for a new IPSP. The OPA is anticipated to release an updated IPSP to the OEB in 2011 for its review and approval.

The draft Supply Mix Directive to the OPA identifies five priority transmission projects over seven years. On December 22, 2010, we received a letter from the Minister of Energy updating the September 21, 2009 letter from the Minister of Energy and Infrastructure, and requesting us to immediately proceed with the necessary planning and development work to advance three of the projects in an expedited timeframe, in combined consultation with the OPA and IESO. In addition, we were asked to develop a plan to prioritize the cost-effective upgrades to our systems to safely and reliably accommodate additional renewable energy for small generation projects (see Future Capital Expenditures).

The GEA continues to provide the framework for renewable energy projects and increased conservation. A number of regulations and programs required to fully implement the legislation were introduced in the latter part of 2009.

Transmission and Distribution System Codes

In 2009, the OEB undertook a review of its codes, rules and guidelines in support of the GEA. On October 20, 2009, the OEB finalized amendments to the Transmission System Code (TSC), and adopted a "hybrid" approach to cost responsibility between transmitters and generators for "enabler facilities". Enabler facilities are lines or stations that connect two or more renewable generation facilities to the transmission grid. The hybrid option sees the initial pooling of the costs of enabler lines by the transmitter, with generators paying their pro-rata share, based on generator capacity, when ready to connect. To be eligible for this cost treatment, enabler facilities must meet certain detailed requirements outlined in the TSC.

The amendments to the Distribution System Code (DSC), finalized on October 21, 2009, revised the OEB's approach to assigning cost responsibility between a distributor and a generator for the connection of renewable energy generation facilities. The OEB defined three types of distribution assets associated with the connection of renewable energy generation: connection assets, expansion assets, and renewable enabling improvements. For generators that are connecting directly to a distributor's system, connection asset costs will continue to be borne by generators, while distributors will be required to fund all expansion costs identified in a plan, other generator-requested expansion costs up to a cap of $90,000/MW per project (with the generator paying the rest), and all renewable enabling improvements.

On June 30, 2010, Hydro One Networks Inc. (Hydro One Networks), in respect of our Distribution Business, filed an application with the OEB requesting an exemption from certain cost responsibility rules contained in the DSC for distributed generation projects under the Renewable Energy Standard Offer Program (RESOP). The application sought to deal with unanticipated costs that arose as a result of the connection of certain renewable generation facilities for generators. These generators applied to connect to our system prior to amendments made to the code on October 21, 2009. Under the rules in force at the time, all costs of connection were assigned to generators and we requested an exemption from those rules to allow for recovery of the unforeseen expenditures from ratepayers. On December 20, 2010, the OEB released its decision approving deferral accounts to capture the expenditures to be brought forward for review and approval at the next cost-of-service application.

Conservation and Demand Management

In 2009, the OPA continued to be responsible for coordinating the delivery and funding of conservation and demand management (CDM) programs. This coordination furthered initiatives undertaken by individual LDCs, including the distribution businesses of our subsidiaries Hydro One Networks and Hydro One Brampton Networks Inc. (Hydro One Brampton), as a result of OEB program requirements associated with the third phase Market Adjusted Rate of Return (MARR). Our CDM programs funded through the OPA in 2010 amounted to approximately $31 million, compared to $16 million in 2009. The *Ontario Energy Board Act, 1998*, as amended by the GEA, provides direction to the OEB to take steps to establish CDM targets to be met by LDCs and other licensees. The Minister of Energy and Infrastructure's March 31, 2010 directive set a province-wide LDC CDM target for Ontario's LDCs. The two key CDM targets for LDCs over the four-year period beginning January 1, 2011 are to reduce 1,330 MW of provincial summer peak demand and 6,000 GWh of cumulative energy savings, collectively.

On June 22, 2010, the OEB provided notice under the *Ontario Energy Board Act, 1998* of the creation of a proposed CDM Code for electricity distributors. The new code proposes specific CDM targets for all LDCs as directed by the Minister of Energy and Infrastructure earlier this year. The proposed allocation of the overall targets to our Company are a 256 MW reduction of provincial peak demand and a 1,208 GWh reduction of electricity consumption, representing, respectively, 19.2% and 20.1% of the total target savings established for all LDCs. The CDM Code also set out the conditions and rules that LDCs are required to follow if they choose to use OEB-approved CDM programs to meet their CDM targets. On November 1, 2010, Hydro One Networks' Distribution Business filed its CDM strategy and CDM Program application with the OEB in accordance with the requirements of the CDM Code. An oral hearing for the review and approval of our CDM application and funding of our CDM programs has been scheduled to start in March 2011.

The *Energy Conservation Responsibility Act, 2006* furthers the broad objectives of CDM by providing the framework for the installation of smart meters in all homes and small businesses in Ontario by December 31, 2010. These meters are expected to be capable of measuring and reporting usage over predetermined periods, being read remotely, and, when combined with communications systems, will be capable of providing customers with access to information about their consumption. In 2007, the Province appointed the IESO as the interim smart meter entity that will oversee the collection and management of data. LDCs, including our distribution businesses, are accountable for the deployment of smart meter infrastructure and related technology for communications to meet minimum requirements as defined in regulations, as well as the implementation of time-of-use rates. In 2010, we continued our focus on building an advanced distribution solution and launched our smart grid initiative to leverage the infrastructure from our smart meter investment which is required to connect and manage large volumes of distributed generation on our distribution system (see Future Capital Expenditures).

Renewed Regulatory Framework

On October 27, 2010, the OEB announced its plan to develop a renewed regulatory framework for electricity given the significant role network investment will have in the electricity sector in the future. The renewed regulatory framework will be developed through three policy initiatives. First, the OEB will re-examine its approach to network investment planning by transmitters and distributors, including considering ways to encourage distributors and transmitters to plan their investments with the total bill impact in mind. Second, it will review its rate mitigation policy by examining alternative approaches and rate treatments that might smooth the impact of rate or bill increases on consumers. Third, it will review its current rate-making policies to ensure that they continue to facilitate the cost-effective and efficient implementation of OEB-approved plans.

Transmission Rates

Hydro One Networks

The IESO facilitates payments to us based on the Ontario Uniform Transmission Rates (UTRs) approved by the OEB for all transmitters across Ontario.

On August 16, 2007, the OEB issued its decision in respect of our 2007 and 2008 transmission rate application. As part of that decision the OEB approved the disposition of export and wheeling fees liability and the transmission market-ready regulatory asset, which was factored into rates and refunded to customers over the four-year period ending December 31, 2010.

On May 30, 2008, we submitted an application to the OEB to adjust UTRs for our Transmission Business, effective January 1, 2009. On August 28, 2008, the OEB approved our application reflecting the 2008 OEB-approved revenue requirement given the full repayment to customers of the Earnings Sharing Mechanism and Revenue Difference Deferral Account as at December 31, 2008. This resulted in an average increase of approximately 9% in our revenue requirement allocation from UTRs and an approximate 1% increase on an average customer's total bill.

To achieve the necessary funding in support of aging critical infrastructure and investments, we submitted a transmission rate application for 2009 and 2010 rates in September 2008. The application sought OEB approval for revenue requirements of approximately $1,233 million and $1,341 million based on an ROE of 8.53% and 9.35% for 2009 and 2010, respectively. On May 28, 2009, the OEB issued its decision, effective July 1, 2009, which resulted in a reduced revenue requirement of $1,180 million and $1,240 million in 2009 and 2010, respectively, primarily due to a lower approved ROE of 8.01% and 8.16%. The decision also required the establishment of new variance accounts to track the difference between the forecasted and actual external revenues for export services, secondary land use and net maintenance services, primarily provided to generators. In its decision, the OEB disallowed development capital expenditures of $180 million in 2010, but agreed to reconsider the projects if additional evidence was provided. On September 4, 2009, we filed supplemental evidence regarding two of the development capital projects amounting to approximately $160 million. On December 16, 2009, the OEB approved our supplemental submission increasing the approved 2010 revenue requirement to $1,257 million on the basis of an updated 2010 ROE of 8.39%. These decisions resulted in an increase in transmission tariff rates of approximately 2% and 9% for 2009 and 2010, respectively, representing a less than 1% increase on an average customer's total bill in each year.

On December 11, 2009, the OEB issued its final report on the cost-of-capital review, which concluded that the formula-based return on equity (ROE) needed to be reset and refined. On January 5, 2010, we filed a motion with the OEB to review aspects of its decision on our 2010 transmission rates, including an increase of the ROE used in calculating the 2010 revenue requirement to

9.75% from 8.39%, based on the new OEB-approved formula. On April 5, 2010, the OEB issued its decision, denying Hydro One Network's motion to vary the ROE used to calculate the revenue requirement for 2010 transmission rates. As a result of the decision, the 2010 revenue requirement remained at $1,257 million on the basis of an ROE of 8.39%.

On May 19, 2010 we submitted an application for 2011 and 2012 transmission rates in continued support of our aging critical infrastructure and the supply mix objectives for generation, including off-coal initiatives and initiation of investments in support of the GEA. This application sought the approval of revenue requirements of approximately $1,446 million for 2011 and $1,547 million for 2012, which represents an estimated increase in rates of 15.7% and 9.8%, respectively, or 1.2% and 0.7% on an average customer's monthly bill. The application was filed using the new OEB-approved formula for ROE and took into consideration the OEB staff report on the regulatory treatment of infrastructure investment in connection with rate-regulated activities (RRA) of Ontario distributors and transmitters, issued in January 2009.

On December 23, 2010, the OEB issued its decision effective January 1, 2011, which resulted in a revenue requirement of $1,346 million for 2011 and $1,658 million for 2012, reflecting transmission rate changes of approximately 7% in 2011 and 26% in 2012. The 2011 revenue requirement was lower than requested primarily due to a lower prescribed ROE resulting from a lower forecasted cost of debt, the denial of our request to recover the cost of capital of the construction work-in-progress for Bruce to Milton and an operation, maintenance and administration envelope reduction. Our 2012 revenue requirement was also impacted by the above noted factors, but was higher than originally submitted due to the OEB directing our Company to adopt IFRS accounting for indirect overheads capitalized, resulting in approximately a $200 million increase in 2012. Our Company was required to establish a variance account to capture any difference in the revenue requirement impact attributed to adopting IFRS capitalization accounting in 2012.

On January 17, 2011, the Power Workers Union submitted an appeal of the decision to the Ontario Superior Court of Justice (Divisional Court) asserting that the OEB failed to permit our Company to recover proposed prudently incurred operation, maintenance and administration costs and therefore, that a legal error was made. The appeal is not anticipated to affect the collection of the new 2011 transmission rates during the proceeding.

Distribution Rates

As a distributor, we are responsible for delivering electricity and billing our customers for our approved distribution rates, purchased power costs and other approved regulatory charges. Substantially all of our purchased power costs and other approved regulatory charges are settled through the IESO, which facilitates payments to other parties such as generators, the Ontario Electricity Financial Corporation (OEFC) and the IESO itself.

In 2006, the OEB initiated a process to establish an Incentive Regulation Mechanism (IRM) for the years 2007 to 2010. The process included a formulaic approach to establishing 2007 rates with a rate rebasing approach to be staggered across all Ontario distributors between 2008 and 2010.

Hydro One Networks

On December 18, 2008, the OEB issued a decision approving substantially all of the work program expenditures submitted in our 2008 cost-of-service distribution rate application. The decision was effective May 1, 2008 with an implementation date of February 1, 2009, and approved the establishment of the Revenue Recovery Account or Rider 4 to record the revenue differential between existing distribution rates and new rates from May 1, 2008. The Rider 4 is being recovered over a 27-month period, commencing February 1, 2009 and ending April 30, 2011. As part of its decision, the OEB also approved certain excess functionality expenditures for smart meters and the continuance of the 93 cents per month per metered customer. In a past proceeding, the OEB approved for recovery our expenditures incurred related to minimum functionality for advanced metering infrastructure. As a result, the difference between revenue recorded on this basis and actual recoveries received under existing rate adders are reflected as the carrying value of the regulatory asset account.

In late 2008, we filed an incentive regulation application for 2009 rates, which was updated in January 2009 to reflect the impact of the 2008 distribution rate decision. The application was filed on the basis of the OEB's third-generation IRM process, which adjusts rates by considering inflation, productivity targets, significant events outside the control of management and a capital adjustment mechanism to recover costs for new incremental capital coming in service beyond a prescribed threshold. On

May 13, 2009, the OEB released its decision approving the basic IRM increase and a charge of $1.65 per month per metered customer for smart meters. The revised rates were approved effective May 1, 2009 with an implementation date of June 1, 2009, and resulted in an increase of less than 1.5% on an average customer's total bill.

On July 13, 2009, we filed a cost-of-service application with the OEB for 2010 and 2011 distribution rates reflecting our plan to invest in our network assets to meet objectives regarding public and employee safety; regulatory and legislative compliance; maintenance of system security and reliability of system growth requirements; and investments required by the GEA. The application sought OEB approval of revenue requirements of approximately $1,150 million and $1,264 million based on an ROE of 8.11% and 9.09% for 2010 and 2011, respectively. The resulting distribution tariff rate increase was approximately 10% and 13% in 2010 and 2011, respectively, or approximately 3% and 4% on an average customer's total bill.

Our application included the Green Energy Plan (GEP) for our Distribution Business, filed in response to the GEA, which directed the OEB to require transmitters and distributors to file plans that would lead to the expansion of their systems to facilitate renewable energy. Our plans identified the expansion and reinforcement of the distribution system required to accommodate the connection of renewable energy generation facilities and outlined the development and implementation of the smart grid in our distribution system. Our GEP reflected changes to the *Ontario Energy Board Act, 1998*, as amended by the GEA and stipulated in Ontario Regulation 330/09. The amendments provided a new mechanism for rate protection, whereby some or all of the OEB-approved costs incurred by a distributor to make an eligible investment for the purpose of connecting or enabling the connection of renewable energy generation to its distribution system may be recovered from all provincial ratepayers, rather than solely from ratepayers of the distributor making the investment.

On April 9, 2010, the OEB released its decision approving revenue requirements of $1,146 million for 2010 and $1,236 million for 2011 to support the necessary work programs, the implementation of the GEA and the installation of smart meters. The 2010 and 2011 revenue requirements were lower than originally requested, reflecting reductions in operation, maintenance and administration expenses, capital expenditures and working capital requirements. As part of its decision, the OEB also approved certain distribution-related deferral account balances sought by our Company in our application, including retail settlement variance accounts, the remainder of a regulatory asset recovery account, retail cost variance accounts and smart meters. The OEB ordered that the approved balances be aggregated into a single regulatory account (Rider 6) to be recovered over an 18-month period from May 1, 2010 to December 31, 2011. Further, the OEB requested the establishment of deferral accounts to track the difference between the revenue recorded on the basis of our GEP expenditures incurred and actual recoveries received under the approved funding adder or rider.

The 2010 distribution rates were implemented on May 1, 2010, reflecting a rate increase of approximately 9.3%, or approximately 3% on an average customer's total bill. Our 2011 revenue requirement was adjusted to reflect the OEB's decision to decrease OM&A by $40 million and was adjusted to reflect a $44 million capital program reduction. On November 15, 2010, the OEB issued its cost of capital parameter updates for rates effective January 1, 2011. The new ROE value for 2011 is 9.66%. Applying this lower ROE produces a revised revenue requirement of $1,218 million. The approved 2011 revenue requirement results in an average distribution rate increase of approximately 8.7% for 2011, or 3.0% on an average customer's total bill.

Hydro One Brampton

On November 7, 2008, our subsidiary Hydro One Brampton filed an application for 2009 rates on the basis of the OEB's second-generation IRM policy, which incorporates an OEB-approved formula that considers inflation and efficiency targets. On March 13, 2009, the OEB released its decision and revised rates, including an amount of $1.00 per month per metered customer for smart meters, were approved for implementation effective May 1, 2009. Overall, the impact on an average customer's total bill was marginal.

On November 6, 2009, an application for 2010 distribution rates was filed on the basis of the OEB's second-generation IRM process. On April 13, 2010, the OEB released its decision regarding this rate application approving our submission on the basis of the OEB's cost-of-capital and second-generation IRM policies. The revised rates were implemented on May 1, 2010 and resulted in a reduction of approximately 8.3%, or 2.2% on an average customer's total bill in the year.

On June 30, 2010, we submitted a 2011 cost-of-service application, which was subsequently adjusted on September 2, 2010 to reflect the Canadian Accounting Standards Board's decision to allow the deferral of the adoption of International Financial Reporting Standards (IFRS) implementation for rate-regulated entities to January 1, 2012. The updated submission was filed on November 8, 2010 and requested a revenue requirement of approximately $63 million. The oral hearing concluded on December 7, 2010 and we expect a decision in the first quarter of 2011.

Hydro One Remote Communities Inc.

On August 29, 2008, we filed a 2009 cost-of-service rate application proposing an increase of about $10 million over the 2006 approved revenue requirement as a result of increased fuel costs. On April 30, 2009, the OEB issued a decision regarding this rate application approving all work program expenditures and the proposed rate increase of 4.4% effective May 1, 2009, resulting in a 4.4% increase to an average residential customer's total bill.

On November 4, 2009, we filed an application for 2010 rates under the OEB's third-generation IRM, which sought approval of an increase to basic rates for the distribution and generation of electricity effective May 1, 2010. The increase reflected the standard inflationary adjustments incorporated in the third-generation IRM applications. On April 14, 2010, the OEB issued a decision regarding this rate application under the OEB's third-generation IRM policies. The revised rates were approved for implementation on May 1, 2010 and reflect an increase of approximately 0.4%, the overall impact of which on an average customer's total bill is marginal.

On October 15, 2010, an application for 2011 distribution rates was filed on the basis of the OEB's third-generation IRM seeking approval for an increase of approximately 0.4% to basic rates for the distribution and generation of electricity effective May 1, 2011. We expect to update our requested rate increase when the OEB issues its inflation and productivity factors for IRM filers in the first quarter of 2011.

RESULTS OF OPERATIONS

Revenues

Year ended December 31 (Canadian dollars in millions)	**2010**	2009	$ Change	% Change
Transmission	**1,307**	1,147	160	14
Distribution	**3,754**	3,534	220	6
Other	**63**	63	-	-
	5,124	4,744	380	8
Average annual Ontario 60-minute peak demand (*MW*) [1]	**21,572**	20,798	774	4
Distribution – units distributed to customers (*TWh*)[1]	**29.1**	28.9	0.2	1

[1] System-related statistics include preliminary figures for December.

Transmission

Transmission revenues predominantly consist of our transmission tariff, which is based on the monthly peak demand for electricity across our high-voltage network. The tariff is designed to recover revenues necessary to support a transmission system with sufficient capacity to accommodate the maximum expected demand. Demand is primarily influenced by weather and economic conditions. Transmission revenues also include export revenue associated with transmitting excess generation to surrounding markets and ancillary revenues which are primarily attributable to maintenance services provided to generators and secondary use of our land rights-of-way.

Our transmission revenues were higher by $160 million, or 14%, compared to 2009. The OEB rendered its decision on our 2009 and 2010 transmission rate application on May 28, 2009. The decision followed extensive oral and written reviews of our evidence submitted for the necessary funding in support of system requirements. The resulting tariff increases approved effective July 1, 2009 and January 1, 2010 support our in-service capital investments in respect of the Province's supply mix policy, including the phase-out of coal-fired generation and addressing aging infrastructure. These increases resulted in higher revenues of $119 million. We also experienced higher revenues of $12 million associated with certain OEB-approved deferral accounts as a result of the decision.

Also contributing to increased revenue was the higher average monthly peak demand experienced during the year. The average annual Ontario 60-minute peak demand and the overall related load were 774 MW and 9,282 MW higher than last year, respectively, resulting in higher revenues of $37 million. Weather was generally milder over the winter months and unseasonably hot during the summer months, compared to the prior year. Our system performed well under these extreme conditions.

Transmission tariff revenue increases were partially offset by lower ancillary revenues of approximately $8 million due to the impact of the May 28, 2009 OEB decision. Consistent with this decision, ancillary revenues received in excess of OEB-approved levels are recorded in a regulatory liability account and are not recognized as revenue.

Distribution

Distribution revenues include our distribution tariff and amounts to recover the cost of purchased power used by our customers. Accordingly, distribution revenues are influenced by the amount of electricity we distribute, the cost of purchased power and our distribution tariff rates. Distribution revenues also include a minor amount of ancillary distribution services revenues, such as fees related to the use of our poles by the telecommunications and cable television industries, and miscellaneous charges such as those for late payments.

Distribution revenues increased by $220 million, or 6%, compared to 2009, including an increase in the recovery of higher purchased power costs of $148 million, as described below in the section "Purchased Power."

Increases in revenue reflect two OEB decisions on the distribution tariff rates of our subsidiary, Hydro One Networks. On May 13, 2009, the OEB approved new tariff rates under the third-generation IRM effective May 1, 2009. On April 9, 2010, the OEB approved new tariff rates following our cost-of-service application effective May 1, 2010. Both decisions followed extensive written and oral reviews of the evidence we submitted for the maintenance and investment requirements of the distribution system, including those to support renewable distributed generation. The combined impact of these decisions was an $82 million increase. These tariff rate increases support the maintenance and investment requirements of our distribution system and enable the safe and reliable delivery of electricity to our customers throughout Ontario. We also experienced higher revenues of $7 million associated with certain OEB-approved deferral accounts for the year.

Distribution revenue increases were partially offset by lower energy consumption, resulting primarily from the milder weather in the first quarter of the year, partially offset by unseasonably hot weather during the summer months, which reduced our distribution revenues by $3 million compared to last year. In addition, revenues associated with the recovery of a distribution-related regulatory account ceased effective April 30, 2010, resulting in a revenue reduction of $16 million compared to last year.

We also experienced higher ancillary revenues of approximately $2 million compared to the prior year.

Purchased Power

Purchased power costs incurred by our Distribution Business represent the cost of electricity delivered to customers within our distribution service territory and comprise the wholesale commodity cost of energy, the Independent Electricity System Operator's (IESO) wholesale market service charges, and transmission charges levied by the IESO. The commodity cost of energy for certain low-volume and designated customers is based on the OEB's Regulated Price Plan (RPP), which consists of a two-tiered pricing structure with threshold amounts and a separate pricing structure for RPP customers on time-of-use billing, both adjusted twice annually. The vast majority of RPP customers are anticipated to be on time-of-use billing by the end of June 2011. Customers that are not eligible for the RPP pay the market price for electricity, adjusted for the difference between market prices and the prices paid to generators under the *Electricity Restructuring Act, 2004*. A summary of the RPP for the reporting period is provided below.

Summary of RPP

	Tier Threshold (kWh/month)		Tier Rates (cents/kWh)	
Effective Date	Residential	Non-Residential	First Tier	Second Tier
November 1, 2008	1,000	750	5.6	6.5
May 1, 2009	600	750	5.7	6.6
November 1, 2009	1,000	750	5.8	6.7
May 1, 2010	600	750	6.5	7.5
November 1, 2010	1,000	750	6.4	7.4

RPP Time-of-Use	Rates (cents/kWh)		
Effective Date	On Peak	Mid Peak	Off Peak
May 1, 2010	9.9	8.0	5.3
November 1, 2010	9.9	8.1	5.1

Purchased power costs increased in 2010 by $148 million, or 6%, to $2,474 million for the year compared to 2009. The increase in our purchased power costs was primarily due to the impact of changes in the OEB's RPP rate for residential and other eligible customers of $84 million, higher transmission charges of $33 million due to the OEB's transmission rate decisions effective July 1, 2009 and January 1, 2010, higher purchased power costs for customers that are not eligible for the RPP of $33 million and higher demand for electricity of $13 million. The effect of these increases was partially offset by lower wholesale market service charges levied by the IESO of $15 million.

Operation, Maintenance and Administration

Our operation, maintenance and administration costs consist of labour, material, equipment and purchased services which support the operation and maintenance of the transmission and distribution systems. Also included in these costs are property taxes and payments in lieu thereof on our transmission and distribution lines, stations and buildings.

Operation, maintenance and administration costs for each of our three business segments were as follows:

Year ended December 31 (Canadian dollars in millions)	**2010**	2009	$ Change	% Change
Transmission	**416**	438	(22)	(5)
Distribution	**602**	564	38	7
Other	**60**	55	5	9
	1,078	1,057	21	2

Transmission

Operation, maintenance and administration expenditures incurred to sustain our high-voltage transmission stations, lines and rights-of-way decreased by $22 million, or 5%, in 2010 compared to last year. Within our work programs, we continued to invest in the safe and reliable operation of our transmission system that spans Ontario. We substantially completed our work program requirements while focusing on productivity. Effective delivery of our maintenance program, particularly on power equipment, enabled us to reallocate resources to the timely delivery of our expanded capital programs. Given favourable weather conditions in the first half of the year, together with productivity improvements resulting from the implementation of our entity-wide information system, we were able to effectively execute our work programs. As a result, we experienced lower planned line maintenance expenditures, lower expenditures in our forestry programs and lower requirements for engineering support. Our expenditures in support of our transmission system have also decreased by $8 million, primarily reflecting the redirection of resources and the elimination of capital tax by the Canada Revenue Agency (CRA) effective July 1, 2010, partially offset by a one-time contribution of $27 million to the pension plan during the last quarter of this year.

Distribution

Operation, maintenance and administration expenditures required to maintain our low-voltage distribution system increased by $38 million, or 7%, compared to last year. Our work program expenditures increased by $11 million primarily as a result of favourable weather allowing us to deliver a larger forestry program in a cost-effective manner. Additionally, we experienced increased requirements within our customer care and engineering support programs, as well as within our smart meter program due to ongoing operational costs for installed meters. These expenditures were partially offset by lower expenditures within our lines maintenance program, including storm restoration, inspection and testing of pole transformers and field meter readings as installed smart meters begin to reach the required level of reliable communication. Our expenditures in support of our distribution system were higher by $27 million, reflecting a one-time contribution to the pension plan of $21 million during the last quarter of this year as well as the redirection of resources, partially offset by the elimination of capital tax by the CRA effective July 1, 2010.

Depreciation and Amortization

Depreciation and amortization expense reflect a net increase of $46 million, or 9%, to $583 million in 2010 compared to last year. This was mainly attributable to increased depreciation and amortization expense of $45 million from new assets coming into service, consistent with our ongoing capital work program. A further increase of $7 million was the result of increased fixed asset removals associated with our capital projects. Amortization of regulatory and other assets decreased by $6 million due to the completion of the amortization of a distribution regulatory account during the second quarter of this year, partially offset by increased amortization of our environmental regulatory asset related to higher expenditures necessary to comply with Environment Canada's regulations on the removal of polychlorinated biphenyls.

Financing Charges

Financing charges increased by $34 million, or 11%, to $342 million for 2010 compared to last year. Financing charges increased by $40 million mainly due to an increased average level of debt, partially offset by a lower average effective interest rate. Lower capitalized interest of $4 million also contributed to higher financing charges this year. Although we had higher levels of construction in progress, we capitalized less interest due to lower OEB-approved interest capitalization rates. These increases were partially offset by changes in interest income and other ancillary amounts which reduced overall financing charges by $10 million.

Provision for Payments in Lieu of Corporate Income Taxes

We make payments in lieu of corporate income taxes (PILs) to the OEFC in accordance with the *Electricity Act, 1998* and on the same basis as if we were subject to federal and provincial corporate taxes. In providing for payments in lieu of corporate income taxes, the liability method is used. The change in future taxes relating to both the unregulated and regulated businesses, in respect of temporary differences that are not considered for the rate-making process, results in a future tax provision that is charged to the income statement. The change in future taxes relating to temporary differences of the regulated business that are considered for the rate-making process results in a regulatory asset or regulatory liability.

The provision for payments in lieu of corporate income taxes increased by $10 million, or 22%, to $56 million compared to 2009. The increase was primarily due to higher pre-tax income in the year, partially offset by higher net temporary differences related to certain regulatory accounts and a reduction in the statutory rate from 33.0% to 31.0%.

Net Income

Net income of $591 million was higher by $121 million, or 26%, compared to 2009 results. Revenues were affected by the OEB-approved rate decisions that support investments in respect of supply mix policies, including the phase-out of coal-fired generation, necessary maintenance and investment requirements of our systems, and investments to address aging infrastructure. These investments in our transmission and distribution systems are reflected in the increase of approximately $1.1 billion in our fixed assets from the prior year. Revenues were also affected by a higher average monthly peak demand due to hotter than average weather during the summer months, partially offset by milder weather during the winter months. These impacts were partially offset by a one-time contribution to our pension plan, which was enabled by our effective cost management over operating costs in the year.

Quarterly Results of Operations

The following table sets forth unaudited quarterly information for each of the eight quarters from March 31, 2009 through December 31, 2010. This information is derived from our unaudited interim Consolidated Financial Statements, which, in the opinion of management, have been prepared on a basis consistent with the audited annual Consolidated Financial Statements and which include the normal recurring adjustments necessary for fair presentation of our financial position and results of operations for those periods. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict our future performance.

(Canadian dollars in millions)	**2010**				2009			
Quarter ended	**Dec. 31**	**Sep. 30**	**Jun. 30**	**Mar. 31**	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Total revenues[1]	**1,280**	**1,360**	**1,165**	**1,319**	1,207	1,144	1,090	1,303
Net income[1]	**99**	**218**	**105**	**169**	111	100	82	177
Net income to common shareholder[1]	**94**	**214**	**100**	**165**	106	96	77	173

[1] The demand for electricity generally follows normal weather-related variations, and therefore our electricity-related revenues and profit, all other things being equal, would tend to be higher in the first and third quarters than in the second and fourth quarters.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity and capital resources are funds generated from operations, debt capital market borrowings and bank financing. These resources will be used to satisfy our capital resource requirements, which continue to include capital expenditures, servicing and repayment of our debt, payments related to our outsourcing arrangements, investing activities and dividends.

Summary of Sources and Uses of Cash

Year ended December 31 (Canadian dollars in millions)	**2010**	2009
Operating activities	**1,164**	892
Financing activities		
Long-term debt issued	**1,500**	1,150
Long-term debt retired	**(600)**	(400)
Short-term notes payable	**(55)**	55
Dividends paid	**(28)**	(188)
Investing activities		
Capital expenditures	**(1,570)**	(1,566)
Long-term investments[1]	**(250)**	-
Other financing and investing activities	**37**	15
Net change in cash and cash equivalents	**198**	(42)

[1] Represents $250 million of Province of Ontario Floating Rate Notes.

Operating Activities

Net cash from operating activities increased by $272 million to $1,164 million compared to last year. This increase primarily reflects higher net income and changes to accounts payable balances due to increases such as our purchased power costs related to the demand for electricity, timing of prepayments from customers and increased taxes payable related to the implementation of the HST. Changes in accounts receivable balances and in certain regulatory accounts also impacted net cash from operations.

Financing Activities

Short-term liquidity is provided through funds from operations, our Commercial Paper Program under which we are authorized to issue up to $1,000 million in short-term notes with a term to maturity of less than 365 days, our revolving credit facility and through our holdings of Province of Ontario Floating Rate Notes.

At December 31, 2010, we had no short-term notes outstanding. The Commercial Paper Program is supported by a total of $1,500 million in liquidity facilities comprised of a $1,250 million committed revolving credit facility with a syndicate of banks and the holding of $250 million of Province of Ontario Floating Rate Notes. The short-term liquidity under this program together with anticipated levels of funds from operations should be sufficient to fund our normal operating requirements. During the second quarter, we increased the amount of our $500 million revolving credit facility, entered into in the first quarter, to $1,250 million and we extended the term of the facility to June 2013. Also in the second quarter, we cancelled the $750 million revolving credit facility which would have matured in August 2010.

At December 31, 2010, we had $7,775 million in long-term debt outstanding, including the current portion. Our notes and debentures mature between 2011 and 2046. Long-term financing is provided by our access to the debt markets, primarily through our Medium-Term Note (MTN) Program. On July 27, 2009, we filed a base shelf prospectus to renew our MTN Program for another 25 months. The maximum authorized principal amount of medium-term notes issuable under this program until August 2011 is $3,000 million, of which $1,250 million was remaining and available as at December 31, 2010.

	Rating	
Rating Agency	**Short-term Debt**	**Long-term Debt**
DBRS Limited	R-1 (middle)	A (high)
Moody's Investors Service Inc.	Prime-1	Aa3
S&P	A-1	A+

We have the customary covenants normally associated with long-term debt. Among other things, our long-term debt covenants limit our permissible debt as a percentage of our total capitalization, limit our ability to sell assets and impose a negative pledge provision, subject to customary exceptions. The credit agreements related to our credit facilities have no material adverse change clauses that could trigger default. However, the credit agreements require that we provide notice to the lenders of any material adverse change within three business days of the occurrence. The agreements also provide limitations that debt cannot exceed 75% of total capitalization and that debt issued by our subsidiaries cannot exceed 10% of the total book value of our assets. We are in compliance with all of these covenants and limitations as of December 31, 2010.

In 2010, we successfully issued $1,500 million in cost-effective long-term debt under our MTN Program, consisting of $1,000 million in the first quarter and $500 million in the third quarter. We repaid $600 million in maturing long-term debt, including $400 million in the second quarter and $200 million in the fourth quarter. In 2009, we issued $1,150 million in long-term debt under our MTN Program and repaid $400 million in maturing long-term debt. During 2010, we reduced our short-term notes by $55 million, all in the first quarter. In 2009, we increased our short-term notes by $55 million.

Common dividends are declared at the sole discretion of our Board of Directors, and are recommended by management based on results of operations and maintaining the deemed regulatory capital structure. Financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations are also taken into consideration. Common dividends pertaining to the quarterly financial results are generally declared and paid in the immediately following quarter.

In 2010, we paid dividends to the Province in the amount of $28 million, consisting of $10 million in common dividends and $18 million in preferred dividends. In the comparative period, we paid common dividends of $170 million and preferred dividends of $18 million. In 2010, cash dividends per common share were $100 compared to $1,700 per common share in 2009. Cash dividends per preferred share were $1.375 in each of 2010 and 2009.

Our objectives with respect to our capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. In order to ensure ongoing effective access to capital, we target to maintain an "A" category long-term credit rating.

Investing Activities

Cash used for investing activities, primarily representing capital expenditures to enhance and reinforce our transmission and distribution infrastructure in the public interest, was as follows:

Year ended December 31 (Canadian dollars in millions)	**2010**	2009	$ Change	% Change
Transmission	**936**	918	18	2
Distribution	**629**	643	(14)	(2)
Other	**5**	5	-	-
	1,570	1,566	4	-

Transmission

Transmission capital expenditures increased by $18 million in 2010 to $936 million, compared to 2009. Expenditures to expand and reinforce our transmission system were $524 million, representing an increase of $7 million over last year. These expenditures primarily consist of those on inter-area network and local area supply development projects. We completed a number of multi-year projects and put them in service and other projects are beginning to progress. We continued to invest in a number of inter-area network upgrade projects to support the Province's supply mix objectives for generation. We also continued to make investments in our local area supply projects to address growing loads. These expenditures were partially offset by a reduction in expenditures associated with load customer connection projects as well as local area supply and inter-area network projects that were substantially completed this year.

Inter-area network upgrades with significant expenditures included the Bruce to Milton Transmission Reinforcement Project to connect refurbished nuclear and new wind generation sources in the Huron-Grey-Bruce area, and the Northeast Transmission Reinforcement Project, which will increase the North-South interface transfer capability to access available northern generation. The Northeast Transmission Reinforcement Project is comprised of work to install static var compensators (SVCs) at Porcupine and Kirkland Lake Transformer Stations. In addition, we are installing SVCs at Nanticoke and Detweiler Transformer Stations, which in the short term will support increased generation from the Bruce Nuclear facility and in the longer term, will enhance the transfer capability between Southwestern Ontario and the Greater Toronto Area (GTA). The installation of SVCs represents new technology to our system and we successfully put one of them in service at the end of the year. These investments were partially offset by lower expenditures associated with the installation of capacitor banks in Southwestern Ontario, which is substantially complete. This equipment provides interim protection to the Bruce Nuclear facility and expands transmission capacity in Southwestern Ontario. In addition, we incurred lower expenditures associated with the Cherrywood Transformer Station to Claireville Transformer Station Connection Project, which will enable greater transfer capability across the GTA to accommodate power flows resulting from the new Hydro-Québec interconnection. This work was substantially completed in the fourth quarter of the year.

Local area supply projects with expenditures in the period include our Woodstock Area Transmission Reinforcement Project, which will increase capacity to ensure supply reliability in the Woodstock area, and our Switchyard Reconstruction Project at our Burlington Transformer Station, which will increase the load supply capacity to ensure reliability of supply to customers in the area. The GTA West Transmission Reinforcement Project, which has increased capacity to ensure supply reliability in the area, as well as the Hurontario Switching Station to Jim Yarrow Municipal Transformer Station connection, which has increased transmission capacity in the Western Brampton area to allow for future load growth, were both substantially completed in the first quarter of this year, contributing to the reduction in expenditures compared to the prior year. The final completion of our Niagara Reinforcement Project continues to be delayed by the aboriginal land dispute in the Caledonia area. Discussions related to the Niagara Reinforcement Project continue between the aboriginal peoples involved and various government entities and we expect to complete this project when site access becomes available.

Expenditures to sustain our existing transmission system were $309 million, representing an increase of $25 million compared to 2009. This increase was primarily due to increased requirements related to the refurbishment and replacement of end-of-life lines and stations and to higher targeted replacements of aging components, specifically within our breaker installation program. We also experienced increased expenditures within our protection and control equipment program compared to the prior year. These increases were partially offset by lower expenditures within our Spare Transformer Purchase and Hub Replacement Programs.

Our other transmission capital expenditures were $103 million, representing a decrease of $14 million compared to the prior year. This reduction from the prior year was due to expenditures in 2009 on our investment in an entity-wide information system replacement and improvement project which replaced end-of-life systems and improved productivity, the second phase of which was completed during the third quarter of last year. Further impacting the period are expenditures incurred to enhance information security at our Ontario Grid Control Centre, which were lower compared to the prior year as we completed a number of enhancements to meet North American Electric Reliability Corporation requirements in 2009. Partially offsetting these reductions were higher expenditures in 2010 related to the strategic purchase of power transformers in order to ensure transmission reliability through availability of critical long delivery lead time items.

Distribution

Distribution capital expenditures decreased by $14 million to $629 million in 2010, compared to the prior year. Capital expenditures to expand and reinforce our distribution network were $304 million, representing a reduction of $20 million compared to last year. We experienced reductions relating to expenditures on planned line development projects and demand line work for new connects and upgrades mainly due to a reallocation of resources to sustaining line work for line relocations. The reduction was also due to the substantial completion of smart meter installations across the province at the end of last year. During the year, these lower expenditures related to installations were partially offset by expenditures on the smart meter network infrastructure and the development and integration of the systems required for time-of-use billing, including meter reading capability and integration to the IESO meter data repository. Smart meter installations continued throughout the year as our total cumulative number of installations exceeded 1,314,000 as at December 31, 2010, thus nearing the program's total target. We currently have over 1,140,000 meters enabled to support time-of-use billing and continue our efforts to migrate our customers to time-of-use pricing; over 553,000 of our customers are now consuming power based on time-of-use pricing. Our program is one of the largest utility smart meter deployments in North America. These reductions were partially offset by the initiation of our Smart Grid Program which will enhance our operations and support distributed generation.

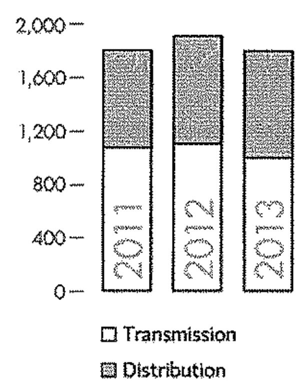
Expenditures to sustain our distribution system were $275 million, an increase of $28 million from 2009. This increase was primarily a result of higher requirements for transport and work equipment and the re-allocation of resources from planned line development projects to demand line work for line relocations in support of municipal road widening projects which are partially funded by the municipalities. These increases were partially offset by reduced expenditures as a result of fewer storms in 2010.

Our other distribution capital expenditures were $50 million, representing a reduction of $22 million from 2009. This reduction primarily reflects our higher prior period investments in our entity-wide information system replacement and improvement project.

Future Capital Expenditures

Our capital expenditures in 2011 are budgeted at approximately $1.8 billion. The 2011 capital budgets for our Transmission and Distribution Businesses are about $1,050 million and $750 million, respectively. Capital expenditures, as shown in the accompanying chart, are expected to be approximately $1.9 billion in 2012 and approximately $1.8 billion in 2013. These expenditures reflect the sustainment requirements of our aging infrastructure, budgeted at approximately $550 million in 2011, $700 million in 2012 and $700 million in 2013. Development projects, including smart grid, inter-area network upgrades that reflect supply mix policies to phase out coal generation, local area supply requirements and requirements to enable distributed generation, are budgeted at approximately $950 million in 2011, $950 million in 2012 and $850 million in 2013. These development investments also reflect customer demand work, distributed generation connections and the rollout of smart grid. Other capital expenditures amount to approximately $300 million in 2011, $250 million in 2012 and $250 million in 2013. These expenditures include the replacement of our customer billing system to address end-of-life requirements and to further productivity realization from our entity-wide SAP platform.

Future Capital Expenditures
(CAD $ millions)



Transmission

Transmission system capital expenditures are anticipated to be significant over the period 2011 to 2013, amounting to about $3.2 billion, including program expenditures to manage the replacement and refurbishment of our aging transmission infrastructure to ensure a continued reliable supply of energy to customers throughout the province. The investment plan includes targeted component replacements of air blast circuit breakers, switchgear, autotransformers and wood pole structures to maintain the performance of assets. Also, the reconstruction of transformer stations is planned for the Burlington TS 115 kV, Leaside, Hearn and Manby stations to ensure future reliability. These sustaining investments are necessary to ensure that we will continue to meet all regulatory, compliance, safety and environment objectives.

Inter-area network projects, required to accommodate new generation related to supply mix policies, include our Bruce to Milton Transmission Reinforcement Project to connect nuclear generation and new wind generation in the Huron-Grey-Bruce area. This project is anticipated to be in service in 2012. We are also installing station equipment, including SVCs in Southwestern Ontario, to increase transmission capacity. This equipment will mitigate congestion and enhance the transfer capability between Northern Ontario and Southern Ontario and the transmission system north of Sudbury enabling new hydroelectric generation.

The budgeted capital expenditures do not include any amounts associated with new lines projects articulated in the September 21, 2009 letter to us from the then Minister of Energy and Infrastructure. We suspended work on those projects after the Minister of Energy and Infrastructure requested our Company to focus on those items that are essential to the safe and reliable operation of our existing assets or projects already under development and approved by the OEB, or are critical to the connection of renewable generation projects that have been identified by the OPA as part of the government's green energy agenda. In addition, in August 2010, the OEB introduced competition for transmission expansion projects. As a result, we did not include in our budgeted capital expenditures any projects that could meet the definition of expansion under the OEB's competitive framework.

On December 22, 2010, we received a letter from the Minister of Energy requesting us to proceed with the necessary planning and development work to advance specified transmission projects and upgrades to the system that will safely and reliably accommodate additional renewable energy from small generation projects. According to the LTEP, we are expecting to receive direction to carry out the three specified projects. These transmission projects, which are identified in the LTEP, include:

- Southwestern Ontario Series Compensation
- Reconductoring Sarnia to London circuits
- New transmission line west of London

While our current budget does not include the estimated capital expenditures associated with these projects and upgrades to the system, they could be up to approximately $1 billion over a period to the in-service dates of these projects.

The actual timing and expenditures of many development projects are uncertain as they are dependent upon various approvals including OEB leave-to-construct approvals and environmental assessment approvals; negotiations with customers, neighbouring utilities and other stakeholders; and consultations with First Nations and Métis communities, as well as the timing and level of generator contributions for enabling facilities under recent amendments to the TSC. We will not undertake large capital expenditures without a reasonable expectation of recovering them in our rates, including those recently requested by the Ministry of Energy.

Distribution

Capital expenditures for the period 2011 to 2013 are estimated to be approximately $2.3 billion, including capital expenditures to support the sustainment of our capital infrastructure. Our core work will continue to focus on the performance of our aging distribution asset base in order to improve system reliability. There is a continuation of investments to replace end-of-life equipment and components, implement smart grid and focus on wood pole replacements and submarine cables to address deteriorating assets. In addition, we will continue to address the demand for new load connections, trouble calls, storm restoration and system capability reinforcement.

Our Distribution sustainment work program has been reduced consistent with the decision on our distribution application for the 2010 and 2011 rate years and as a result our work program will include in it a gradual increase in our intended Wood Pole Replacement Program to address the aging poles and deterioration.

Distribution development expenditures over the period are primarily related to customer demand work such as connections and upgrades, smart grid, distributed generation connections, including station upgrades, protection and control, new lines and some contestable work for which we receive capital contributions. During the 2011 and 2012 period we are managing a significant number of projects throughout the province to address load growth and the stress on our system components.

Distributed generation expenditures are based on our estimate of the number of anticipated connections, taking into account the most recent data available from the OPA. Although distributed generation demand is expected to increase over the planning period, connection work is contestable and therefore the volume of work could fluctuate.

The Company's current billing system is near end of life, and costly to maintain and operate. The replacement of this system is anticipated to commence in 2011 and be completed by 2014.

Summary of Contractual Obligations and Other Commercial Commitments
The following table presents a summary of our debt and other major contractual obligations under Canadian GAAP, as well as other major commercial commitments:

December 31, 2010 (Canadian dollars in millions)	**Total**	**2011**	**2012/2013**	**2014/2015**	**After 2015**
Contractual Obligations *(due by year):*					
Long-term debt – principal repayments	7,775	500	1,200	1,000	5,075
Long-term debt – interest payments	6,599	405	732	614	4,848
Inergi LP (Inergi) outsourcing agreement[1]	569	143	274	152	-
Operating lease commitments	53	5	14	9	25
Environmental and asset retirement obligations[2]	391	23	60	73	235
Total Contractual Obligations[6]	15,387	1,076	2,280	1,848	10,183
Other Commercial Commitments *(by year of expiry):*					
Bank line[3]	1,250	-	1,250	-	-
Letters of credit[4]	114	114	-	-	-
Guarantees[4]	326	326	-	-	-
Pension[5]	307	145	162	-	-
Total Other Commercial Commitments	1,997	585	1,412	-	-

[1] On May 1, 2010, the Company extended the Master Services Agreement with Inergi for a further three-year period. The term of the agreement, which would have expired on February 29, 2012, has been extended to February 28, 2015. Under the extended agreement, Inergi will provide business processing and information technology outsourcing services, as well as core system support related primarily to SAP implementation and optimization. The amounts disclosed include an estimated annual inflation adjustment in the range of 1.8% to 3.0%.

[2] We record a liability for the estimated future expenditures associated with the phase-out and destruction of PCB-contaminated insulating oil from electrical equipment and for the assessment and remediation of contaminated lands as well as asset retirement obligations for the removal of asbestos-contaminated material from our facilities and the decommissioning and removal of our switching station located at Ontario Power Generation's Abitibi Canyon Generating Station. The expenditure pattern reflects our planned work program for the period.

[3] As a backstop to our commercial paper program, we have a $1,250 million revolving standby credit facility with a syndicate of banks which matures in June 2013.

[4] We currently have bank letters of credit of $113 million outstanding relating to retirement compensation arrangements (RCAs). The other $1 million included in letters of credit pertains to operating letters of credit. On November 1, 2010, we increased our letter of credit related to RCAs to approximately $113 million from $107 million. We have also provided prudential support to the IESO on behalf of our subsidiaries as required by the IESO's Market Rules, using parental guarantees of up to a maximum of $325 million and on behalf of two distributors using guarantees of up to a maximum of $660 thousand. Although no letters of credit are required for prudential support, we would have to resume providing bank letters of credit if our credit rating deteriorated to below the "Aa" category.

[5] Contributions to the pension fund are made one month in arrears. Contributions for 2011 are based on an actuarial valuation filed in September 2010 and effective December 31, 2009. Our annual pension contributions for 2011 and 2012 will depend on future investment returns, changes in benefits or actuarial assumptions. Based on current factors, we estimate our minimum pension contributions to be approximately $145 million in 2011 and $149 million in 2012 based on the level of pensionable earnings. Contributions for 2013 will be based on an actuarial valuation effective December 31, 2012.

[6] In addition, the Company has entered into various agreements to purchase goods or services in support of our work programs that are enforceable and legally binding. None of these agreements are considered individually material, and the majority do not extend beyond December 31, 2011.

The amounts in the above table under long-term debt – principal repayments are not charged to our results of operations, but are reflected on our Balance Sheet and Statement of Cash Flows. Interest associated with this debt is recorded under financing charges on our Statement of Operations or in our capital programs. Payments in respect of operating leases and our outsourcing agreement with Inergi are recorded under operation, maintenance and administration costs on our Statement of Operations or within our capital expenditures. Expenditures resulting from our environmental programs and asset retirement obligations are not charged to our results of operations, but are reflected on our Balance Sheet and Statement of Cash Flows.

RELATED PARTY TRANSACTIONS

Related party transactions primarily consist of our transmission revenues received from, and our power purchases payments made to, the IESO, which is a related party by virtue of its status as an agency of our shareholder, the Province. The year-over-year changes related to these amounts are described more fully in our discussion of our transmission revenues and purchased power costs. Other significant related party transactions include our dividends which are paid to the Province and our payments in lieu of corporate income taxes which are paid or payable to the OEFC. In January 2010, we purchased $250 million of Province of Ontario Floating Rate Notes, maturing on November 19, 2014, as a form of alternate liquidity to supplement our bank credit facilities.

CONSIDERATIONS OF CURRENT ECONOMIC CONDITIONS

Effect of Load on Revenue

The load is expected to decline in 2011 due to the impact of CDM and Embedded Generation, partially offset by load growth associated with economic growth in all sectors of the Ontario economy. Overall load growth due to the economy alone is forecasted to be approximately 1.0%, with the industrial sector slightly outperforming residential and commercial sectors. The load impact of CDM and Embedded Generation is expected to have a substantial negative impact on load growth of approximately 2.0% and 0.3%, respectively. On the whole, load is expected to decline by about 1.3%. A reduction in load, beyond our load forecast included in our approved revenue requirement, would negatively impact our financial results.

Effect of Interest Rates

Changes in interest rates will impact the calculation of our revenue requirements filed with the OEB. The first component impacted by interest rates is the return on equity. The OEB-approved adjustment formula for calculating return on equity will increase or decrease by 50% of the change between the current Long Canada Bond Forecast and the risk-free rate established at 4.25% and 50% of the change in the spread in 30-year "A"-rated Canadian utility bonds over the 30-year benchmark Government of Canada bond yield established at 1.415%. We estimate that a 1% decrease in the forecasted long-term Government of Canada bond yield or the "A"-rated Canadian utility spread used in the current OEB formula for determining our rate of return on equity would reduce our Transmission Business' results of operations by approximately $16 million and our Distribution Business' results of operations by approximately $10 million. The second component of revenue requirement that would be impacted by interest rates is the return on debt. The difference between actual interest rates on new debt issuances and those approved for return by the OEB would impact our results of operations.

Input Costs and Commodity Pricing

In support of our ongoing work programs, we are required to procure materials, supplies and services. To manage our total costs, we regularly establish security of supply, strategic material and services contracts, blanket orders, vendor alliances and manage a stock of commonly used items. Such arrangements are for a defined period of time and are monitored. Where advantageous, we develop long-term contractual relationships with suppliers to optimize the cost of goods and services and to ensure the availability and timely supply of critical items. As a result of our strategic sourcing practices, we do not foresee any adverse impacts on our business from current economic conditions in respect of adequacy and timing of supply and credit risk of our counterparties. Further, we have been able to realize significant savings through our strategic sourcing initiatives.

Debt Financing

Cash generated from operations, after the payment of expected dividends, will not be sufficient to fund capital expenditures or meet debt maturity repayments and other liquidity requirements (see Risk Management and Risk Factors – Risk Associated with Arranging Debt Financing). We rely on debt financing through our MTN Program and Commercial Paper Program. Our Commercial Paper Program is supported by a total of $1,500 million in liquidity facilities as of December 31, 2010, which is comprised of a $1,250 million syndicated bank line of credit and the holding of $250 million of Province of Ontario Floating Rate Notes. In 2010, we continued issuing sufficient cost-effective debt financing through the MTN Program and Commercial Paper Program in the Canadian capital markets and we arranged sufficient available liquidity. Economic conditions continue to improve from the credit crisis of late 2008.

Pension

During 2010, the deferred pension asset reported on our Balance Sheet increased by $36 million to $460 million. We contributed $143 million into our pension plan in 2010 and made an additional payment of $48 million in December. We incurred $154 million in net periodic pension benefit cost. On an accounting basis, the 2009 unfunded benefit obligation of $230 million increased by $67 million to $297 million. The plan experienced positive returns of about 9.96% in the year. However, the plan was also impacted by an increase in the accrued benefit obligation, primarily as a result of a decrease in the discount rate used for accounting purposes (see Critical Accounting Estimates – Employee Future Benefits).

RISK MANAGEMENT AND RISK FACTORS

We have an enterprise risk management program that aims at balancing business risks and returns. An enterprise-wide approach enables regulatory, strategic, operational and financial risks to be managed and aligned with our strategic business objectives.

While our philosophy is that risk management is the responsibility of all employees, the Audit and Finance Committee of our Board of Directors annually reviews our Company's risk tolerances, our risk profile and the status of our internal control framework. Our President and Chief Executive Officer has ultimate accountability for risk management. Our Leadership Team, comprised of direct reports to the President and Chief Executive Officer, provides senior management oversight of risk in our Company. Our Chief Risk Officer is responsible for the ongoing monitoring and reviewing of our risk profile and practices, and our Executive Vice-President and Chief Financial Officer is responsible for ensuring that the risk management program is an integral part of our business strategy, planning and objective setting. Each of our subsidiaries, as well as key specialist functions and field services, are required to complete a formal risk assessment and to develop a risk mitigation strategy.

The Audit and Finance Committee, the President and Chief Executive Officer, and the Executive Vice-President and Chief Financial Officer are supported by our Chief Risk Officer. This support includes coordinating risk policies and programs, establishing risk tolerances, preparing risk assessments and profiles and assisting line and functional managers in fulfilling their responsibilities. Our internal audit staff is responsible for performing independent reviews of the effectiveness of risk management policies, processes and systems.

Ownership by the Province

The Province owns all of our outstanding shares. Accordingly, the Province has the power to determine the composition of our Board of Directors and appoint the Chair, and influence our major business and corporate decisions. We and the Province have entered into a memorandum of agreement relating to certain aspects of the governance of our Company. Pursuant to such agreement, in September 2008 the Province made a declaration removing certain powers from our Company's directors pertaining to the off-shoring of jobs under the outsourcing arrangement with Inergi LP. In 2009, the Province required Hydro One, among other agencies, to adhere to certain accountability measures regarding consulting contracts and employee travel, meal and hospitality expenses. The Province may require us to adhere to further accountability measures or may make similar declarations in the future, some of which may have a material adverse effect on our business. Hydro One's credit ratings may change with the credit ratings of the Province, to the extent the credit rating agencies link the two ratings by virtue of Hydro One's ownership by the Province.

Conflicts of interest may arise between us and the Province as a result of the obligation of the Province to act in the best interests of the residents of Ontario in a broad range of matters, including the regulation of Ontario's electricity industry and environmental matters, any future sale or other transaction by the Province with respect to its ownership interest in our Company, the Province's ownership of Ontario Power Generation Inc. (OPG), and the determination of the amount of dividend or proxy tax payments. We may not be able to resolve any potential conflict with the Province on terms satisfactory to us, which could have a material adverse effect on our business.

Regulatory Risk

We are subject to regulatory risks, including the approval by the OEB of rates for our transmission and distribution businesses that permit a reasonable opportunity to recover the estimated costs of providing safe and reliable service on a timely basis and earn the approved rates of return.

The OEB approves our transmission and distribution rates based on projected electricity load and consumption levels. If actual load or consumption falls below projected levels, our rate of return for either, or both, of these businesses could be materially adversely affected. Also, our current revenue requirements for these businesses are based on cost assumptions that may not materialize. There is no assurance that the OEB would allow rate increases sufficient to offset unfavourable financial impacts from unanticipated changes in electricity demand or in our costs.

Our load could also be negatively affected by successful CDM programs. The recently proposed LTEP directs the OPA to achieve interim CDM targets of 4,550 MW of provincial summer peak demand and 13 TWh of cumulative energy savings by the end of 2015. The Minister of Energy and Infrastructure's March 31, 2010 directive set a province-wide LDC CDM target of 1,330 MW and 6,000 GWh for the period 2011-2014. Our targets have been set at 214 MW and 1,130 GWh for the period 2011-2014. These expectations are factored into our revenue requirements for OEB approval, to ensure that the targeted CDM accomplishments do not result in deteriorated revenues. There is a risk that our revenues would be reduced if these targets are exceeded. In September 2010, the Conservation and Demand Management Code for Electricity Distributors was established and sets out the obligations and requirements that licensed distributors must comply with in relation to the CDM targets set out in their licenses. This code also sets out the conditions and rules that licensed distributors are required to follow if they choose to use OEB-approved CDM programs to meet their CDM targets. The implementation of this code could further deteriorate revenues without appropriate compensation. The OEB has recognized the need to compensate utilities for such lost revenue, but the approach, level and timing of any such compensation mechanism is yet to be determined. We are also subject to risk of revenue loss from other factors, such as economic trends and weather.

In response to the LTEP, we expect to make investments in the coming years to connect new renewable generating stations. There is the possibility that we could incur unexpected capital expenditures to maintain or improve our assets, particularly given that new technology is required to support renewable generation and unforeseen technical issues may be identified through implementation of projects. The risk exists that the OEB may not allow full recovery of such investments in the future. To the extent possible, we aim to mitigate this risk by ensuring prudent expenditures, seeking from the regulator clear policy direction on cost responsibility, and pre-approval of the need for capital expenditures.

While we expect all of our expenditures to be fully recoverable after OEB review, any future regulatory decision to disallow or limit the recovery of such costs would lead to potential asset impairment and charges to our results of operations, which could have a material adverse effect on our Company.

Risk Associated with Arranging Debt Financing

We expect to borrow to repay our existing indebtedness and fund a portion of capital expenditures. We have substantial amounts of existing debt which mature between 2011 and 2014, including $500 million maturing in 2011 and $600 million maturing in 2012. We plan to incur capital expenditures of approximately $1.8 billion in 2011 and capital expenditures are expected to increase to approximately $1.9 billion in 2012. Cash generated from operations, after the payment of expected dividends, will not be sufficient to fund the repayment of our existing indebtedness and capital expenditures. Our ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by numerous factors, including the regulatory environment in Ontario, our results of operations and financial position, market conditions, the ratings assigned to our debt securities by credit rating agencies and general economic conditions. Any failure or inability on our part to borrow substantial amounts of debt on satisfactory terms could impair our ability to repay maturing debt, fund capital expenditures and meet other obligations and requirements and, as a result, could have a material adverse effect on our Company.

Risk Associated with Transmission Projects

The amount of power that can flow through our transmission networks is constrained due to the physical characteristics of transmission lines and operating limitations. Within Ontario, new and expected generation facility connections, including those renewable energy generation facilities connecting as a result of the FIT program stemming from the GEA, and load growth have increased such that parts of our transmission and distribution systems are operating at or near capacity. These constraints or bottlenecks limit the ability of our network to reliably transmit power from new and existing generation sources (including expanded interconnections with neighbouring utilities) to load centres or meet customers' increasing loads. As a result, investments have been initiated to increase transmission capacity and enable the reliable delivery of power from existing and future generation sources to Ontario consumers.

In many cases, these investments are contingent upon one or more of the following approvals and/or processes: environmental approval(s); receipt of OEB approvals, which can include expropriation; and appropriate consultation processes, and where appropriate, accommodation with First Nations and Métis who may potentially be affected by a project. Obtaining these approvals and carrying out these processes may also be impacted by public opposition to the proposed site of transmission investments; thus there is a risk that necessary approvals may not be obtained in a timely fashion or at all. This will adversely affect transmission reliability and/or our service quality, both of which could have a material adverse effect on our Company.

With the introduction on August 26, 2010 of the OEB's competitive transmission project development planning process, all interested transmitters will be required to submit a bid to the OEB for identified enabler facilities and network enhancement projects. Historically, we would have been awarded such projects through our rates and Section 92, Leave to Construct, applications. The facilitation of competitive transmission could impact our future work program and our ability to expand our current transmission footprint. In addition, bid costs are only recoverable by the successful proponent.

Asset Condition

We continually monitor the condition of our assets and maintain, refurbish or replace them to maintain equipment performance and provide reliable service quality. Our capital and maintenance programs have been increasing to maintain the performance of our aging asset base. Execution of these plans is partially dependent on external factors, including the fact that opportunities to remove equipment from service to accommodate construction and maintenance are becoming increasingly limited due to customer and generator priorities. Lead times for material and equipment have also increased substantially due to increased demand and limited vendor capability.

Adjustments to accommodate these external dependencies have been made in our planning process. However, if we are unable to carry out these plans in a timely and optimal manner, equipment performance will degrade which may compromise the reliability of the provincial grid, our ability to deliver sufficient electricity and/or customer supply security and increase the costs of operating and maintaining these assets. This could have a material adverse effect on our Company.

Work Force Demographic Risk

By the end of 2010, approximately 18% of our employees were eligible for retirement and by 2012 there may be about 22% eligible to retire. Accordingly, our success will be tied to our ability to attract and retain sufficient qualified staff to replace those retiring. This will be challenging as we expect the skilled labour market for our industry to be highly competitive in the future. In addition, many of our employees possess experience and skills that will also be highly sought after by other organizations both inside and outside the electricity sector. We have already lost a considerable number of management staff, both those in executive positions and those who are logical successors for executive positions. Moreover, we must also continue to advance our training and apprenticeship programs and succession plans to ensure that our future operational staffing needs will be met. If we are unable to attract and retain qualified personnel, it could have a material adverse effect on our business.

Environmental Risk

Our health, safety and environmental management system is designed to ensure hazards and risks are identified and assessed, and controls are implemented to mitigate significant risks. This system includes a standing committee of our Board of Directors that has governance over environmental matters. Given the territory that our system encompasses and the amount of equipment that we own, we cannot guarantee, however, that all such risks will be identified and mitigated without significant cost and expense to our Company. The following are some of the areas that may have a significant impact on our operations.

We are subject to extensive Canadian federal, provincial and municipal environmental regulation. Failure to comply could subject us to fines and other penalties. In addition, the presence or release of hazardous or other harmful substances could lead to claims by third parties and/or governmental orders requiring us to take specific actions such as investigating, controlling and remediating the effects of these substances. We are currently undertaking a voluntary land assessment and remediation (LAR) program covering most of our stations and service centres. This program involves the systematic identification of any contamination at or from these facilities, and, where necessary, the development of remediation plans for our Company and adjacent private properties. Any contamination of our properties could limit our ability to sell these assets in the future.

We record a liability for our best estimate of the present value of the future expenditures required to comply with Environment Canada's polychlorinated biphenyl (PCB) regulations and for the present value of the future expenditures to complete our LAR program. The future expenditures required to discharge our PCB obligation are expected to be incurred over the period ending 2025 while our LAR expenditures are expected to be incurred over the period ending 2020. Actual future environmental expenditures may vary materially from the estimates used in the calculation of the environmental liabilities on our balance sheet. We do not have insurance coverage for these environmental expenditures.

As a result of regulatory changes, we expect to incur future expenditures to identify, remove and dispose of asbestos-containing materials installed in some of our facilities. With the assistance of an external expert, we completed a study to estimate the expenditures associated with removing such materials from our facilities. We used this information to record an asset retirement obligation at December 31, 2010.

There is also risk associated with obtaining governmental approvals, permits, or renewals of existing approvals and permits related to constructing or operating facilities. This may require environmental assessment or result in the imposition of conditions, or both, which could result in delays and cost increases.

We anticipate that all of our future environmental expenditures will continue to be recoverable in future electricity rates. However, any future regulatory decision to disallow or limit the recovery of such costs could have a material adverse effect on our Company.

Scientists and public health experts have been studying the possibility that exposure to electric and magnetic fields emanating from power lines and other electric sources may cause health problems. If it were to be concluded that electric and magnetic fields present a health risk, or governments decide to implement exposure limits, we could face litigation, be required to take costly mitigation measures such as relocating some of our facilities or experience difficulties in locating and building new facilities. Any of these could have a material adverse effect on our Company.

Risk of Natural and Other Unexpected Occurrences

Our facilities are exposed to the effects of severe weather conditions, natural disasters, man-made events including cyber and physical terrorist type attacks and, potentially, catastrophic events, such as a major accident or incident at a facility of a third party (such as a generating plant) to which our transmission or distribution assets are connected. Although constructed, operated and maintained to industry standards, our facilities may not withstand occurrences of this type in all circumstances. We do not have insurance for damage to our transmission and distribution wires, poles and towers located outside our transmission and distribution stations resulting from these events. Losses from lost revenues and repair costs could be substantial, especially for many of our facilities that are located in remote areas. We could also be subject to claims for damages caused by our failure to transmit or distribute electricity. Our risk is partly mitigated because our transmission system is designed and operated to withstand the loss of any major element and possesses inherent redundancy that provides alternate means to deliver large amounts of power. In the event of a large uninsured loss we would apply to the OEB for recovery of such loss; however, there can be no assurance that the OEB would approve any such applications, in whole or in part, which could have a material adverse effect on our net income.

Risk Associated with Information Technology Infrastructure

Our ability to operate effectively in the Ontario electricity market is in part dependent upon us developing, maintaining and managing complex information technology systems which are employed to operate our transmission and distribution facilities, financial and billing systems, and business systems. Our increasing reliance on information systems and expanding data networks increases our exposure to information security threats. Although security and system disaster recovery controls are in place, system failures or security breaches could have a material adverse effect on our Company.

Pension Plan Risk

We have a defined benefit registered pension plan for the majority of our employees. Contributions to the pension plan are established by actuarial valuations which are filed with the Financial Services Commission of Ontario on a triennial basis. The most recently filed valuation was prepared as at December 31, 2009 and was filed in September 2010. Our Company contributed $145 million to its pension plan in respect of 2010 to satisfy minimum funding requirements. A one-time additional payment of $48 million was made in December 2010. Contributions beyond 2010 will depend on investment returns, changes in benefits and actuarial assumptions, and may include additional voluntary contributions from time to time. Nevertheless, future contributions are expected to be significant. A determination by the OEB that some of our pension expenditures are not recoverable from customers could have a material adverse effect on our Company, and this risk may be exacerbated as the quantum of required pension contributions increase.

Market and Credit Risk

Market risk refers primarily to the risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. We do not have commodity risk. We do have foreign exchange risk as we enter into agreements to purchase materials and equipment associated with our capital programs and projects that are settled in foreign currencies. This foreign exchange risk is not material. We could in the future decide to issue foreign currency denominated debt which we would anticipate hedging back to Canadian dollars, consistent with our Company's risk management policy. We are exposed to fluctuations in interest rates as our regulated rate of return is derived using a formulaic approach, which is in part based on the forecast for long-term Government of Canada bond yields. We estimate that a 1% decrease in the forecasted long-term Government of Canada bond yield used in determining our rate of return would reduce our Transmission Business' net income by approximately $16 million and our Distribution Business' net income by approximately $10 million. Our net income is adversely impacted by rising interest rates as our maturing long-term debt is refinanced at market rates. We periodically utilize interest rate swap agreements to mitigate elements of interest rate risk.

Financial assets create a risk that a counter-party will fail to discharge an obligation, causing a financial loss. Derivative financial instruments result in exposure to credit risk, since there is a risk of counter-party default. We monitor and minimize credit risk through various techniques, including dealing with highly-rated counter-parties, limiting total exposure levels with individual counter-parties, and by entering into master agreements which enable net settlement and by monitoring the financial condition of counter-parties. We do not trade in any energy derivatives. We do, however, have interest rate swap contracts outstanding from time to time. Currently, there are no significant concentrations of credit risk with respect to any class of financial assets. We are required to procure electricity on behalf of competitive retailers and embedded LDCs for resale to their customers. The resulting concentrations of credit risk are mitigated through the use of various security arrangements, including letters of credit, which are incorporated into our service agreements with these retailers in accordance with the OEB's Retail Settlements Code. The failure to properly manage these risks could have a material adverse effect on our Company.

Labour Relations Risk

The substantial majority of our employees are represented by either the Power Workers' Union (PWU) or the Society of Energy Professionals (Society). Over the past several years, significant effort has been expended to increase our flexibility to conduct operations in a more cost-efficient manner. Although we have achieved improved flexibility in our collective agreements, including a reduction in pension benefits for Society staff similar to a previous reduction affecting management staff, we may not be able to achieve further improvement. The existing collective agreement with the PWU will expire on March 31, 2011 and the existing Society collective agreement will expire on March 31, 2013. We face financial risks related to our ability to negotiate collective agreements consistent with our rate orders. In addition, in the event of a labour dispute, we could face operational risk related to continued compliance with our licence requirements of providing service to customers. Any of these could have a material adverse effect on our Company.

Risk from Transfer of Assets Located on Indian Lands

The transfer orders by which we acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on lands held for bands or bodies of Indians under the *Indian Act* (Canada). Currently, OEFC holds these assets. Under the terms of the transfer orders, we are required to manage these assets until we have obtained all consents necessary to complete the transfer of title of these assets to us. We cannot predict the aggregate amount that we may have to pay, either on an annual or one-time basis, to obtain the required consents. However, we anticipate having to pay more than the $761,500 that we paid to these Indian bands and bodies in 2010. If we cannot obtain consents from the Indian bands and bodies, OEFC will continue to hold these assets for an indefinite period of time. If we cannot reach a satisfactory settlement, we may have to relocate these assets from the Indian lands to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel generation facilities. The costs relating to these assets could have a material adverse effect on our net income if we are not able to recover them in future rate orders.

Risk Associated with Outsourcing Arrangement

Consistent with our strategy of reducing operating costs, we amended and extended our outsourcing services agreement with Inergi LP, effectively renewing the arrangement until February 28, 2015. If the agreement with Inergi LP is terminated for any reason, we could be required to incur significant expenses to transfer to another service provider, which could have a material adverse effect on our business, operating results, financial condition or prospects.

Risk from Provincial Ownership of Transmission Corridors

Pursuant to the *Reliable Energy and Consumer Protection Act, 2002*, the Province acquired ownership of our transmission corridor lands underlying our transmission system. Although we have the statutory right to use the transmission corridors, we may be limited in our ability to expand our systems. Also, other uses of the transmission corridors by third parties in conjunction with the operation of our systems may increase safety or environmental risks.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our financial statements requires us to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and costs, and related disclosures of contingencies. We base our estimates and judgements on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgements under different assumptions or conditions.

We believe the following critical accounting estimates involve the more significant estimates and judgements used in the preparation of our financial statements:

Regulatory Assets and Liabilities

Regulatory assets as at December 31, 2010 amounted to $1,055 million and principally relate to future income tax, environmental costs and the pension variance account. We have also recorded regulatory liabilities amounting to $612 million as at December 31, 2010. These amounts pertain primarily to deferred pension, the external revenue variance account, future income tax and retail settlement variance accounts. These assets and liabilities can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is judged to be probable. If management judges that it is no longer probable that the OEB will include a regulatory asset or liability in the setting of future rates, the relevant regulatory asset or liability would be charged or credited to results of operations in the period in which that judgement is made.

Environmental Liabilities

We record liabilities and related regulatory assets based on the present value of the estimated future expenditures to be made to satisfy obligations related to legacy environmental contamination inherited upon our de-merger from Ontario Hydro in 1999. These liabilities fall into two main categories: the management of assets contaminated with PCB-laden mineral oils and the assessment and remediation of contaminated lands. In determining the amounts to be recorded as environmental liabilities, we estimate the current cost of completing mitigation work and make assumptions for when the future expenditures will actually be incurred in order to generate future cash flow information. A long-term inflation assumption of 2% has been used to express our current cost estimates as estimated future expenditures. Future estimated LAR expenditures are expected to be incurred over the period ending 2020 and are discounted using factors ranging from 3.75% to 6.25%, depending on the appropriate rate for the period when an increase in obligation was first recorded. Consistent with the requirements of Environment Canada's PCB regulations issued on September 17, 2008, estimated future PCB remediation expenditures are expected to be incurred over the period ending 2025 and are discounted using factors ranging from 5.14% to 6.25%, depending on the appropriate rate for the period when an increase in obligation was first recorded.

Recording a liability now for such long-term future expenditures requires that many other assumptions be made, such as the number of contaminated properties and the extent of contamination; the number of assets to be inspected, tested and mitigated; oil volumes; and contamination levels of equipment with PCBs. All factors used in deriving our environmental liabilities represent management's best estimates based on our planned approach of meeting current legislative and regulatory requirements. These include Environment Canada's regulations governing the management, storage and disposal of PCBs. However, it is reasonably possible that numbers or volumes of contaminated assets, current cost estimates, inflation estimates and the actual pattern of annual future cash flows may differ significantly from our assumptions. Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant facts occur. Estimate changes are accounted for prospectively.

Employee Future Benefits

We provide future benefits to our current and retired employees, including pension, group life insurance, health care and long-term disability.

In accordance with our rate orders, we record pension costs when employer contributions are paid to the pension fund (the Fund) in accordance with the *Pension Benefits Act* (Ontario). Our annual pension contributions in respect of 2010 were approximately $193 million, $145 million of which was based on an actuarial valuation effective December 31, 2009. Contributions after 2012 will be based on an actuarial valuation effective December 31, 2012, and will depend on investment returns, changes in benefits or actuarial assumptions. Pension costs are also disclosed in the notes to the financial statements on an accrual basis. We record employee future benefit costs other than pension on an accrual basis. The accrual costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The assumptions were determined by management recognizing the recommendations of our actuaries.

The assumed return on pension plan assets of 6.50% per annum is based on expectations of long-term rates of return at the beginning of the fiscal year and reflects a pension asset mix consistent with the Fund's investment policy. During the year the Fund's target asset mix was 63% exposure to equities, 33% to fixed income and 4% in alternative assets consisting of hedge funds and private equity. Returns on the respective portfolios are determined with reference to published Canadian and U.S. stock indices and long-term bond and treasury bill indices. The assumed rate of return on pension plan assets reflects our long-term expectations. We believe that this assumption is reasonable because, with the Fund's balanced investment approach, the higher volatility of equity investment returns is intended to be offset by the greater stability of fixed income and short-term investment returns. The net result, on a long-term basis, is a somewhat lower return than might be expected by investing in equities alone. In the short-term, the plan can experience aberrations in actual return. In 2010, the return on pension plan assets was higher than this long-term assumption.

The discount rate used to calculate the accrued benefit obligations is determined each year end by referring to the most recently available market interest rates based on AA corporate bond yields reflecting the duration of the applicable employee future benefit plan. The discount rates at December 31, 2010 decreased to 5.75% from 6.50% used at December 31, 2009 in conjunction with decreases in bond yields over this period. The decrease in discount rates has resulted in a corresponding increase in liabilities.

Yields on AA corporate bonds decreased by approximately 70-120 basis points between December 31, 2009 and December 31, 2010. Based on the duration of the plan's liabilities, discount rates would be 5.75% per annum for each of the pension plan, the post-retirement benefit plan and the post-employment plan. The overall discount rate applied to all plans for liability valuation purposes as at December 31, 2010 was 5.75%.

Further, based on differences between long-term Government of Canada nominal bonds and real return bonds, the implied inflation rate has increased from approximately 2.50% per annum as at December 31, 2009 to within the range of 2.25% - 2.50% per annum as at December 31, 2010. Given the Bank of Canada's commitment to keep long-term inflation between 1.00% and 3.00%, management believes that the current implied rate is too high to be used as a long-term assumption and as such, has used a 2.00% per annum inflation rate for liability valuation purposes as at December 31, 2010.

The costs of employee future benefits other than pension are determined at the beginning of the year. The costs are based on assumptions for expected claims experience and future health care cost inflation. A 1% increase in the health care cost trends would result in an increase in service cost and interest cost of about $15 million per year and an increase in the year-end obligation of about $185 million.

Employee future benefits are included in labour costs that are either charged to results of operations or capitalized as part of the cost of fixed assets. Changes in assumptions will affect the accrued benefit obligation of the employee future benefits and the future years' amounts that will be charged to our results of operations or capitalized as the cost of fixed assets.

Goodwill and Asset Impairment

In assessing the recoverability of goodwill, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the distribution reporting unit. If these estimates or their related assumptions change in the future, we may be required to record impairment charges related to goodwill. An impairment review of goodwill was carried out during 2010 and we determined that the carrying value of our goodwill has not been impaired.

Within our regulated businesses, carrying costs of our other assets are recovered in our revenue requirements and are included in rate base, where they earn a return. Such assets would be tested for impairment only in the event that the OEB disallowed recovery or if such a disallowance was judged to be probable. We periodically monitor the assets of our unregulated Telecom Business for indications of impairment. No asset impairments have been recorded to date for any of our businesses.

STATUS OF OUR TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian generally accepted accounting principles (GAAP) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011, with comparative data also reported under IFRS. On September 10, 2010, the AcSB decided to permit rate-regulated entities to defer their adoption of IFRS for one year. We plan on adopting the one-year deferral and therefore will adopt IFRS for our fiscal year beginning on January 1, 2012.

In anticipation of the 2008 decision from the AcSB, we commenced our IFRS conversion project in 2007. The project has four separate phases: diagnostic, design and planning, solution development, and implementation. We completed the diagnostic phase in 2008. It involved a high-level review and identification of the major differences between current GAAP and IFRS in all subject areas, resulting in the identification of the areas of accounting difference with the highest potential to significantly impact our Company.

In 2009, we completed the design and planning and the solution development phases of our project, including substantial completion of all our policy analyses. We are currently engaged in the implementation phase which is the final phase of our project. We are preparing to begin tracking our comparative results under IFRS next year. Our teams continue to monitor progress relative to key milestones, monitor developments of both the International Accounting Standards Board (IASB or the Board) and the AcSB, update recommendations and develop financial reports. We continue to have ongoing dialogue with our external auditors about possible outcomes of our project.

We continue to evaluate the impacts of current and prospective IFRS on all of our business activities, including those of our subsidiaries and the impact on our entity-wide information system. We are simultaneously analyzing the impacts of changes on our disclosure controls and internal controls over financial reporting, our debt covenants and our performance measures. We continue to provide formal communications to our employees. We have completed numerous staff training sessions and will plan for future training sessions as standards continue to evolve.

Accounting Policies

The areas with the highest potential to significantly impact our Company upon conversion to IFRS, identified during the diagnostic phase, are regulatory assets and liabilities, fixed-assets, payments in lieu of corporate income taxes, employee future benefits, as well as initial adoption of IFRS under the provisions of IFRS 1, *First-Time Adoption of IFRS* (IFRS 1).

Property, Plant and Equipment

On May 6, 2010, the IASB issued the omnibus *Improvements to IFRS*, which included an amendment to IFRS 1 applicable to entities with RRA. It includes transition relief for first-time adopters by offering an optional exemption to use the carrying amount of fixed assets or intangible assets as deemed cost on the transition date when the carrying amount includes costs that would not otherwise qualify for capitalization. We will elect this exemption for our regulated businesses.

Regulatory Assets and Liabilities

RRA is not permitted under IFRS. RRA affects the timing of the accounting recognition of costs, revenues, losses and gains. The inability to recognize regulatory assets and liabilities after implementing IFRS in 2012 will impact our statement of operations by causing a change in the timing of recognition of these amounts. In the absence of rate-regulated accounting, the write-off of our regulatory assets and regulatory liabilities would have resulted in a net reduction to retained earnings of approximately $249 million as at December 31, 2010.

In-Progress Construction and Development

Current IFRS are significantly different from Canadian GAAP in terms of the expenditures that can be capitalized to in-progress construction and development programs and projects. Certain fixed asset and intangible asset expenditures are ineligible for capitalization under IFRS. In the absence of rate-regulated accounting, the estimated impact on our financial statements would have been a reduction of approximately $300 million in capital expenditures and an increase of approximately $300 million in operations, maintenance and administration expenditures had this accounting been followed in 2010. For 2012 rates, the OEB directed our Company to adopt this change in accounting classification for ineligible expenditures in determining the revenue requirement of our Transmission Business. We currently have approval for a deferral account for such expenditures within our Distribution Business and we anticipate applying for revenue requirement treatment, consistent with that directed for our Transmission Business, in our next distribution rate application.

Employee Future Benefits

In the absence of RRA, the continuation of accounting for expenditures related to employer-sponsored pension plans on a cash basis is not permissible. Regulatory assets and liabilities, representing the cumulative difference between our Company's pension contributions currently accounted for on a cash basis at the direction of the regulator, and the costs that would be recognized on an accrual basis under Canadian GAAP, would not meet the definition of assets or liabilities under IFRS and hence will require de-recognition at the IFRS transition date. We have assessed our options with respect to the recognition of accumulated, unamortized actuarial gains and losses associated with employment benefits. The possible alternatives to account for these pension and other employee benefit amounts include charging unamortized actuarial gains and losses immediately upon adoption under IFRS 1 or recognizing an adjustment to those amounts retrospectively to comply with IAS 19, *Employee Benefits* (IAS 19). In the absence of rate-regulated accounting, we intend to recognize a retrospective adjustment for these amounts under IAS 19, without the IFRS 1 exemption. The impact of adopting IAS 19 retrospectively at December 31, 2010 would have been a reduction to retained earnings of $319 million.

In April 2010, the IASB published an exposure draft, *Defined Benefit Plans (Proposed Amendments to IAS 19 Employee Benefits)*, with significant implications for both financial position and income reporting. Deferred recognition of actuarial gains and losses would be eliminated and instead all changes in the defined benefit obligation and in the fair value of plan assets would be recognized in the Statement of Comprehensive Income when those changes occur. The exposure draft also proposed a new presentation approach where the changes in the defined benefit obligation and the fair value of plan assets would be segregated and separately disclosed as service cost, finance cost and re-measurement adjustments. Service cost and finance cost components would be recognized in the Statement of Operations. The re-measurement adjustments representing actuarial gains and losses would be recognized as part of other comprehensive income. As per the IASB's revised timeline, the final standard is expected in the first quarter of 2011 with an effective date not earlier than 2013. The new accounting standard when adopted in 2013 or in later years will result in higher volatility in the Statement of Comprehensive Income due to the recognition of the full amount of actuarial gains and losses.

Payments in Lieu of Corporate Income Taxes

We recognize future tax assets and liabilities in accordance with Canadian Institute of Chartered Accountants Handbook section 3465, *Income Taxes*, which was amended effective January 1, 2009 to bridge the convergence to IFRS. As such, we have determined that there is no potential for a significant impact for this class of transactions based upon contingent outcomes regarding transactions for payments in lieu of corporate income taxes. Without RRA, the impact on our provision for payments in lieu of corporate income taxes would be recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result the provision for PILs for the year ended December 31, 2010 would have been higher by approximately $100 million including the impact of a change in substantively enacted tax rates.

OEB Consultation

On July 28, 2009, the OEB released some preliminary views on how regulatory reporting requirements will change in response to IFRS. The OEB has initiated a second phase of its consultative process to amend certain regulatory instruments. We are continuing to assess the impact of the OEB's report and other recommendations on our IFRS conversion project.

On February 24, 2010, the OEB issued a letter to all licensed electricity distributors and rate-regulated natural gas utilities for the purpose of clarifying the OEB's view released in July on accounting for overhead costs in the cost of new capital works effective January 1, 2011. The OEB stated in the letter that it would be requiring full compliance with IFRS requirements, including those in IAS 16, *Property, Plant and Equipment* (IAS 16), as applicable to non-regulated enterprises and only where the OEB authorizes specific alternative treatment for regulatory purposes is alternative treatment acceptable. We continue to assess this guidance in light of the AcSB's revised implementation date.

On November 8, 2010, the OEB published an amendment to a report it made on its policy, *Transition to International Financial Reporting Standards*. In response to the AcSB allowing rate-regulated entities the option to delay their adoption of IFRS to January 1, 2012, the OEB has adjusted certain policy statements in the report to account for this choice.

On November 17, 2010, the OEB initiated a working group to develop recommendations on how IFRS should be implemented together with IRM rate setting as well as issues that impact utilities under cost-of-service. We are actively participating in the working group.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

We are continuously analyzing the impacts of changes on our disclosure controls and procedures and internal controls over financial reporting as we proceed through our implementation of IFRS. Additional disclosure controls may be required to address first-time adoption and additional internal controls may be required to implement changes in our accounting policies and to support our ongoing IFRS reporting requirements.

We have initiated the process of analyzing our current disclosure control and procedure and internal control documentation to identify changes required upon the adoption of IFRS. We have categorized each control process as low, medium or high-impact, based on the currently assessed risk of a major change being required upon implementation of IFRS. This ranking was completed in the fourth quarter of 2009. We completed updating the documentation for all of the low and medium-risk processes with IFRS implementation impact, including process documentation and risk and control matrices, during the second quarter of 2010. Completion of our documentation revisions for our high-risk processes had been put on hold pending an anticipated decision from the IASB on the allowance of rate-regulated accounting under IFRS due to the impact that would have had on these processes. We plan to initiate the completion of the revisions to our high-risk processes in the first quarter of 2011 now that there is certainty that RRA will not be permitted upon our adoption of IFRS. Once our high-risk process documentation has been updated, we will begin walkthroughs of all of our revised process and control documentation for low, medium and high-risk processes. At this time we estimate that we will complete this on a timely basis for reporting under IFRS in 2012.

Financial Reporting Expertise

The project's formal governance structure includes a steering committee consisting of senior level management from finance, information technology, treasury and our operations organizations. Project status reporting is provided to senior executive management and to the Audit and Finance Committee of our Board of Directors on a quarterly basis, or more often as necessary.

The training of key finance and operational staff commenced in 2007 and has been ongoing. Training has also been given to the Audit and Finance Committee and senior executive management to communicate the key differences between Canadian GAAP and IFRS, and to provide them with an overview of the key impacts conversion could have on our financial statements. These groups are updated as developments in IFRS continue. Due to the extensive staffing requirements associated with such a large-scale project, an external expert advisor was engaged to assist with our IFRS conversion project, from the planning phase through to implementation.

The Audit and Finance Committee and senior management continue to be updated for key developments in IFRS and their potential impact on our financial statements. Updates are provided on at least a quarterly basis. This will continue through to our conversion to IFRS in 2012. During the third quarter we continued to provide training to our key finance and operational staff. To date, they have been trained in many key areas including property, plant and equipment, regulatory accounting, revenue recognition, liabilities, employee benefits, financial instruments and most recently income taxes. In addition to sessions on specific topics, we have also held one financial reporting update session. During the next year, we will continue to provide IFRS financial reporting update sessions on a regular basis.

Business Activities

The Company has the customary covenants normally associated with long-term debt. Among other things, our long-term debt covenants limit our permissible debt as a percentage of our total capitalization. Depending on the outcome of various exposure drafts under IFRS, we could undergo changes to our results that would impact our debt covenants. For example, covenants would be impacted as a result of de-recognition of regulatory assets and liabilities, accounting for expenditures related to employer-sponsored pension plans on an accrual basis versus a cash basis and the change in costs that are allowable versus disallowable for capitalization as part of the cost of self-constructed assets. As part of our IFRS transition project, we have been analyzing the impact of potential changes in accounting policy on our debt covenants and communicating potential scenarios and impacts analyses to our Audit and Finance Committee. Based on our current estimates, we would remain in compliance with our debt covenants. However, we met with our financial institutions and amended our credit agreement with the syndicate of banks to consider the potential impacts that IFRS may have on our covenants. Specifically, the calculation of our debt to total capitalization ratio was modified under this agreement for certain items to factor in IFRS impacts, such that the debt to total capitalization ratio is representative of what it was prior to IFRS. The same ratio is used to support the indenture agreement with our bondholders. Given our current estimates, the indenture agreement was not updated at that time because we anticipated that we would remain within the threshold for our debt to capitalization ratio given the information available at the time. We have continued to monitor the impact of conversion on our debt covenants as IFRS develops and as we finalize our policy choices under IFRS. With the recent deferral of the IASB RRA project, we intend to re-assess the impact on our debt to capitalization ratio and identify appropriate next steps.

Information Technology (IT) Systems

As part of an entity-wide system improvement project, many of our major financial systems were replaced in 2008 and 2009. To ensure that the future requirements of IFRS would be met, common team members were included within the governance structure of our IFRS project and the new entity-wide system implementation team. At the same time, members of the IFRS implementation team were involved in the design of our new entity-wide system. IT implications were identified and assessed during our diagnostic and design and planning stages of our IFRS project and were incorporated in the project's solution development stage. For example, the new system has been configured to track depreciation on a component level, based on the useful life of the asset, as currently required under IAS 16. The new system has also been configured to track allowable versus disallowable costs for capitalization under IAS 16. The system was designed with the maximum flexibility given the uncertainty of the outcome of certain impactive IASB projects at the time. When the AcSB deferred implementation of IFRS for rate-regulated entities, we began making the required changes to continue reporting under Canadian GAAP until January 1, 2012. We have substantially completed required changes to our systems in order to have them ready to report under IFRS beginning on January 1, 2012, with comparatives.

Environmental Reporting

We currently record environmental liabilities for the estimated future expenditures to comply with regulations that require us to remediate certain environmental issues. Specifically, we have obligations related to PCB-contaminated equipment, chemically-contaminated lands adjacent to certain of our properties, and buildings that have asbestos- containing materials. We also currently record an asset retirement obligation (ARO) for the removal and disposal of asbestos-containing materials from some of our buildings. These obligations are recorded based on the present value of the future estimated cash flows. Under Canadian GAAP this present value is calculated using a fixed discount rate which is the credit-adjusted risk-free rate at the date of recognition. When we transition to IFRS, we will be required to reassess this discount rate and, as it will no longer be fixed, we will be required to adjust it at each balance sheet date. The impact of this change on our recorded obligations cannot be predicted at this time as it will depend on future economic conditions.

Under Canadian GAAP, an ARO exists where there is a legal obligation to remove and dispose of an asset or remediate a contaminated site. Under IFRS an ARO also includes obligations that are not legal but which are constructive in nature. Such a constructive obligation may be inferred from other factors such as a reporting enterprise's policies, actions or public statements. Under IFRS, new constructive obligations will be recorded as AROs in cases where we expect that specific lands will no longer be used for operational purposes and where we expect to remove assets or remediate properties.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Consistent with transitioning our financial systems to an SAP enterprise-wide platform as part of the entity-wide information system replacement and improvement project, we successfully implemented various Finance, Human Resources, Payroll and Investment Management modules in 2009. The reporting tool Business Intelligence/Business Warehouse was also implemented. This implementation included new controls over Internal Controls over Financial Reporting (ICFR) and the replacement of other controls in the previous environment. Our process documentation has been updated and the design and effectiveness of the controls have been tested.

A Supply Chain Enhancement Project to develop an operating framework that outlines the strategy and objectives of supply chain is expected to be completed in 2011. The resulting new processes are currently being reviewed to assess the impact on the control environment. Process documents will be updated and controls will be tested for design and operating effectiveness in 2011.

In compliance with the requirements of National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, our Certifying Officers have reviewed and certified the Consolidated Financial Statements for the year ended December 31, 2010, together with other financial information included in our annual securities filings. Our Certifying Officers have also certified that disclosure controls and procedures (DC&P) have been designed to provide reasonable assurance that material information relating to our Company is made known within our Company. Based on the evaluation of the design and operation of our DC&P, our certifying officers concluded that our DC&P was effective as at December 31, 2010. Further, our Certifying Officers have also certified that ICFRs have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. Based on the evaluation of the design and operating effectiveness of the Company's ICFR, our Certifying Officers concluded that our ICFR was effective as at December 31, 2010.

SELECTED ANNUAL INFORMATION

The following table sets forth audited annual information for each of the three years ended December 31, 2008, 2009 and 2010. This information has been derived from our audited annual Consolidated Financial Statements.

Consolidated Statements of Operations

Year ended December 31 (Canadian dollars in millions, except earnings per common share)	**2010**	2009	2008
Revenues	**5,124**	4,744	4,597
Net income	**591**	470	498
Basic and fully diluted earnings per common share	**5,727**	4,528	4,797

Consolidated Balance Sheets

Year ended December 31 (Canadian dollars in millions, except cash dividends per share)	**2010**	2009	2008
Total assets	**17,322**	15,635	13,878
Total long-term debt	**7,778**	6,881	6,133
Cash dividends per common share	**100**	1,700	2,410
Cash dividends per preferred share	**1.375**	1.375	1.375

OUTLOOK

To achieve our vision to be the leading electricity delivery company in North America, we will continue to concentrate on our strategic objectives of safety, customer satisfaction, innovation and connecting renewable energy, reliability, protection of the environment, recruitment and knowledge retention, shareholder value and productivity. We work in an environment where safety is of the utmost importance. Our people underpin everything we do, and as such, we remain resolute in our commitment to safety. We will continue to focus our efforts to improve our customers' satisfaction by maintaining operational excellence through our efforts to innovate and to renew transmission and distribution systems. In particular, we will focus on targeted investments to address overloaded or aging equipment at customer delivery points, power quality and network performance necessary to improve reliability, which will in turn improve customer satisfaction. We will also continue to assist customers in understanding and managing the impacts of building a clean energy future.

The LTEP continues the energy strategies set out in the GEA introduced in 2009. The need to rapidly reduce the energy sector's carbon footprint dominates current environmental decision-making, leading to high expectation for immediate action and expansion of clean energy supply. Emerging technologies and the need to connect clean and renewable generation challenges our Transmission and Distribution Businesses to recalibrate and establish a more flexible and smart electricity grid.

We are planning significant investments in transmission and distribution infrastructure and the continued proactive maintenance of our assets to ensure the electricity system's reliability in the public interest. Our investment plan supports the achievement of the Province's phase-out of coal-fired generation, renewable and nuclear objectives, facilitates the development and use of renewable energy resources, promotes system efficiency, sustains equipment performance, meets customers' service quality needs and facilitates the integration of new supply.

In 2010, the OEB approved our 2011 distribution rates with a revenue requirement of approximately $1,218 million. The revenue requirement approved was lower than requested, but should continue to support our work programs necessary to sustain our critical infrastructure, increase reliability through enhanced forestry management, support the smart meter requirements and invest in a sustainable electricity system that supports renewable generation. We will monitor and address any associated risks should they arise. We will be preparing evidence to support a potential distribution rate application for the years 2012 and 2013.

In early 2011, the OEB approved our 2011 and 2012 transmission rates, with revenue requirements of approximately $1,346 million and $1,658 million, respectively. The approved revenue requirements will continue to support aging critical infrastructure, area supply projects and the Province's policy objectives. The 2012 revenue requirement includes the OEB's direction to adopt IFRS accounting for indirect overheads capitalized resulting in a $200 million shift between capital expenditures and operating expenses.

The actual timing and expenditures in our plan are predicated on obtaining various approvals including OEB approvals and environmental assessment approvals; successful negotiations with customers, neighbouring utilities and other stakeholders; and consultations with First Nations and Métis communities. Further, we have made assumptions in the plan regarding cost responsibility and funding, consistent with the GEA regulations and amended TSC and DSC.

As stewards of significant electricity assets, we are committed to the protection and sustainment of the environment for future generations. We are working towards being an environmental leader in our industry, by distributing clean and renewable energy, by upgrading our electricity grid, by minimizing the impacts of our own operations, and ensuring that environmental factors are considered in making our business decisions. Our commitment to the environment has been recognized by Canada's Energy, Environment and Excellence group and Corporate Knights magazine.

Key enablers of the successful implementation of our work program are our human and material resourcing strategies. Our human resource strategy is focused on hiring through our association with universities, colleges and our unions, as well as skills development and retention. Significant retirement projections and increasing work volumes will result in an unprecedented number of new hires in the near term. With regard to materials, we are seeing increasing lead times and costs as market shortages emerge globally. Consequently, materials sourcing strategies continue to be developed and implemented to ensure the availability of materials to support our work programs.

We remain committed to a prudent and measured approach to distribution rationalization. In October 2009, the Government announced its intention to make the exemption from the electricity transfer tax permanent for transfers of electricity assets within the public sector. We have considered and will continue to consider and respond to opportunities for acquisitions or divestitures, on a voluntary and commercial basis. The investment plan does not include any funding for any LDC acquisitions or divestitures.

We will continue to increase enterprise value through productivity improvements and cost-effectiveness driven by technology. Over the last two years, we have replaced most of our core systems with an enterprise-wide information technology system. We will leverage this investment as a platform for further effectiveness and efficiency gains, including enhancements in strategic sourcing. In addition, significant opportunity resides with smart meters and the proliferation of a smart grid, including energy efficiency, demand response and distributed-resources technologies.

Through the outlook period, we anticipate no changes to our role within the industry and expect that our financial returns will be sufficient to maintain our credit quality.

APPOINTMENT OF JANET HOLDER

On July 1, 2010, Janet Holder was appointed to our Board of Directors. Ms. Holder is the President of Enbridge Gas Distribution and serves on the Board of Governors at the University of New Brunswick.

FORWARD-LOOKING STATEMENTS AND INFORMATION

Our oral and written public communications, including this document, often contain 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. Such statements include, but are not limited to statements about our strategy and our performance measures and targets; statements related to the IPSP; statements about smart meters including their capabilities, their timing of installation and our focus on building an advanced distribution solution that will leverage our smart meter investment; expectations regarding developments in the statutory and operating framework for electricity distribution and transmission in Ontario including the impacts of changes to codes, licences, rules, new regulatory guidelines, tariff rate changes, cost recovery, return on equity, rate structures, revenue requirements and impacts on an average customer's total bill; expectations regarding the timing and content of applications to, hearings with and decisions from the OEB and other regulatory bodies; statements related to the LTEP; expectations regarding the OEB's Framework for Transmission Project Development Plans; statements about outstanding legal proceedings; statements regarding time-of-use billing; expectations regarding future renewable energy generation; statements regarding our liquidity and capital resources and their use; expectations regarding our financing activities, including our capital management objectives and our ability to access the capital markets; expectations about our maturing debt and interest payments; expectations regarding the results of our ongoing and planned projects and/or initiatives and their completion dates; statements regarding expected future capital expenditures, the timing of these expenditures and our investment plans; statements regarding contractual obligations and other commitments; statements regarding the effect of load on our revenue including the anticipated impact of CDM programs; the effect of interest rates on our revenue requirements and results of operations; statements regarding the estimated impact of changes in the forecasted long-term Government of Canada bond yield on our results of operations; impacts to our business in respect of the adequacy and timing of supply of materials, supplies and services and credit risk of our counterparties; expectations regarding future pension contributions, effect of health care cost trend on the future benefits costs and the performance of our pension plan; the possibility of the Province making declarations pursuant to our memorandum of agreement with them; statements regarding possible future actions of the Province and regulatory bodies; expectations regarding connections of new generation to our transmission and distribution systems; expectations regarding asset condition; statements regarding workforce demographics and the market for skilled labour; statements regarding the amount and timing of future estimated environmental expenditures, including with respect to LAR and PCBs; statements about future asbestos removal expenditures and asset retirement obligations; expectations regarding our information technology strategy and enterprise reporting system; the possibility that we could in future decide to issue foreign currency-denominated debt; expectations regarding anticipated expenditures associated with transferring assets located on Indian lands; statements about our outsourcing arrangement with Inergi LP; statements regarding provincial ownership of our transmission corridors; statements about critical accounting estimates; statements about IFRS, our conversion to IFRS and the effect of the absence of rate-regulated accounting under IFRS; statements about the outlook period including our expectations regarding our role within the industry, our financial returns, our credit rating and credit quality and structural changes to our Company. Words such as "expect," "anticipate," "intend," "attempt," "may," "plan," "will", "believe," "seek," "estimate," "goal," "aim," "target," and variations of such words and similar expressions 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.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to the following: no unforeseen changes in the legislative and operating framework for Ontario's electricity market; no unfavourable decisions from the OEB and other regulatory bodies concerning outstanding rate and other applications; no delays in obtaining the required approvals; no unforeseen changes in rate orders or rate structures for our Distribution and Transmission Businesses; a stable regulatory environment; the preparation of business plans, regulatory filings and future capital expenditures on the basis that commencing 2011 rate-regulated accounting will not be permitted under IFRS; no unfavourable changes in environmental regulation; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to us, including information obtained from third-party sources. Actual results may differ materially from those predicted by such forward-looking statements. While we do not know what impact any of these differences may have, our business, results of operations, financial condition and our credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- the impact of the GEA and the LTEP, including unexpected expenditures arising therefrom;
- the risk that previously granted regulatory approvals may be subsequently challenged, appealed or overturned;
- public opposition to and delays or denials of the requisite approvals and accommodations for our planned projects;
- the risks associated with being controlled by the Province including the possibility that the Province may make declarations pursuant to the memorandum of agreement, as well as potential conflicts of interest that may arise between us, the Province and related parties;
- the risks associated with being subject to extensive regulation including risks associated with OEB action or inaction;
- the timing and results of regulatory decisions regarding our revenue requirements, cost recovery and rates, as well as changes to rules under various regulatory body review;
- the potential impact of CDM programs on our load and our revenues;
- unanticipated changes in electricity demand or in our costs;
- the risk that we are not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures and other obligations;
- the risks associated with the execution of our capital and operation, maintenance and administration programs necessary to maintain the performance of our aging asset base;
- the risk that we may not recover all of our project costs to prepare a bid associated with the OEB's Framework for Transmission Project Development Plans;
- the risk that we will be unable to source the materials necessary to support our work programs;
- the risks related to our workforce demographic and our potential inability to attract and retain qualified personnel;
- the risk that assumptions that form the basis of our recorded environmental liabilities and related regulatory assets may change;
- the risk of currently undetermined future asbestos removal costs;
- the risk to our facilities posed by severe weather conditions, natural disasters or catastrophic events and our limited insurance coverage for losses resulting from these events;
- the risks associated with information system security and with maintaining a complex information technology systems infrastructure and transitioning most of our financial and business processes to an integrated business and financial reporting system;
- future interest rates, future investment returns, inflation, changes in benefits and changes in actuarial assumptions;
- the risks associated with changes in interest rates;
- the inability to negotiate collective agreements consistent with our rate orders or in a timely fashion and the potential for labour disputes;
- the risk that we may incur significant costs associated with transferring assets located on Indian lands;
- the potential that we may incur significant expenses to replace some or all of the functions currently outsourced if our agreement with Inergi LP is terminated;
- the impact of the ownership by the Province of lands underlying our transmission system; and
- the impact of the final outcome of the exposure draft on rate-regulated accounting under IFRS.

We caution the reader that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section "Risk Management and Risk Factors" in this Management's Discussion and Analysis (MD&A). You should review this section in detail.

In addition, we caution the reader that information provided in this MD&A regarding our outlook on certain matters, including future expenditures, is provided in order to give context to the nature of some of our future plans and may not be appropriate for other purposes.

This MD&A is dated as at February 10, 2011. Additional information about our Company, including our Annual Information Form, is available on SEDAR at www.sedar.com.

MANAGEMENT'S REPORT

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

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements and MD&A have been properly prepared within reasonable limits of materiality and in light of information up to February 10, 2011.

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

The Consolidated Financial Statements have been examined by KPMG LLP, independent external auditors appointed by the Hydro One Board of Directors. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with accounting principles generally accepted in Canada. The Independent Auditors' Report, which appears on page 43, outlines the scope of their examination and their opinion.

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

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

On behalf of Hydro One Inc.'s management:

Laura Formusa	**Sandy Struthers**
President and Chief Executive Officer	Executive Vice-President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro One Inc.

We have audited the accompanying consolidated financial statements of Hydro One Inc., which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of operations and comprehensive income, retained earnings and accumulated other comprehensive income, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hydro One Inc. as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 10, 2011

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Year ended December 31 (Canadian dollars in millions, except per share amounts)	**2010**	2009
Revenues		
Transmission *(Note 16)*	**1,307**	1,147
Distribution *(Note 16)*	**3,754**	3,534
Other	**63**	63
	5,124	4,744
Costs		
Purchased power *(Note 16)*	**2,474**	2,326
Operation, maintenance and administration *(Note 16)*	**1,078**	1,057
Depreciation and amortization *(Note 3)*	**583**	537
	4,135	3,920
Income before financing charges and provision for payments in lieu of corporate income taxes	**989**	824
Financing charges *(Note 4)*	**342**	308
Income before provision for payments in lieu of corporate income taxes	**647**	516
Provision for payments in lieu of corporate income taxes *(Notes 5 and 16)*	**56**	46
Net income	**591**	470
Other comprehensive income	**-**	-
Comprehensive income	**591**	470
Basic and fully diluted earnings per common share *(Canadian dollars) (Note 15)*	**5,727**	4,528

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year ended December 31 (Canadian dollars in millions)	**2010**	2009
Retained earnings, January 1	**1,791**	1,497
Change in accounting policy for the recognition of future income tax assets and liabilities *(Note 2)*	**-**	12
Net income	**591**	470
Dividends *(Note 15)*	**(28)**	(188)
Retained earnings, December 31	**2,354**	1,791

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

Year ended December 31 (Canadian dollars in millions)	**2010**	2009
Accumulated other comprehensive income, January 1	**(10)**	(10)
Other comprehensive income	**-**	-
Accumulated other comprehensive income, December 31	**(10)**	(10)

CONSOLIDATED BALANCE SHEETS

December 31 (Canadian dollars in millions)	**2010**	2009
Assets		
Current assets:		
Cash	**33**	-
Short-term investments *(Note 17)*	**139**	-
Accounts receivable (net of allowance for doubtful accounts - $25 million; 2009 - $25 million) *(Note 16)*	**911**	843
Regulatory assets *(Note 8)*	**42**	72
Materials and supplies	**21**	21
Future income tax assets *(Note 5)*	**35**	21
Other	**8**	16
	1,189	973
Fixed assets *(Note 6)*:		
Fixed assets in service	**19,767**	18,407
Less: Accumulated depreciation	**7,247**	6,815
	12,520	11,592
Construction in progress	**1,402**	1,256
Future use land, components and spares	**139**	150
	14,061	12,998
Other long-term assets:		
Regulatory assets *(Notes 8 and 22)*	**1,013**	858
Deferred pension asset *(Note 12)*	**460**	424
Long-term investment *(Note 9)*	**249**	-
Intangible assets (net of accumulated amortization) *(Notes 2 and 7)*	**189**	218
Goodwill	**133**	133
Future income tax assets *(Notes 2 and 5)*	**19**	18
Other	**9**	13
	2,072	1,664
Total assets	**17,322**	15,635

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS (continued)

December 31 (Canadian dollars in millions)	**2010**	2009
Liabilities		
Current liabilities:		
Bank indebtedness	**-**	26
Accounts payable and accrued charges *(Notes 13 and 16)*	**884**	800
Regulatory liabilities *(Note 8)*	**72**	100
Accrued interest	**84**	74
Short-term notes payable	**-**	55
Long-term debt payable within one year *(Note 9)*	**500**	600
	1,540	1,655
Long-term debt *(Note 9)*	**7,278**	6,281
Other long-term liabilities:		
Employee future benefits other than pension *(Note 12)*	**980**	940
Regulatory liabilities *(Notes 8 and 22)*	**540**	489
Future income tax liabilities *(Notes 5 and 22)*	**693**	533
Environmental liabilities *(Note 13)*	**287**	303
Asset retirement obligations *(Note 14)*	**11**	-
Long-term accounts payable and other liabilities	**12**	16
	2,523	2,281
Total liabilities	**11,341**	10,217
Contingencies and commitments *(Notes 18 and 19)*		
Shareholder's equity *(Note 15)*		
Preferred shares (authorized: unlimited; issued: 12,920,000)	**323**	323
Common shares (authorized: unlimited; issued: 100,000)	**3,314**	3,314
Retained earnings	**2,354**	1,791
Accumulated other comprehensive income	**(10)**	(10)
Total shareholder's equity	**5,981**	5,418
Total liabilities and shareholder's equity	**17,322**	15,635

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:

James Arnett
Chair

Michael J. Mueller
Chair, Audit and Finance Committee

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (Canadian dollars in millions)	**2010**	2009
Operating activities		
Net income	**591**	470
Environmental expenditures	**(17)**	(9)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	**526**	487
Regulatory asset and liability accounts	**(10)**	(34)
Future income taxes	**(8)**	16
Asset retirement obligation	**4**	-
Other	**1**	-
	1,087	930
Changes in non-cash balances related to operations *(Note 17)*	**77**	(38)
Net cash from operating activities	**1,164**	892
Financing activities		
Long-term debt issued	**1,500**	1,150
Long-term debt retired	**(600)**	(400)
Short-term notes payable	**(55)**	55
Dividends paid	**(28)**	(188)
Other	**-**	2
Net cash from financing activities	**817**	619
Investing activities		
Capital expenditures		
Fixed assets	**(1,557)**	(1,473)
Intangible assets	**(13)**	(93)
	(1,570)	(1,566)
Long-term investments	**(250)**	-
Other assets	**37**	13
Net cash used in investing activities	**(1,783)**	(1,553)
Net change in cash and cash equivalents	**198**	(42)
Cash and cash equivalents, January 1	**(26)**	16
Cash and cash equivalents, December 31 *(Note 17)*	**172**	(26)

See accompanying notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries: Hydro One Networks Inc. (Hydro One Networks), Hydro One Remote Communities Inc. (Hydro One Remote Communities), Hydro One Brampton Networks Inc. (Hydro One Brampton), Hydro One Telecom Inc., Hydro One Lake Erie Link Management Inc. and Hydro One Lake Erie Link Company Inc.

Basis of Accounting

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

Rate-setting

The rates of the Company's electricity Transmission and Distribution Businesses are subject to regulation by the OEB.

Transmission

On August 16, 2007, the OEB issued its decision in respect of Hydro One Networks' 2007 and 2008 transmission rate application. As part of that decision the OEB approved the disposition of export and wheeling fees liability and the transmission market-ready regulatory asset, which was factored into rates and refunded to customers over the four-year period ending December 31, 2010.

On May 30, 2008, Hydro One Networks submitted an application to the OEB to adjust Uniform Transmission Rates (UTRs) effective January 1, 2009. On August 28, 2008, the OEB approved the application allowing Hydro One Networks to recover revenues consistent with the OEB-approved 2008 revenue requirement which reflected the full repayment to customers of the amounts recorded in the Earnings Sharing Mechanism and the Revenue Difference Deferral Account at the end of 2008.

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

On May 19, 2010 Hydro One Networks submitted an application for 2011 and 2012 transmission rates in continued support of its aging critical infrastructure and the supply mix objectives for generation, including off-coal initiatives and initiation of investments in support of the Green Energy Act (GEA). This application sought the approval of revenue requirements of approximately $1,446 million for 2011 and $1,547 million for 2012.

On December 23, 2010, the OEB issued its decision effective January 1, 2011 which resulted in revenue requirements of $1,346 million for 2011 and $1,658 million for 2012. The change in our 2012 revenue requirement resulted in a higher revenue requirement than originally submitted due to the OEB directing Hydro One to adopt IFRS accounting for overheads capitalized resulting in a $200 million increase in 2012.

Distribution

On December 18, 2008, the OEB issued a decision approving substantially all work program expenditures effective May 1, 2008, for implementation on February 1, 2009. The OEB also approved recovery of our smart meter expenditures made prior to the end of 2007. The decision approved the establishment of the revenue recovery account (Rider 4) to record the revenue differential between existing distribution rates and new rates. Rider 4 is being recovered over a 27-month period commencing February 1, 2009 and ending April 30, 2011.

In late 2008, Hydro One Networks filed an incentive regulation application for 2009 rates, with an update filed in January 2009, to reflect the impact of the 2008 distribution rate decision. The application was filed on the basis of the OEB's third-generation Incentive Regulation Mechanism (IRM) process, which adjusts rates by considering inflation, productivity targets, significant events outside the control of management and a capital adjustment mechanism to recover costs for new incremental capital coming in service beyond a prescribed threshold. On May 13, 2009, the OEB released its decision approving the basic IRM increase and the $1.65 per month per metered customer for smart meters. The revised rates were approved effective May 1, 2009, with an implementation date of June 1, 2009.

In 2009, Hydro One Networks filed a cost-of-service application with the OEB for 2010 and 2011 distribution rates reflecting the Company's plan to invest in its network assets to meet objectives regarding public and employee safety; regulatory and legislative compliance; maintenance of system security and reliability of system growth requirements; and investments required by the GEA. The application sought OEB approval of revenue requirements of approximately $1,150 million and $1,264 million for 2010 and 2011, respectively.

On April 9, 2010, the OEB released its decision approving revenue requirements of $1,146 million for 2010 and $1,236 million for 2011 to support the necessary work programs, the implementation of the GEA and the installation of smart meters. The OEB also approved certain distribution-related deferral account balances sought by Hydro One Networks in its application including retail settlement variance accounts, regulatory asset recovery account I, retail cost variance accounts and smart meters. The OEB ordered that the approved balances be aggregated into a single regulatory account (Rider 6) to be recovered over an 18-month period from May 1, 2010 to December 31, 2011.

On November 1, 2007, Hydro One Brampton filed an application for 2008 rates on the basis of the OEB's second-generation IRM policy which incorporates an OEB-approved formula that considers inflation and efficiency targets. On March 19, 2008, the OEB released its decision. The revised rates, including an amount of 67 cents per month per metered customer for smart meters, were approved with an implementation date of May 1, 2008.

On November 7, 2008, Hydro One Brampton filed an application on the same basis for 2009 distribution rates. On March 13, 2009, the OEB released it decision and approved the submission on the basis of its second-generation IRM policy. The revised rates, including an amount of $1.00 per month per metered customer for smart meters, were approved for implementation effective May 1, 2009.

On November 6, 2009, Hydro One Brampton filed an application for 2010 distribution rates on the basis of the OEB's second-generation IRM process. On April 13, 2010, the OEB released its decision regarding this rate application approving our submission on the basis of the OEB's cost-of-capital and second-generation IRM policies. The revised rates had an implementation date of May 1, 2010.

On August 29, 2008, Hydro One Remote Communities filed a 2009 cost-of-service rate application proposing an increase of about $10 million over the 2006 approved revenue requirement as a result of increased fuel costs. On April 30, 2009, the OEB issued a decision regarding this rate application approving all work program expenditures effective May 1, 2009.

On November 4, 2009, Hydro One Remote Communities filed an application for 2010 distribution rates under the OEB's third-generation IRM, seeking approval of an increase to basic rates for the distribution and generation of electricity effective May 1, 2010. The increase reflects the standard inflationary adjustments incorporated in the third-generation IRM applications. On April 14, 2010, the OEB issued a decision regarding this rate application under the OEB's third-generation IRM policies. The revised rates were approved for implementation on May 1, 2010.

Regulatory Accounting

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods than would be the case had the Company been unregulated. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made. Specific regulatory assets and liabilities are disclosed in Note 8.

Revenue Recognition and Allocation

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as power is transmitted and delivered to customers.

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized as electricity is delivered to customers. The Company estimates the monthly revenue for the period based on wholesale power purchases because customer meters are not generally read at the end of each month. Unbilled revenue included within accounts receivable as at December 31, 2010 amounted to $493 million (2009 - $434 million).

Distribution revenue also includes an amount relating to rate protection for rural residential and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB. The current legislation provides rate protection for prescribed classes of rural residential and remote consumers by reducing the electricity rates that would otherwise apply.

Segment revenues for transmission, distribution and other also include revenue related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Corporate Income and Capital Taxes

Under the *Electricity Act, 1998*, Hydro One is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (*Corporations Tax Act* (Ontario), prior to 2009) as modified by the *Electricity Act, 1998*, and related regulations.

Effective January 1, 2009, the Company adopted amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, *Income Taxes* and CICA Handbook Section 1100, *Generally Accepted Accounting Principles*. These amended sections establish new standards for the recognition, measurement, presentation and disclosure of future income tax assets and liabilities of rate-regulated enterprises.

For transactions and events that cause temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, the Company recognized future income tax assets and liabilities, and corresponding regulatory liabilities and assets, as a result of adopting these amended standards on January 1, 2009. Adjustments to retained earnings were recorded on January 1, 2009 for the cumulative earnings impact of future income tax assets and liabilities as at December 31, 2008 that are excluded from the rate-setting process.

Current Income Taxes
The provision for current taxes and the assets and liabilities recognized for the current and prior periods are measured at the amounts receivable or payable from/to the OEFC.

Future Income Taxes
Future income taxes are provided for using the liability method and are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Future income tax liabilities are generally recognized on all taxable temporary differences and future tax assets are recognized to the extent that it is more likely than not that they will be realized from taxable profits available against which deductible temporary differences can be utilized.

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to the Statement of Operations and Comprehensive Income.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the "more likely than not" criterion. Previously unrecognized future income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more likely than not that they will be recovered from future taxable profits.

The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-making process.

Materials and Supplies
Materials and supplies represent consumables, spare parts and construction material held for internal construction and maintenance of fixed assets. These assets are carried at lower of average cost or net realizable value.

Fixed Assets
Fixed assets are capitalized at cost, which comprises materials, labour, engineering, overheads, depreciation on service equipment and the OEB-approved allowance for funds used during construction applicable to capital construction activities within regulated businesses, or interest applicable to capital construction activities within unregulated businesses.

Fixed assets in service consist of transmission, distribution, communication, administration and service assets and easements. Fixed assets also include future use assets such as land; major components and spare parts; and capitalized development costs associated with deferred capital projects.

Transmission
Transmission assets include assets used for the transmission of high-voltage electricity such as transmission lines; support structures; foundations; insulators; connecting hardware and grounding systems; and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, such as transformers, circuit breakers and switches.

Distribution

Distribution assets comprise assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

Communication

Communication assets include the fibre-optic and microwave radio system, optical ground wire, towers, telephone equipment and associated buildings.

Administration and Service

Administration and service assets include administrative buildings, major computer systems, personal computers, transport and work equipment, tools, vehicles and other minor fixed assets.

Easements

Easements include statutory rights of use for transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other amounts related to land access rights.

Intangible Assets

Intangible assets represent computer applications software and other assets. These assets are capitalized at cost, which comprises materials, purchased software, labour and consulting, engineering, overheads and the OEB-approved allowance for funds used during construction applicable to capital construction activities within regulated businesses.

Construction and Development in Progress

Overhead costs, including shared corporate functions and services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology. Financing costs are capitalized on rate-regulated fixed assets under construction and intangible assets under development, based on the OEB's approved allowance for funds used during construction (2010 – 4.34%; 2009 – 5.89%).

Depreciation and Amortization

The capital costs of fixed assets and intangible assets, primarily consisting of applications software, are depreciated or amortized on a straight-line basis, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external review of its fixed asset and intangible asset depreciation and amortization rates, as required by the OEB. The last review resulted in changes to rates effective January 1, 2007. A summary of depreciation and amortization rates for the various classes of assets is included below:

	Depreciation and amortization rates (%)	
	Range	Average
Transmission	1% - 3%	2%
Distribution	1% - 13%	2%
Communication	1% - 13%	5%
Administration and service	1% - 20%	9%

The costs of intangible assets are primarily included within the administration and service classification above and these assets are amortized on a straight-line basis. Amortization rates for computer applications software and other intangible assets range from 9% to 11%.

Depreciation rates for easements are based on their contract life. The majority of easements are held in perpetuity and are not depreciated.

In accordance with group depreciation practices, the original cost of fixed assets that are normally retired is charged to accumulated depreciation or amortization, with no gain or loss reflected in current results of operations. Gains and losses on sales of fixed assets and losses on premature retirements are charged to results of operations as adjustments to depreciation or amortization expense. Depreciation expense also includes the costs incurred to remove fixed assets where no asset retirement obligation has been recorded.

The estimated service lives of fixed or intangible assets are subject to periodic review. Any changes arising from such a review are implemented on a remaining service life basis consistent with their inclusion in electricity rates.

Goodwill

Goodwill represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is evaluated for impairment on an annual basis, or more frequently if circumstances require. Goodwill impairment is assessed based on a comparison of the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill, with any write-down of the carrying value of goodwill being charged against the results of operations. The Company has determined that goodwill is not impaired. All of the goodwill is attributable to the Distribution Business segment.

Discounts and Premiums on Debt

Discounts and premiums are amortized over the period of the related debt using the effective interest method.

Financial Instruments

Comprehensive Income

Comprehensive income is comprised of the Company's net income and other comprehensive income (OCI). OCI includes the amortization of net unamortized hedging losses on discontinued cash flow hedges and the change in fair value on existing cash flow hedges to the extent that the hedge is effective. The Company amortizes its unamortized hedging losses on discontinued cash flow hedges to financing charges using the effective interest method over the term of the hedged debt.

Financial Assets and Liabilities

All financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, other liabilities or available-for-sale. All financial instruments, including derivatives, are carried at fair value on the Consolidated Balance Sheet except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in financing charges in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in OCI until the instrument is derecognized or impaired. The Company has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Short-term investments	Held-to-maturity/Held-for-trading
Long-term investment	Held-to-maturity/Held-for-trading
Fixed-to-floating interest rate swaps	Not classified
Long-term accounts receivable	Loans and receivables
Bank indebtedness	Other liabilities
Accounts payable	Other liabilities
Short-term notes payable	Other liabilities
Long-term debt (unless otherwise specified)	Other liabilities
MTN Series 14 Note	Not classified
$500 million of MTN Series 19 Note	Not classified

Short-term investments are generally classified as held-to-maturity; however, certain short-term investments are classified as held-for-trading when the Company has no intent to hold a pool of assets to their maturity. Documentation of the short-term investment classification is made on inception.

Where long-term debt is designated as part of a hedging relationship, as in the case of the MTN Series 14 Note and $500 million of the MTN Series 19 Note, the long-term debt, and related hedging instrument, are not classified.

All financial instrument transactions are recorded at trade date.

Derivative Instruments and Hedge Accounting
All derivative instruments, including embedded derivatives, are carried at fair value on the Consolidated Balance Sheet unless exempted from derivative treatment as a normal purchase and sale or when it is deemed that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. All changes in fair value are recorded in financing charges unless cash flow hedge accounting is used, in which case changes in fair value are recorded in OCI to the extent that the hedge is effective. The gain or loss related to the ineffective portion, if any, is recorded in financing charges.

The Company does not engage in derivative trading or speculative activities.

The Company periodically develops hedging strategies for execution taking into account risk management objectives. At the inception of a hedging relationship, the Company formally documents the hedging relationship between the hedged item and the hedging instrument, its risk management objective for establishing the hedging relationship, the nature of the specific risk exposure being hedged, and the method for assessing effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging items that are used are effective in offsetting changes in fair values or cash flows of the hedged items.

Transaction Costs
Transaction costs for financial assets and liabilities that are other than held-for-trading are added to the carrying value of the asset or liability and then amortized over the expected life of the instrument using the effective interest method.

Financial Instrument Disclosures
The fair market value of the Company's long-term debt is determined using the fair value hierarchy levels disclosed in Note 10.

Employee Future Benefits
Employee future benefits provided by Hydro One include pension, group life insurance, health care and long-term disability.

In accordance with the OEB's rate orders, pension costs are recorded when employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act* (Ontario). Actuarial valuations are conducted at least every three years. Pension costs are also calculated on an accrual basis. Pension costs are actuarially determined using the projected benefit method prorated on service and based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases, on the actuarial present value of accrued pension benefits. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are valued using fair values. Past service costs from plan amendments and all actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefits other than pension are recorded on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments and actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefit costs are attributed to labour and charged to operations or capitalized as part of the cost of fixed assets.

Environmental Costs

Hydro One records a liability for the estimated future expenditures associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyls (PCBs) contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. As the Company anticipates that the related expenditures will continue to be recoverable in future rates, a regulatory asset has been recorded to reflect the future recovery of these costs from customers. Hydro One reviews its estimates of future environmental expenditures on an ongoing basis.

Asset Retirement Obligations

When required by force of law or regulation, Hydro One records an asset retirement obligation based on the present value of the estimated fair value expenditures to remove certain assets and mitigate related sites. Where the Company anticipates that the related expenditures will be recoverable in future rates, a corresponding amount is capitalized as a cost of the related fixed assets. Some of the Company's transmission and distribution assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Company expects to use the majority of its facilities in perpetuity, no asset retirement obligation currently exists. If, at some future date, a particular facility is shown not to meet the perpetuity criterion, it will be reviewed to determine whether a measurable asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the year. Actual results could differ from estimates, including changes as a result of future decisions made by the OEB or the Province.

Emerging Accounting Changes

International Financial Reporting Standards (IFRS)

On February 13, 2008 the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian generally accepted accounting principles for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. On October 14, 2009, the Public Sector Accounting Board released a decision summary confirming that government organizations following commercial practices adhere to standards for publicly accountable entities after January 1, 2011. On September 10, 2010, the AcSB decided to permit rate-regulated entities to defer their IFRS implementation date to January 1, 2012. As such, the Company will apply IFRS to its financial statements ending December 31, 2012 with restatement of the amounts recorded on the opening IFRS balance sheet as at January 1, 2011, for comparative purposes. The Company continues to assess the impact of conversion to IFRS on its results of operations.

3. DEPRECIATION AND AMORTIZATION

Year ended December 31 (Canadian dollars in millions)	**2010**	2009
Depreciation of fixed assets in service	**456**	418
Amortization of intangible assets	**43**	36
Fixed asset removal costs	**57**	50
Amortization of regulatory and other assets	**27**	33
	583	537

4. FINANCING CHARGES

Year ended December 31 (Canadian dollars in millions)	**2010**	2009
Interest on long-term debt payable	**409**	369
Less: Interest capitalized on construction and development in progress	**(54)**	(58)
Interest earned on investments	**(3)**	(1)
Other	**(10)**	(2)
	342	308

5. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for payments in lieu of corporate income taxes (PILs) differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

(Canadian dollars in millions)	**2010**	2009
Income before provision for PILs	**647**	516
Federal and Ontario statutory income tax rate	**31.00%**	33.00%
Provision for PILs at statutory rate	**201**	170
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Capital cost allowance in excess of depreciation and amortization	**(82)**	(74)
Retail settlement variance accounts	**-**	4
Pension contributions in excess of pension expense	**(18)**	(15)
Overheads capitalized for accounting but deducted for tax purposes	**(13)**	(14)
Interest capitalized for accounting but deducted for tax purposes	**(17)**	(19)
Employee future benefits other than pension expense in excess of cash payments	**3**	1
Environmental expenditures	**(5)**	(3)
Other	**(15)**	(6)
Net temporary differences	**(147)**	(126)
Net permanent differences	**2**	2
Total income tax provision for PILs	**56**	46
Current income tax provision for PILs	**64**	30
Future income tax provision for PILs	**(8)**	16
Total income tax provision for PILs	**56**	46
Effective income tax rate	**8.66%**	8.91%

The provision for payments in lieu of current income taxes of $64 million represents the amount payable to the OEFC with respect to current year earnings. The outstanding balance due to the OEFC at December 31, 2010 is $17 million (2009 - $6 million recoverable).

The payments in lieu of future income taxes recoverable of $8 million reflects the decrease in the liability for payments in lieu of future income taxes that are not expected to be recovered from the Company's customers through future rates. The decrease in the liability for payments in lieu of future income taxes that is expected to be recovered from the Company's customers through future rates has resulted in a decrease in regulatory assets.

Future Income Tax Assets and Liabilities

Payments in lieu of future income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Company's assets and liabilities. The tax effects of these differences are as follows:

December 31 (Canadian dollars in millions)	**2010**	2009
Future income tax assets		
Depreciation and amortization in excess of capital cost allowance	**9**	6
Employee future benefits other than pension expense in excess of cash payments	**5**	4
Retail settlement variance accounts	**-**	3
Environmental expenditures	**3**	3
Other	**5**	3
Total future income tax assets	**22**	19
Less: current portion	**3**	1
	19	18

December 31 (Canadian dollars in millions)	**2010**	2009
Future income tax liabilities		
Capital cost allowance in excess of depreciation and amortization	**(1,004)**	(825)
Employee future benefits other than pension expense in excess of cash payments	**337**	314
Environmental expenditures	**76**	82
Transmission and Distribution amounts received but not recognized for accounting purposes	**(69)**	(68)
Goodwill	**(17)**	(18)
Retail settlement variance accounts	**5**	5
Other	**11**	(3)
Total future income tax liabilities	**(661)**	(513)
Less: current portion	**32**	20
	(693)	(533)

As at December 31, 2010, payments in lieu of future income tax assets of $574 thousand (2009 – $461 thousand), based on substantively enacted income tax rates and laws, have not been recorded, as it is more likely than not that the assets will not be realized in the future.

6. FIXED ASSETS

December 31 (Canadian dollars in millions)	Fixed Assets	Accumulated Depreciation	Construction in Progress	Total
2010				
Transmission	**10,204**	**3,626**	**1,070**	**7,648**
Distribution	**7,230**	**2,556**	**262**	**4,936**
Communication	**892**	**426**	**37**	**503**
Administration and service	**1,089**	**554**	**33**	**568**
Easements	**491**	**85**	**-**	**406**
	19,906	**7,247**	**1,402**	**14,061**
2009				
Transmission	9,485	3,455	956	6,986
Distribution	6,773	2,392	220	4,601
Communication	806	376	54	484
Administration and service	1,007	510	26	523
Easements	486	82	-	404
	18,557	6,815	1,256	12,998

Financing costs are capitalized on fixed assets under construction, including allowance for funds used during construction on regulated assets and interest on unregulated assets, and were $54 million in 2010 (2009 - $55 million).

7. INTANGIBLE ASSETS

December 31 (Canadian dollars in millions)	Intangible Assets	Accumulated Amortization	Development in Progress	Total
2010				
Computer applications software	**395**	**209**	**1**	**187**
Other assets	**5**	**3**	**-**	**2**
	400	**212**	**1**	**189**
2009				
Computer applications software	379	166	3	216
Other assets	5	3	-	2
	384	169	3	218

Financing costs are capitalized on intangible assets under development, including allowance for funds used during construction on regulated assets, and were $nil in 2010 (2009 - $3 million).

8. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-making process. Hydro One has recorded the following regulatory assets and liabilities:

December 31 (Canadian dollars in millions)	**2010**	2009
Regulatory assets:		
Regulatory future income tax asset	**674**	523
Environmental	**309**	327
Pension cost variance account	**27**	7
Rider 2 (Regulatory asset recovery account II)	**11**	19
Rural and remote rate protection variance account	**7**	24
Long-term project development cost account	**7**	2
Rider 4 (Revenue Recovery Account)	**5**	18
Other	**15**	10
Total regulatory assets	**1,055**	930
Less: current portion	**42**	72
	1,013	858

Regulatory liabilities:		
Deferred pension	**460**	424
External revenue variance account	**29**	12
Regulatory future income tax liability	**30**	32
Retail settlement variance accounts	**22**	-
Rider 3 (regulatory liability refund account)	**19**	49
Rider 6	**19**	31
Rider 8	**9**	-
Hydro One Brampton rider	**6**	9
Export and wheeling fees	**3**	15
Other	**15**	17
Total regulatory liabilities	**612**	589
Less: current portion	**72**	100
	540	489

Regulatory Assets

Regulatory Future Income Tax Asset and Liability

Future income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-making process. In the absence of rate-regulated accounting, the Company's provision for PILs would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result the provision for PILs would have been higher by approximately \$104 million (2009 - \$127 million) including the impact of a change in substantively enacted tax rates.

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate past environmental contamination (see Note 13). Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2010, this regulatory asset decreased by \$15 million (2009 – increased by \$30 million) to reflect related changes in the Company's PCB liability and decreased by \$1 million (2009 – increased by \$40 million) for a change in the land assessment and remediation (LAR) liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred. The OEB has the discretion to examine and assess the prudence and the timing of recovery of all of Hydro One's actual environmental expenditures. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been lower by $16 million (2009 - higher by $70 million). In addition, amortization expense in 2010 would have been lower by $17 million (2009 - $9 million) and financing charges would have been higher by $15 million (2009 - $13 million).

Pension Cost Variance Account

The pension cost variance account was established for Hydro One Networks' Transmission and Distribution Businesses to track the difference between the actual pension costs incurred by the Company and estimated pension costs approved by the OEB. The balance in this account reflects the excess of pension costs paid compared to OEB-approved amounts. On May 28, 2009, the OEB announced its decision regarding the Company's rate application in respect of the Transmission Business of Hydro One Networks for 2009 and 2010 rates. As part of this decision, the OEB approved recovery of the proposed balance in this account plus accrued interest for recovery over 18 months ending December 31, 2010. In the December 23, 2010 decision on 2011 and 2012 transmission rates, the OEB approved the December 31, 2009 balance, including accrued interest, to be recovered over a one-year period from January 1, 2011 to December 31, 2011. In the absence of rate-regulated accounting, revenue would have been lower by $20 million in 2010 (2009 - $7 million).

Rider 2 or Regulatory Asset Recovery Account II (RARA II)

On April 12, 2006, the OEB announced its decision regarding the Company's rate application in respect of the Distribution Business of Hydro One Networks. As part of this decision, the OEB also approved the distribution-related deferral account balances sought by Hydro One. The RARA II includes retail settlement and cost variance amounts and distribution low-voltage service amounts, plus accrued interest. In the absence of rate-regulated accounting, amortization expense in 2010 would have been lower by $8 million (2009 - $23 million). In addition, related financing charges would have remained the same in both years.

Rural and Remote Rate Protection Variance Account (RRRP)

Hydro One receives rural rate protection amounts from the IESO. A portion of these amounts is provided to retail customers of Hydro One Networks who are eligible for rate protection. In 2002, the OEB approved a mechanism to collect the RRRP through the Wholesale Market Service Charge. Variances between the amounts remitted by the IESO to Hydro One and the fixed entitlements defined in the regulation, and subsequent OEB utility rate decisions, are tracked by the Company in the RRRP variance account to be disposed of at a later date.

Long-term Project Development Cost Account

On May 28, 2009 the OEB approved the creation of a deferral account to record Hydro One's costs of preliminary work to advance certain transmission projects identified in its 2009 and 2010 transmission rate application. On March 25, 2010, the OEB issued a decision amending the scope of the account to include the 20 major transmission projects identified in the September 21, 2009 request from the Government of Ontario. In its December 23, 2010 decision, the OEB approved the recovery of the December 31, 2009 balance, including accrued interest, over a one-year period from January 1, 2010 to December 31, 2011. The Company anticipates that it will seek recovery for the remaining balance in its next transmission rate application. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been higher by $5 million (2009 - $2 million).

Rider 4 or Revenue Recovery Account

On December 18, 2008, the OEB announced its decision regarding the Company's rate application in respect of the Distribution Business of Hydro One Networks. The approved rates were effective May 1, 2008 with an implementation date of February 1, 2009. The OEB approved the establishment of Rider 4 to record the revenue differential between existing distribution rates and the new rates. The OEB ordered that the approved revenue requirement be retroactively recovered, through a rate rider, over a period of 27 months commencing February 1, 2009 and ending April 30, 2011.

Regulatory Liabilities

Deferred Pension

In accordance with the OEB's 1999 transitional rate order, pension costs are recorded in results of operations when employer contributions are paid into the pension plan. The Company's deferred pension asset represents the cumulative difference between employer contributions and pension costs and the deferred pension regulatory liability results from the Company's recognition, as the result of OEB direction, of revenues and expenses in different periods than would be the case for an unregulated enterprise. In the absence of rate-regulated accounting, operating, maintenance and administration expense would have been lower by $22 million (2009 - higher by $9 million).

External Revenue Variance Account
In its May 28, 2009 decision, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use and external revenue from station maintenance and engineering and construction work. These revenue sources are an offset to the Company's revenue requirement, and as such, the OEB requested the establishment of new variance accounts to capture any difference between the approved forecast and actual revenues from these sources of external revenue. The balance reflects the excess of external revenue compared to the OEB-approved forecast. The OEB's December 23, 2010 decision approved the disposition of the December 31, 2009 balance, including accrued interest, over a one-year period from January 1, 2010 to December 31, 2011.

Retail Settlement Variance Accounts (RSVA)
Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's *Accounting Procedures Handbook*. The OEB's December 18, 2008 decision allowed for the disposition of RSVA accumulated since May 1, 2006 through to April 30, 2008, inclusive of interest, within the Regulatory Liability Refund Account (RLRA). Hydro One Networks accumulated a net liability in its RSVA from May 1, 2008 to December 31, 2009. On April 9, 2010, the OEB announced its decision regarding Hydro One Networks' distribution rate application which included the allowance to dispose of the RSVA accumulated during that period, inclusive of interest, within Rider 6. Hydro One Networks has accumulated a net liability in its RSVA account since December 31, 2009.

RLRA
The OEB's December 18, 2008 decision approved certain distribution-related deferral account balances sought by Hydro One in its application including RSVA amounts, deferred tax changes, OEB costs and smart meters. Amounts approved for recovery represented balances incurred prior to April 30, 2008, plus associated interest. The OEB ordered that the approved balances be aggregated into a single regulatory account to be recovered over a 27-month period from February 1, 2009 to April 30, 2011.

Rider 6
As part of the April 9, 2010 decision, the OEB approved certain distribution-related deferral account balances sought by Hydro One in its application including retail settlement variance accounts, regulatory asset recovery account I, retail cost variance accounts and smart meters. The OEB ordered that the approved balances be aggregated into a single regulatory account to be recovered over an 18-month period from May 1, 2010 to December 31, 2011.

Rider 8
As part of the April 9, 2010 decision, the OEB also requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and actual recoveries received.

Hydro One Brampton Rider
On April 13, 2010, the OEB issued a decision regarding the 2010 distribution rates of Hydro One Brampton. Included in the OEB's decision was the approval of certain deferral account balances, primarily RSVA, sought by Hydro One Brampton in its application. The OEB ordered that the approved balances be aggregated into a single regulatory account to be disposed of over a two-year period from May 1, 2010 to April 30, 2012.

Export and Wheeling Fees
Consistent with the IESO's Market Rules, an export and wheeling fee is collected by the IESO and remitted to Hydro One at the rate of $1 per MWh on electricity exported outside of Ontario. The amounts collected in respect of these export and wheeling fees, plus interest, were taken into consideration in the revenue requirement of Hydro One Networks' Transmission Business as part of the Company's transmission rate application filed with the OEB in September 2006. On August 16, 2007, the OEB issued its decision in respect of the Company's transmission rate application and approved final amounts and disposition treatments for the export and wheeling fees. The export and wheeling fees were factored into rates over a four-year period ending December 31, 2010.

9. DEBT

December 31 (Canadian dollars in millions)	**2010**	2009
Long-term debt:		
7.15% debentures due 2010	-	400
3.89% notes due 2010	-	200
4.08% notes due 2011 [1]	**250**	250
6.40% notes due 2011	**250**	250
5.77% notes due 2012	**600**	600
5.00% notes due 2013	**600**	600
3.13% notes due 2014 [1]	**750**	250
2.95% notes due 2015	**250**	-
4.64% notes due 2016	**450**	450
5.18% notes due 2017	**600**	600
4.40% notes due 2020	**300**	-
7.35% debentures due 2030	**400**	400
6.93% notes due 2032	**500**	500
6.35% notes due 2034	**385**	385
5.36% notes due 2036	**600**	600
4.89% notes due 2037	**400**	400
6.03% notes due 2039	**300**	300
5.49% notes due 2040	**500**	300
6.59% notes due 2043	**315**	315
5.00% notes due 2046	**325**	75
	7,775	6,875
Add: Unrealized hedged loss [1]	**8**	11
Less: Long-term debt payable within one year	**(500)**	(600)
Net unamortized premiums	**27**	24
Unamortized debt issuance costs	**(32)**	(29)
Long-term debt	**7,278**	6,281

[1] The unrealized hedged loss relates to the MTN Series 14 Note, and $500 million of the MTN Series 19 Note issued in January of 2010, which are accounted for as fair value hedges. The unrealized hedged loss is offset by the $8 million (2009 - $11 million) unrealized gain on the related fixed-to-floating interest rate swap agreements.

Short-term debt represents promissory notes pursuant to the Company's Commercial Paper Program. The notes are denominated in Canadian dollars with varying maturities not exceeding 365 days. In 2010, the notes had a weighted average interest rate of 0.05%.

Hydro One has a $1,250 million committed and unused revolving standby credit facility with a syndicate of banks maturing in June 2013. If used, interest on the facility would apply based on Canadian benchmark rates. This credit facility supports the Company's Commercial Paper Program. In addition, the Company holds $250 million of Province of Ontario Floating Rate Notes.

The Company issues notes for long-term financing under the Medium-Term Note (MTN) Program. The maximum authorized principal amount of medium-term notes issuable under this program is $3,000 million, of which $1,250 million was remaining and available as at December 31, 2010.

The long-term debt is unsecured and denominated in Canadian dollars. Such debt is summarized by the number of years to maturity in Note 10.

10. CARRYING AND FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying value of financial instruments as at December 31, 2010 is as follows:

(Canadian dollars in millions)	**Derivatives Used for Hedging**	**Other Financial Instruments Used for Hedging**	**Held-for-Trading**	**Loans and Receivables**	**Other Financial Liabilities**
Financial Assets					
Cash	-	-	33	-	-
Accounts receivable	-	-	-	911	-
Short-term investments	-	-	139	-	-
Long-term investment	-	-	249	-	-
Other assets	8	-	-	1	-
Financial Liabilities					
Accounts payable and accrued charges[1]	-	-	-	-	861
Long-term debt	-	758	-	-	7,020

[1] Accounts payable and accrued charges do not include income taxes payable or dividends payable.

The carrying amounts of all financial instruments, except long-term debt, approximate fair value. The fair value of derivative financial instruments reflects the estimated amount that the Company, if required to settle an outstanding contract, would have been required to pay or would be entitled to receive at year end. The fair value of long-term debt, provided in the table below, is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as level 1 as the inputs used reflect quoted prices in an active market.

December 31 (Canadian dollars in millions)	**2010**		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-term debt[1]	**7,775**	**8,555**	6,875	7,302

[1] The carrying value of long-term debt represents the par value of the notes and debentures, other than the MTN Series 14 Note and $500 million of the MTN Series 19 Note, which are designated as part of hedging relationships.

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to the risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk. The Company does have foreign exchange risk as it enters into agreements to purchase materials and equipment associated with the Company's capital programs and projects that are settled in foreign currencies. This foreign exchange risk is not material, although the Company could in the future decide to issue foreign currency denominated debt which would be hedged back to Canadian dollars consistent with Hydro One's risk management policy. Hydro One is exposed to fluctuations in interest rates as the regulated rate of return for the Company's Distribution and Transmission Businesses is derived using a formulaic approach which is based on the forecast for long-term Government of Canada bond yields and the spread in 30-year "A"-rated Canadian utility bonds over the 30-year benchmark Government of Canada bond yield. The Company estimates that a 1% decrease in the forecasted long-term Government of Canada bond yield or the "A"-rated Canadian utility spread used in determining the Company's rate of return would reduce its Transmission Business' results of operations by approximately $16 million and its Distribution Business' results of operations by approximately $10 million.

Credit Risk

Financial assets create credit risk that a counter-party will fail to discharge an obligation, causing a financial loss. As at December 31, 2010, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a significant amount of revenue from any individual customer. As at December 31, 2010, there were no significant balances of accounts receivable due from any single customer.

In the year, the Company's provision for bad debts remained unchanged at $25 million (2009 - $25 million). Minor adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. As at December 31, 2010, approximately 3% of the Company's accounts receivable were aged more than 60 days.

Hydro One manages its counter-party credit risk through various techniques including entering into transactions with highly-rated counter-parties; limiting total exposure levels with individual counter-parties consistent with the Company's Board-approved Credit Risk Policy; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counter-parties. The Company's credit risk for accounts receivable is limited to the carrying amount on the Consolidated Balance Sheet.

The Company uses derivative financial instruments to manage interest rate risk. Hydro One may enter into derivative agreements such as forward-starting pay fixed-interest rate swap agreements to hedge against the effect of future interest rate movements on long-term fixed rate borrowing requirements. No such agreements were outstanding as at December 31, 2010.

Derivative financial instruments result in exposure to credit risk since there is a risk of counter-party default. As at December 31, 2010, the derivative instruments held by Hydro One include a $250 million fixed-to-floating interest rate swap agreement to convert the 4.08% coupon note maturing March 3, 2011 into a three-month variable rate debt and two $250 million fixed-to-floating interest rate swap agreements to convert $500 million of the 3.13% coupon note maturing November 19, 2014 into a three-month variable rate debt. The counter-party credit risk exposure on the fair value of the three interest rate swap contracts is $11 million as at December 31, 2010.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, the Company's Commercial Paper Program, under which it is authorized to issue up to $1,000 million in short-term notes with a term to maturity of less than 365 days, our revolving credit facility and through our holdings of Province of Ontario Floating Rate Notes. The Commercial Paper Program is supported by a total of $1,500 million in liquidity facilities comprised of a $1,250 million committed revolving credit facility with a syndicate of banks maturing June 1, 2013 and the holding of $250 million of Province of Ontario Floating Rate Notes. The short-term liquidity under this program and anticipated levels of funds from operations should be sufficient to fund our normal operating requirements.

As at December 31, 2010, accounts payable and accrued charges in the amount of $861 million are expected to be settled in cash at their carrying amounts within the next year. Long-term debt maturing over the next twelve months is $500 million. Interest payments over the next 12 months on the Company's outstanding long-term debt amount to $405 million.

As at December 31, 2010, Hydro One has issued long-term debt in the amount of $7,775 million and the Company is required to make interest payments in the amount of $6,599 million. Principal outstanding, interest payments and related weighted average interest rates are summarized by the number of years to maturity in the following table.

Years to Maturity	Principal Outstanding on Notes and Debentures *(Canadian dollars in millions)*	Interest Payments *(Canadian dollars in millions)*	Weighted Average Interest Rate *(Percent)*
1 year	500	405	5.2
2 years	600	383	5.8
3 years	600	349	5.0
4 years	750	319	3.1
5 years	250	295	3.0
	2,700	1,751	4.5
6 – 10 years	1,350	1,246	4.8
Over 10 years	3,725	3,602	6.0
	7,775	6,599	5.3

11. CAPITAL MANAGEMENT

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. In order to ensure ongoing effective access to capital, the Company targets to maintain an "A" category long-term credit rating.

The Company considers its capital structure to consist of shareholder's equity, short-term notes payable, long-term debt and cash and cash equivalents. The Company's capital structure as at December 31, 2010 and December 31, 2009 was as follows:

(Canadian dollars in millions)	**2010**	2009
Short-term notes payable	**-**	55
Long-term debt payable within one year	**500**	600
Less: Cash and cash equivalents	**33**	(26)
	467	681
Long-term debt	**7,278**	6,281
Preferred Shares	**323**	323
Common Shares	**3,314**	3,314
Retained Earnings	**2,354**	1,791
	5,991	5,428
Total Capital	**13,736**	12,390

For the purposes of this table and the Consolidated Statements of Cash Flows, "cash and cash equivalents" refers to the Consolidated Balance Sheet items "cash" and "bank indebtedness."

The Company has customary covenants typically associated with long-term debt. Among other things, Hydro One's long-term debt and credit facility covenants limit the permissible debt to 75% of the Company's total capitalization, limit the ability to sell assets and impose a negative pledge provision, subject to customary exceptions. At December 31, 2010, Hydro One is in compliance with all of these covenants and limitations.

12. EMPLOYEE FUTURE BENEFITS

Hydro One has a contributory defined benefit pension plan covering all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton. Employees of Hydro One Brampton participate in the Ontario Municipal Employees Retirement System (OMERS), a multi-employer public sector pension fund. Current contributions by Hydro One Brampton are approximately $1 million annually.

Plan Asset Mix

Hydro One's pension plan asset mix at December 31, 2010 and 2009 was as follows:

	% of Plan Assets	
December 31	**2010**	2009
Equity securities	**63.5**	63.3
Debt securities	**30.7**	32.9
Other	**5.8**	3.8
	100.0	100.0

Supplementary Information

The Hydro One pension plan holds $14 million of Hydro One Inc. corporate bonds (2009 - $9 million) and holds debt securities of the Province of $70 million at December 31, 2010 (2009 - $88 million).

The Company's pension plan provides benefits based on highest three-year average pensionable earnings. For new management employees who commenced employment on or after January 1, 2004, and for new Society of Energy Professionals hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation. The measurement date used to determine plan assets and the accrued benefit obligation is December 31. Based on the actuarial valuation filed with the Financial Services Commission of Ontario (FSCO) in September 2010, effective for December 31, 2009, the Company contributed $193 million to its pension plan in respect of 2010 (2009 - $112 million), $145 million of which is required to satisfy minimum funding requirements. The Company made an additional payment of $48 million in December 2010. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash. Contributions after 2012 will be based on an actuarial valuation effective December 31, 2012 and will depend on future investment returns, and changes in benefits or actuarial assumptions.

Total cash payments for employee future benefits made in 2010, consisting of cash contributed by the Company to its funded pension plan and cash payments directly to beneficiaries for its unfunded other benefit plans, was $233 million (2009 - $155 million).

Year ended December 31 (Canadian dollars in millions)	Pension **2010**	2009	Employee Future Benefits other than Pension **2010**	2009
Change in accrued benefit obligation				
Accrued benefit obligation, January 1	**4,566**	4,007	**1,004**	874
Current service cost	**94**	73	**24**	19
Interest cost	**294**	286	**65**	63
Reciprocal transfers	**4**	-	**-**	-
Benefits paid	**(262)**	(270)	**(42)**	(43)
Net actuarial loss (gain)	**300**	470	**127**	91
Accrued benefit obligation, December 31	**4,996**	4,566	**1,178**	1,004
Change in plan assets				
Fair value of plan assets, January 1	**4,336**	3,836	-	-
Actual return on plan assets	**421**	642	-	-
Reciprocal transfers	**4**	6	-	-
Benefits paid	**(262)**	(270)	-	-
Employer's contributions[1]	**191**	112	-	-
Employees' contributions	**24**	21	-	-
Administrative expenses	**(15)**	(11)	-	-
Fair value of plan assets, December 31	**4,699**	4,336	-	-
Funded status				
Unfunded benefit obligation	**(297)**	(230)	**(1,178)**	(1,004)
Unamortized net actuarial losses (gains)	**746**	640	**144**	10
Unamortized past service costs	**11**	14	**11**	14
Deferred pension asset (accrued benefit liability)	**460**	424	**(1,023)**	(980)
Less: Current portion	**-**	-	**43**	40
Deferred pension asset (long-term liability)	**460**	424	**(980)**	(940)

[1] In January 2011, the Company made a contribution of $13 million in respect of 2010 (2010 - $10 million in respect of 2009).

Year ended December 31 (Canadian dollars in millions)	Pension **2010**	Pension 2009	Employee Future Benefits Other Than Pension **2010**	Employee Future Benefits Other Than Pension 2009
Components of net periodic benefit cost				
Current service cost, net of employee contributions	**70**	52	**24**	19
Interest cost	**294**	286	**65**	63
Actual return on plan assets net of expenses	**(406)**	(631)	**-**	-
Actuarial loss (gain)	**300**	470	**127**	91
Other	**(1)**	(1)	**-**	-
Costs arising in the period	**257**	176	**216**	173
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	**129**	359	**-**	-
Actuarial (gain) loss	**(236)**	(410)	**(134)**	(101)
Plan amendments	**4**	4	**4**	4
Net periodic benefit cost	**154**	129	**86**	76
Charged to results of operations[2]	**134**	68	**51**	46
Effect of a 1% increase in health care cost trends on:				
Accrued benefit obligation, December 31	**-**	-	**185**	141
Service cost and interest cost	**-**	-	**15**	13
Effect of a 1% decrease in health care cost trends on:				
Accrued benefit obligation, December 31	**-**	-	**(146)**	(113)
Service cost and interest cost	**-**	-	**(12)**	(10)
Significant assumptions				
For net periodic benefit cost:				
Expected rate of return on plan assets	**6.50%**	7.25%	**-**	-
Weighted average discount rate	**6.50%**	7.25%	**6.50%**	7.25%
Rate of compensation scale escalation (without merit)	**2.50%**	2.75%	**2.50%**	2.75%
Rate of cost of living increase	**2.00%**	2.00%	**2.00%**	2.00%
Average remaining service life of employees *(years)*	**10**	10	**11**	11
Rate of increase in health care cost trend[3]	**-**	-	**4.81%**	4.81%
For accrued benefit obligation, December 31:				
Weighted average discount rate	**5.75%**	6.50%	**5.75%**	6.50%
Rate of compensation scale escalation (without merit)	**2.50%**	2.50%	**2.50%**	2.50%
Rate of cost of living increase	**2.00%**	2.00%	**2.00%**	2.00%
Rate of increase in health care cost trend[4]	**-**	-	**4.86%**	4.81%

[2] The Company follows the cash basis of accounting. During 2010, pension costs of $191 million (2009 - $113 million) were attributed to labour, of which $134 million (2009 - $68 million) was charged to operations and $57 million (2009 - $45 million) was capitalized as part of the cost of fixed assets.

[3] 8.57% in 2010 grading down to 4.81% per annum in and after 2029 (2009 – 8.81% in 2009 grading down to 4.81% per annum in and after 2029).

[4] 8.31% in 2011 grading down to 4.86% per annum in and after 2029 (2009 – 8.57% in 2010 grading down to 4.81% per annum in and after 2029).

13. ENVIRONMENTAL LIABILITIES

December 31 (Canadian dollars in millions)	Polychlorinated Biphenyls (PCB)	Land Assessment and Remediation (LAR)	Total
2010			
Opening balance, January 1	**262**	**65**	**327**
Interest accretion	**13**	**2**	**15**
Expenditures	**(9)**	**(8)**	**(17)**
Revaluation adjustment	**(15)**	**(1)**	**(16)**
Ending balance, December 31	**251**	**58**	**309**
Less: Current portion	**(15)**	**(7)**	**(22)**
	236	**51**	**287**
2009			
Opening balance, January 1	225	28	253
Interest accretion	12	1	13
Expenditures	(4)	(5)	(9)
Revaluation adjustment	29	41	70
Ending balance, December 31	262	65	327
Less: Current portion	(14)	(10)	(24)
	248	55	303

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2010 and in total thereafter are as follows: 2011 - $22 million; 2012 - $23 million; 2013 - $34 million; 2014 - $40 million; 2015 - $33 million and thereafter - $217 million. Of the total estimated future expenditures, $308 million relate to PCB (2009 - $320 million) and $61 million to LAR (2009 - $69 million).

Consistent with its accounting policy for environmental costs, Hydro One records a liability for the estimated future expenditures associated with the removal and destruction of PCB-contaminated insulating oils and related electrical equipment and for the assessment and remediation of chemically-contaminated lands. The Company's recorded liability is based on management's best estimate of the present value of the future expenditures expected to be required to comply with existing regulations.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, for the PCB program, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures. Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future environmental expenditures have been discounted using factors ranging from 3.75% to 6.25%, depending on the appropriate rate for the period when increases in the obligations were first recorded.

PCBs

On September 17, 2008, Environment Canada published its final regulations governing the management, storage and disposal of PCBs. These regulations were enacted under the *Canadian Environmental Protection Act, 1999*. The regulations impose timelines for disposal of PCBs based on criteria including type of equipment, in-use status and PCB-contamination thresholds. All PCBs in concentrations of 500 parts per million (ppm) or more, except for specified equipment, had to be disposed of by the end of 2009. However, in 2009, Hydro One sought and received an extension until 2014 for the removal of PCBs from certain station equipment that could potentially be contaminated in excess of this threshold. Under the regulations, PCBs in equipment in concentrations greater than 50 ppm and less than 500 ppm, or greater than 50 ppm for pole-top transformers, pole-top auxiliary electrical equipment and light ballasts must be disposed of by the end of 2025.

Management judges that the Company currently has very few PCB-contaminated assets in excess of 500 ppm. Priority will be given to targeting inspection and testing work toward identifying and removing PCBs in assets that must be compliant by 2014. Assets to be disposed of by 2025 primarily consist of pole-mounted distribution line transformers and light ballasts. Contaminated distribution and transmission station equipment will generally be replaced or will be decontaminated by removing PCB-contaminated insulating oil and retrofilling with replacement oil that is less than 2 ppm.

Management's best estimate of the total estimated future expenditures to comply with PCB regulations is about $308 million. These expenditures are expected to be incurred over the period from 2011 to 2025. As a result of its most recent cost estimate to comply with existing PCB regulations, the Company reduced its December 31, 2010 PCB liability by approximately $15 million compared to September 30, 2010.

LAR

As part of its annual review of environmental liabilities, the Company also reviewed its liability for LAR. As a result of this review, the Company reduced its December 31, 2010 liability by approximately $1 million compared to September 30, 2010. The Company's best estimate of the total future expenditures to complete its LAR program is about $61 million.

14. ASSET RETIREMENT OBLIGATIONS

Consistent with the Company's accounting policy for asset retirement obligations, Hydro One records a liability for the present value of the estimated future expenditures associated with the retirement of tangible long-lived assets that the Company is legally required to remove. A corresponding amount is recorded as an asset retirement cost that is capitalized as part of the carrying amount of the related fixed asset.

There are uncertainties in estimating future expenditures due to potential external events such as changing legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's asset retirement obligations represent management's best estimates of the costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required removal and remediation work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 3% to 5%, depending on the appropriate rate for the period when expenditures are expected to be incurred.

Hydro One has recorded a liability for the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The Company's liability is based on management's best estimate of the present value of the estimated future expenditures to comply with existing regulations. During the year, the Company completed a study with the aid of an expert external consultant to estimate the future expenditures required to remove asbestos prior to facility demolition. The Company has recorded a $7 million liability in respect of this obligation as at December 31, 2010 based on the net present value of the Company's best estimate of the total future expenditures of $18 million to complete its asbestos removal activities.

Hydro One has also recorded a $4 million asset retirement obligation related to the decommissioning and removal of its switching station located at Ontario Power Generation's Abitibi Canyon Generating Station.

15. SHARE CAPITAL

Common and Preferred Shares

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

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

Dividends

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

In 2010, preferred dividends in the amount of $18 million (2009 - $18 million) and common dividends in the amount of $10 million (2009 - $170 million) were declared.

Earnings per Share

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

16. RELATED PARTY TRANSACTIONS

The Province, OEFC, IESO, Ontario Power Authority (OPA) and Ontario Power Generation Inc. (OPG) are related parties of Hydro One. In addition the OEB is related to the Company by virtue of its status as a Provincial Crown Corporation. Transactions between these parties and Hydro One were as follows:

Hydro One received revenue for transmission services from IESO, based on uniform transmission rates approved by the OEB. Transmission revenue for 2010 includes $1,277 million (2009 - $1,121 million) related to these services. Hydro One receives amounts for rural rate protection from the IESO. Distribution revenue for 2010 includes $127 million (2009 - $127 million) related to this program. Hydro One also received revenue related to the supply of electricity to remote northern communities from the IESO. Distribution revenue for 2010 includes $28 million (2009 - $31 million) related to these services.

In 2010, Hydro One purchased power in the amount of $2,361 million (2009 - $2,265 million) from the IESO administered electricity market, $19 million (2009 - $19 million) from OPG and $13 million (2009 - $11 million) from OEFC.

Under the *Ontario Energy Board Act, 1998*, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters. In 2010, Hydro One incurred $11 million (2009 - $10 million) in OEB fees.

Hydro One has service level agreements with the other successor corporations. These services include field, engineering, logistics and telecommunications services. Revenues related to the provision of construction and equipment maintenance services to the other successor corporations were $14 million (2009 - $13 million), primarily for the Transmission Business. Operation, maintenance and administration costs related to the purchase of services from the other successor corporations were less than $2 million in each of 2010 and 2009.

The OPA funds substantially all of our Conservation Demand Management (CDM) programs. The funding includes program costs, incentives, management fees and bonuses. In 2010, Hydro One received $36 million from the OPA in respect of the CDM programs (2009 - $23 million) and had a net accounts receivable of $1 million in both 2010 and 2009.

The provision for payments in lieu of corporate income taxes, property taxes and capital taxes was paid or payable to the OEFC and dividends were paid or payable to the Province.

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

December 31 (Canadian dollars in millions)	**2010**	2009
Accounts receivable	**111**	108
Accounts payable and accrued charges	**(283)**	(254)

Included in accounts payable and accrued charges are amounts owing to the IESO in respect of power purchases of $222 million (2009 - $211 million).

17. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the purposes of the Consolidated Statements of Cash Flows, "cash and cash equivalents" refers to the Consolidated Balance Sheet items "cash", "short-term investments" and "bank indebtedness." The changes in non-cash balances related to operations consist of the following:

Year ended December 31 (Canadian dollars in millions)	**2010**	2009
Accounts receivable increase	**(68)**	(89)
Materials and supplies increase	**-**	(2)
Accounts payable and accrued charges increase	**87**	-
Accrued interest increase	**10**	10
Long-term accounts payable and other liabilities (decrease) increase	**(3)**	4
Employee future benefits other than pension increase	**40**	32
Other	**11**	7
	77	(38)

Supplementary information:

Interest paid	**409**	361
Payments in lieu of corporate income taxes	**48**	77

18. CONTINGENCIES

Legal Proceedings

Hydro One is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

On March 29, 1999, the Whitesand First Nation Band commenced an action in the Ontario Superior Court of Justice, naming as defendants the Province, the Attorney General of Canada, Ontario Hydro, OEFC, OPG and our Company. On May 24, 2001, the Whitesand First Nation Band issued an almost identical claim against the same parties. The Red Rock First Nation Band commenced a similar claim on September 7, 2001 against the same parties. In 2004, the various claims were consolidated. These actions sought declaratory relief, injunctive relief and damages in an unspecified amount. The claims arose out of flooding activities of Ontario Hydro and the alleged effects of flooding on lands in which the two First Nations claim an interest. In May 2009, all parties entered into an agreement to dismiss all actions against Hydro One on a without costs basis. On July 27, 2010, by court order, the consolidated action and the cross claim of the Attorney General of Canada against Hydro One were dismissed without costs.

Transfer of Assets

The transfer orders by which we acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on lands held for bands or bodies of Indians under the *Indian Act* (Canada). Currently, OEFC holds these assets. Under the terms of the transfer orders, we are required to manage these assets until we have obtained all consents necessary to complete the transfer of title of these assets to us. We cannot predict the aggregate amount that we may have to pay, either on an annual or one-time basis, to obtain the required consents. However, we anticipate having to pay more than the $761,500 that we paid to these Indian bands and bodies in 2010. If we cannot obtain consents from the Indian bands and bodies, OEFC will continue to hold these assets for an indefinite period of time. If we cannot reach a satisfactory settlement, we may have to relocate these assets from the Indian lands to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel-generation facilities. The costs relating to these assets could have a material adverse effect on our net income if we are not able to recover them in future rate orders.

19. COMMITMENTS

Agreement with Inergi

Effective March 1, 2002, Inergi LP (Inergi) (a wholly owned subsidiary of Cap Gemini Canada Inc.) began providing services to Hydro One. On May 1, 2010, consistent with the terms of the contract, the Company extended the Master Services Agreement with Inergi for a further three-year period to expire on February 28, 2015. As a result of this agreement, Hydro One receives from Inergi a range of services including business processing and information technology outsourcing services, as well as core system support related primarily to SAP implementation and optimization. Inergi billing for these services has ranged between $93 million and $130 million per year and is subject to external benchmarking every three years to ensure Hydro One is receiving a defined competitive and continuously improved price. In connection with this agreement, on March 1, 2002 the Company transferred approximately 900 employees to Inergi, including about 130 non-regular employees.

The annual commitments under the agreement in each of the five years subsequent to December 31, 2010, and in total thereafter are as follows: 2011 - $143 million; 2012 - $139 million; 2013 - $135 million; 2014 - $130 million; 2015 - $22 million; and thereafter - $nil. The agreement expires on February 28, 2015.

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. As at December 31, 2010 and December 31, 2009, the Company provided prudential support to the IESO on behalf of Hydro One Networks and Hydro One Brampton using only parental guarantees of $325 million. Prudential support at December 31, 2010 and December 31, 2009 was also provided on behalf of two distributors using guarantees of $660 thousand. The IESO could draw on these guarantees if these subsidiaries or distributors fail to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of any bank letters of credit plus the nominal amount of the corporate guarantee. If Hydro One's highest long-term credit rating deteriorated to below the "Aa" category, the Company would be required to resume providing letters of credit as prudential support.

Retirement Compensation Arrangements

Bank letters of credit have been issued to provide security for the Company's liability under the terms of a trust fund established pursuant to the supplementary pension plan for the employees of Hydro One and its subsidiaries. The trustee is required to draw upon the letters of credit if Hydro One is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to secure the Company's liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the bank letters of credit. As at December 31, 2010, Hydro One had bank letters of credit of $113 million (2009 - $107 million) outstanding relating to retirement compensation arrangements.

Operating Leases

The future minimum lease payments under operating leases for each of the five years subsequent to December 31, 2010, and in total thereafter are as follows: 2011 - $5 million; 2012 - $8 million; 2013 - $6 million; 2014 - $7 million; 2015 - $2 million; and thereafter - $25 million.

20. SEGMENT REPORTING

Hydro One has three reportable segments:

- The Transmission Business, which comprises the core business of providing transportation and connection services, is responsible for transmitting electricity throughout the Ontario electricity grid;
- The Distribution Business, which comprises the core business of delivering and selling electricity to customers; and
- The "other" segment, the operations of which primarily consist of those of the telecommunications business.

The designation of segments is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see Note 2). Segment information on the above basis is as follows:

Year ended December 31 (Canadian dollars in millions)	Transmission	Distribution	Other	Consolidated
2010				
Segment profit				
Revenues	**1,307**	**3,754**	**63**	**5,124**
Purchased power	**-**	**2,474**	**-**	**2,474**
Operation, maintenance and administration	**416**	**602**	**60**	**1,078**
Depreciation and amortization	**273**	**300**	**10**	**583**
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	**618**	**378**	**(7)**	**989**
Financing charges				**342**
Income before provision for payments in lieu of corporate income taxes				**647**
Capital expenditures	**936**	**629**	**5**	**1,570**

Year ended December 31 (Canadian dollars in millions)	Transmission	Distribution	Other	Consolidated
2009				
Segment profit				
Revenues	1,147	3,534	63	4,744
Purchased power	-	2,326	-	2,326
Operation, maintenance and administration	438	564	55	1,057
Depreciation and amortization	240	287	10	537
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	469	357	(2)	824
Financing charges				308
Income before provision for payments in lieu of corporate income taxes				516
Capital expenditures	918	643	5	1,566

December 31 (Canadian dollars in millions)	**2010**	2009
Total assets		
Transmission	**9,805**	8,993
Distribution	**6,908**	6,481
Other	**609**	161
	17,322	15,635

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

21. SUBSEQUENT EVENTS

On February 2, 2011, the Power Workers' Union (PWU) requested that the Ministry of Labour appoint a Conciliation Officer to assist Hydro One and the PWU in finalizing a new collective agreement. Negotiations on the new agreement began on January 10, 2011.

On January 24, 2011, Hydro One issued notes under the Company's MTN Program. The issue consisted of $50 million floating-rate notes with a maturity date of July 24, 2015.

On January 19, 2011, Hydro One issued $250 million in notes under the Company's MTN Program. The issue has an additional offering of 2.95% notes maturing on September 11, 2015, originally issued on September 13, 2010. The total amount outstanding for this issue is now $500 million.

On January 19, 2011, Hydro One entered into two $125 million notional principal amount fixed-to-floating interest rate swaps to convert $250 million of Hydro One's 2.95% coupon note maturing September 11, 2015, into three-month variable rate debt.

On January 17, 2011, the PWU made an appeal to the Divisional Court of the Supreme Court of Canada under the *Ontario Energy Board Act, 1998* in regard to the OEB's December 23, 2010 decision approving Hydro One Networks' transmission rates for 2011 and 2012. The PWU submitted the appeal on the grounds that the decision failed to identify operations, maintenance and administration costs that the OEB considers imprudent and were therefore omitted in the calculation of the approved revenue requirement. The PWU is requesting that the OEB's determination regarding the revenue requirement and related rates be set aside and that the matter be remitted to a differently constituted panel of the OEB for a new hearing with respect to these issues. The appeal is not anticipated to impact upon the collection of the new 2011 transmission rates during the proceeding. The outcome of this appeal is not determinable at this time.

22. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2010 Consolidated Financial Statements.

In the third quarter, the Company changed the presentation of tax balances associated with certain temporary differences related to intangible assets and other regulatory account balances, to reflect how these balances will ultimately be settled. As a result, the Company reclassified the tax balances associated with these temporary differences, such that the amount of future income tax liabilities and the related net regulatory asset in the interim period balance sheet, and in the comparative December 31, 2009 balance sheet, have been reduced by $160 million. The change in presentation has no impact on revenue or operating cash flow.

FIVE-YEAR SUMMARY OF FINANCIAL AND OPERATING STATISTICS

Year ended December 31 (Canadian dollars in millions)	**2010**	2009	2008	2007	2006
Statement of operations data					
Revenues					
Transmission	**1,307**	1,147	1,212	1,242	1,245
Distribution	**3,754**	3,534	3,334	3,382	3,273
Other	**63**	63	51	31	27
	5,124	4,744	4,597	4,655	4,545
Costs					
Purchased power	**2,474**	2,326	2,181	2,240	2,221
Operation, maintenance and administration	**1,078**	1,057	965	995	880
Depreciation and amortization	**583**	537	548	521	515
	4,135	3,920	3,694	3,756	3,616
Income before financing charges and provision for payments in lieu of corporate income taxes	**989**	824	903	899	929
Financing charges	**342**	308	292	295	295
Income before provision for payments in lieu of corporate income taxes	**647**	516	611	604	634
Provision for payments in lieu of corporate income taxes	**56**	46	113	205	179
Net income	**591**	470	498	399	455
Basic and fully diluted earnings per common share *(Canadian dollars)*	**5,727**	4,528	4,797	3,809	4,366

December 31 (Canadian dollars in millions)					
Balance sheet data					
Assets					
Transmission	**9,805**	8,993	7,877	7,273	6,950
Distribution	**6,908**	6,481	5,873	5,407	5,161
Other	**609**	161	128	106	99
Total assets	**17,322**	15,635	13,878	12,786	12,210
Liabilities					
Current liabilities (including current portion of long-term debt)	**1,540**	1,655	1,300	1,452	1,194
Long-term debt	**7,278**	6,281	5,733	5,063	4,848
Other long-term liabilities	**2,523**	2,281	1,721	1,385	1,347
Shareholder's equity					
Share capital	**3,637**	3,637	3,637	3,637	3,637
Retained earnings	**2,354**	1,791	1,497	1,258	1,184
Accumulated other comprehensive income	**(10)**	(10)	(10)	(9)	-
Total liabilities and shareholder's equity	**17,322**	15,635	13,878	12,786	12,210

FIVE-YEAR SUMMARY OF FINANCIAL AND OPERATING STATISTICS (continued)

Year ended December 31 (Canadian dollars in millions)	**2010**	2009	2008	2007	2006
Other financial data					
Capital expenditures					
Transmission	**936**	918	704	560	402
Distribution	**629**	643	570	511	417
Other	**5**	5	10	20	4
Total capital expenditures	**1,570**	1,566	1,284	1,091	823
Ratios					
Net asset coverage on long-term debt[1]	**1.77**	1.79	1.84	1.87	1.92
Earnings coverage ratio[2]	**2.39**	2.15	2.63	2.67	2.67
Operating statistics					
Transmission					
Units transmitted *(TWh)*[3]	**142.2**	139.2	148.7	152.2	151.1
Ontario 20-minute system peak demand *(MW)*[3]	**25,145**	24,477	24,231	25,809	27,056
Ontario 60-minute system peak demand *(MW)*[3]	**25,075**	24,380	24,195	25,737	27,005
Total transmission lines *(circuit-kilometres)*	**28,951**	28,924	29,039	28,915	28,600
Distribution					
Units distributed to Hydro One customers *(TWh)*[3]	**29.1**	28.9	29.9	30.2	29.0
Units distributed through Hydro One lines *(TWh)*[3,4]	**42.5**	43.5	44.7	45.7	44.7
Total distribution lines *(circuit-kilometres)*	**123,552**	123,528	123,260	122,933	122,460
Customers	**1,345,177**	1,333,920	1,325,745	1,311,714	1,293,396
Total regular employees	**5,717**	5,427	5,032	4,602	4,295

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

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

[3] System-related statistics include preliminary figures for December.

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

BOARD OF DIRECTORS
(as at December 31, 2010)

James Arnett[2]
Chair of the Board of Directors, Hydro One Inc.

Sami Bébawi[4]
President, Geracon Inc.

Advisor to the President, SNC-Lavalin Group Inc.

Kathryn A. Bouey[1,4,6]
President, TBG Strategic Services Inc.

Corporate Director

George Cooke[1,5,7]
President and CEO, The Dominion of Canada Insurance Company

Laura Formusa
President and Chief Executive Officer, Hydro One Inc.

Janet Holder[5,6,7]
President, Enbridge Gas Distribution Inc.

Don MacKinnon[5,6]
President, Power Workers' Union

Michael J. Mueller[1,2,4]
Corporate Director

Walter Murray[1,3,7]
Corporate Director

Robert L. Pace[2,3,7]
President and CEO, The Pace Group Ltd.

Gale Rubenstein[2,3,5]
Partner, Goodmans LLP

Douglas E. Speers[3,4,6]
Corporate Director

Board Committees

1 *Audit and Finance Committee* The Audit and Finance Committee oversees the integrity of accounting policies and financial reporting, internal controls, internal audit, significant corporate risk exposures and financial compliance. The committee met eleven times in 2010.

2 *Corporate Governance Committee* The Corporate Governance Committee is responsible for the Board's governance of the Company. It recommends issues to be discussed at meetings of the Board of Directors, reviews the mandate of the Board and each committee of the Board, conducts Board Assessments, monitors the quality of management's relationship with the Board and recommends suitable nominees for election to the Board of Directors. The committee met eight times in 2010.

3 *Human Resources Committee* The Human Resources Committee (Formerly the Human Resources and Public Policy Committee) is responsible for reviewing the appropriateness of our current and future organizational structure, succession plans for corporate and divisional officers, the code of business conduct, the performance and remuneration of our senior executives, including recommending to the Board the remuneration of the President and CEO. The committee met seven times in 2010.

4 *Business Transformation Committee* The Business Transformation Committee is an advisory committee of the Board established to assist the Board in its oversight responsibility on matters related to the Company's cornerstone project, the Smart Grid and Continuous Innovation Strategy, and the planning, development and implementation of major transmission system or distribution projects including projects described in the Corporation's Green Energy Implementation Plan. The committee met five times in 2010.

5 *Regulatory and Public Policy Committee* The Regulatory and Public Policy Committee (Formerly the Regulatory and Environment Committee) monitors the Company's compliance with applicable regulatory requirements and legislation and is responsible for identifying, assessing and providing advice to the Board of Directors on public affairs issues that have a significant impact on us. The committee oversees compliance programs, policies, standards and procedures and reviews the Company's proposals for rate applications, compliance actions and reports. The committee met seven times in 2010.

6 *Health, Safety and Environment Committee* The Health, Safety and Environment Committee (Formerly the Health and Safety Committee) is responsible for reviewing occupational health, safety and environment policies, standards, and programs and compliance with occupational health, safety and environmental legislation, policies and standards, and public health and safety issues. The committee met five times in 2010.

7 *Investment – Pension Committee* The Investment - Pension Committee's primary function is to assist the Board in fulfilling its oversight responsibilities in all matters related to the Corporation's Pension Plan including the Hydro One Pension Fund.

CORPORATE INFORMATION

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Customer Inquiries
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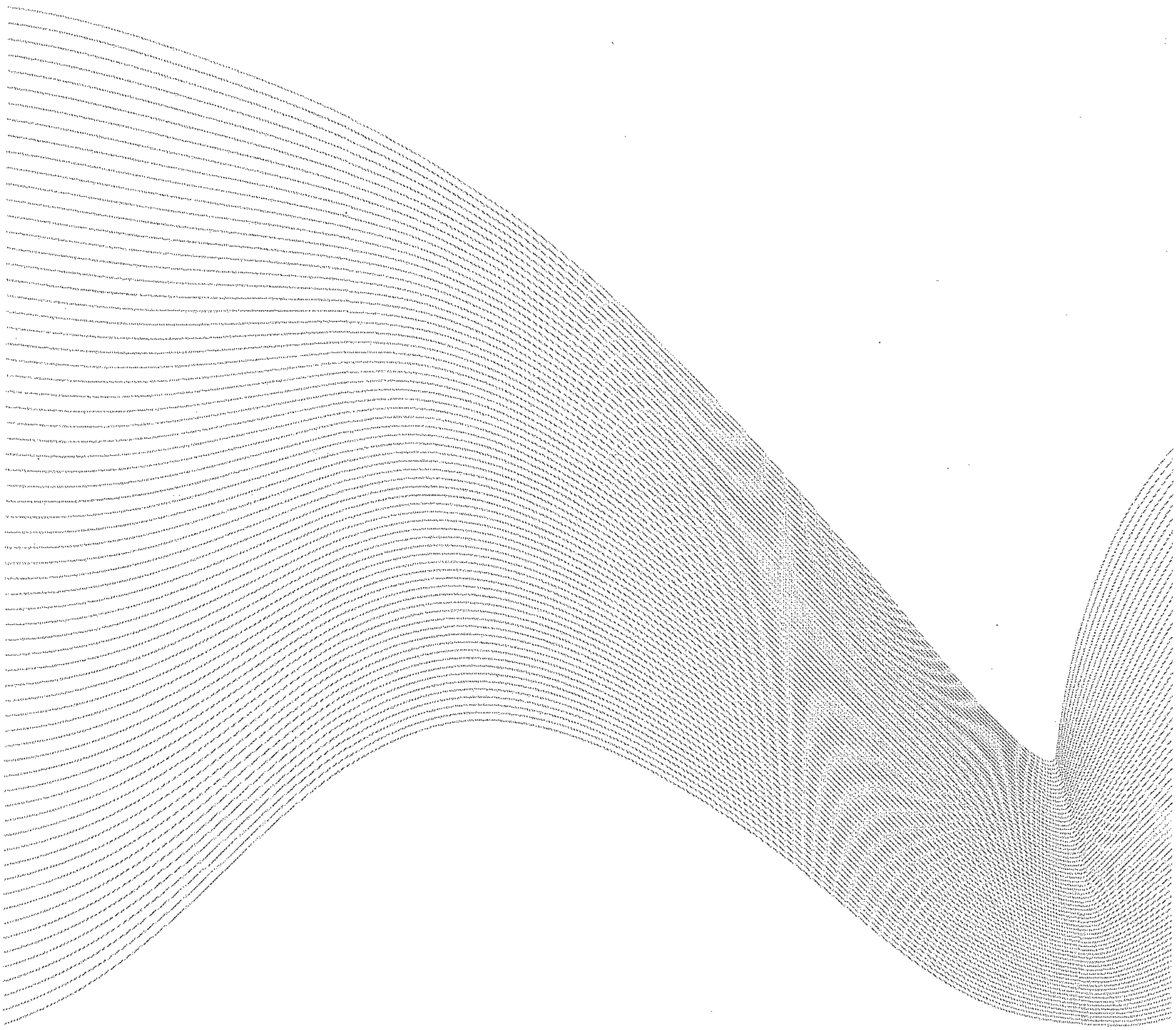
1-800-434-1235

Residential, farm and small business accounts:
1-888-664-9376

Business accounts:
1-877-447-4412

Auditors
KPMG LLP



To learn more about what Hydro One is doing to deliver electricity, build for the future and keep the environment healthy, visit

www.HydroOne.com.

HYDRO ONE NETWORKS INC.

BRIDGE YEAR (2012) QUARTERLY REPORTS

Included in this exhibit are the following 2012 quarterly reports:

Attachment 1: 2012 First Quarter MD&A

Attachment 2: 2012 Second Quarter MD&A

RESULTS OF OPERATIONS

As used in this section, references to increases and decreases, whether in terms of amounts or percentages, are made by comparison of the three months ended March 31, 2012 to the three months ended March 31, 2011. On January 1, 2012, Hydro One Inc. adopted United States (US) Generally Accepted Accounting Principles (GAAP) as its approved basis for accounting and financial reporting.

Revenues

Three months ended March 31 (Canadian dollars in millions)	2012	2011	$ Change	% Change
Transmission	361	351	10	3
Distribution	1,091	1,093	(2)	-
Other	16	16	-	-
	1,468	1,460	8	1
Average Ontario 60- minute peak demand (MW) [1]	20,712	21,757	(1,045)	(5)
Distribution - units distributed to customers (TWh) [1]	7.8	8.3	(0.5)	(6)

[1] System-related statistics are preliminary

The demand for electricity generally follows normal weather-related variations, and therefore our energy-related revenues, all other things being equal, will tend to be higher in the first and third quarters than in the second and fourth quarters.

Transmission

Transmission revenues predominantly consist of our transmission tariff, which is based on the monthly peak demand for electricity across our high-voltage network. The tariff is designed to recover revenues necessary to support a transmission system with sufficient capacity to accommodate the maximum expected demand. Demand is primarily influenced by weather and economic conditions. Transmission revenues also include export revenues associated with transmitting excess generation to surrounding markets and ancillary revenues which are mostly attributable to maintenance services provided primarily to generators and secondary use of our land rights.

Our transmission revenues were higher by $10 million, or 3%, compared to the same period in 2011. On December 23, 2010, the Ontario Energy Board (OEB) rendered its decision with reasons on our 2011 and 2012 transmission rate applications. This decision followed extensive oral and written reviews of our evidence submitted for the necessary funding in support of system requirements. On November 23, 2011, the OEB issued its decision with reasons that approved the use of US GAAP as the approved basis for setting rates within our Transmission Business. In that decision, the OEB also approved adjustments to our previously approved 2012 transmission revenue requirement, capital expenditure levels and rate base consistent with those we proposed in our evidence. On December 20, 2011, effective January 1, 2012, the OEB approved new transmission tariff rates for 2012 that will support our aging critical infrastructure and the Province of Ontario’s (Province) supply mix objectives for generation, including off-coal initiatives and investments in support of the Green Energy Act (GEA). These decisions resulted in higher revenues of $26 million.

Our increased transmission tariff revenues were partially offset by a lower average monthly peak demand experienced during the first quarter of 2012. The average Ontario 60-minute peak demand was 1,045 MW lower than in the same period last year, resulting in lower revenues of $14 million. This reduction in demand was attributable to generally milder weather over the winter months compared to the same period last year. We also experienced lower transmission revenues of $2 million compared to last year following the completion of our recovery of a transmission regulatory account effective December 31, 2011.

Distribution

Distribution revenues include our distribution tariff and amounts to recover the cost of purchased power used by our customers. Accordingly, distribution revenues are influenced by the amount of electricity we distribute, the cost of purchased power and our distribution tariff rates. Distribution revenues also include minor ancillary distribution services revenues, such as fees related to the joint use of our distribution poles by the telecommunications and cable television industries as well as miscellaneous charges, such as those charged for late payments.

Our distribution revenues decreased by $2 million in the first quarter of 2012 compared to the same period last year. Lower energy consumption contributed to a reduction in our distribution revenues of $17 million, primarily as a result of the milder winter experienced this year. This reduction in our distribution revenues was partially offset by increased recovery of higher purchased power costs of $10 million, as described below in the section "Purchased Power." In addition, we earned increased distribution revenues of $5 million compared to the prior year related to our placement in-service of new smart grid and smart meter investments, which are currently recovered through separate rate mechanisms.

Purchased Power

Purchased power costs incurred by our Distribution Business represent the cost of electricity delivered to customers within our distribution service territory. These costs comprise the wholesale commodity cost of energy, the Independent Electricity System Operator's (IESO) wholesale market service charges, and transmission charges levied by the IESO. The commodity cost of energy for certain low-volume and designated customers is based on the OEB's Regulated Price Plan (RPP), which consists of a two-tiered pricing structure with threshold amounts and a separate pricing structure for RPP customers on time-of-use (TOU) billing, both of which are adjusted twice annually. We began transitioning our RPP customers to TOU billing May 1, 2010 and substantially all of our RPP customers are now on TOU billing. Customers who are not eligible for the RPP pay the market price for electricity, adjusted for the difference between market prices and the prices paid to generators under the *Electricity Restructuring Act, 2004*. A summary of the RPP for the reporting and comparative periods is provided below.

Summary of RPP

	Tier Threshold (kWh/month)		Tier Rates (cents/kWh)	
Effective Date	**Residential**	**Non-Residential**	**First Tier**	**Second Tier**
November 1, 2010	1,000	750	6.4	7.4
May 1, 2011	600	750	6.8	7.9
November 1, 2011	1,000	750	7.1	8.3

RPP TOU	**Rates (cents/kWh)**		
Effective Date	**On Peak**	**Mid Peak**	**Off Peak**
November 1, 2010	9.9	8.1	5.1
May 1, 2011	10.7	8.9	5.9
November 1, 2011	10.8	9.2	6.2

Purchased power costs increased in 2012 by $10 million, or 1%, to $729 million compared to the same period in 2011. This increase was primarily due to the impact of changes in the OEB's RPP rates for residential and other eligible customers of $36 million, higher purchased power costs of $10 million for customers who are ineligible for the RPP and increased transmission charges of $9 million following from the OEB's transmission rate decisions that were effective January 1, 2012. The effect of these increases was partially offset by a lower demand for electricity that reduced our year-over-year purchased power costs by $41 million and a $4 million reduction in wholesale market service charges levied by the IESO compared to the same quarter last year.

Operation, Maintenance and Administration

Our operation, maintenance and administration costs consist of labour, material, equipment and purchased services which support the operation and maintenance of the transmission and distribution systems. Also included in these costs are property taxes and payments in lieu thereof on our transmission and distribution lines, stations and buildings.

Operation, maintenance and administration costs for each of our three business segments were as follows:

Three months ended March 31 (Canadian dollars in millions)	**2012**	**2011**	**$ Change**	**% Change**
Transmission	112	106	6	6
Distribution	140	142	(2)	(1)
Other	10	14	(4)	(29)
	262	262	-	-

Transmission

Transmission operation, maintenance and administration expenditures incurred to sustain our high-voltage transmission stations, lines and rights-of-way increased by $6 million, or 6%, in 2012 compared to the same period last year. Within our work programs, we continued to invest in the safe and reliable operation of our transmission system that spans Ontario. Our work program requirements were higher by $2 million compared to last year. In the quarter, we incurred expenditures of $7 million related to the Ontario Power Authority's (OPA) recommendation to increase short circuit and/or transformer capacity at 10 of our transmission stations to enable the connection of small renewable projects, for which recovery is restricted (see "Future Capital Expenditures"). The impact of these expenditures was partially offset by lower requirements by our Transformer Midlife Refurbishment Program following the accelerated completion of critical transformer work last year, lower levels of station-related corrective maintenance, particularly for power equipment, and recoveries associated with an insurance settlement. In addition, we experienced lower requirements in the quarter related to our environmental on-site oil leak reduction program. Our expenditures in support of our transmission system have increased by $4 million, primarily reflecting higher information technology expenditures.

Distribution

Distribution operation, maintenance and administration expenditures required to maintain our low-voltage distribution system decreased by $2 million, or 1%, compared to the comparable period. Our work program expenditures increased by $1 million, primarily as the result of increased power restoration expenditures consistent with a higher volume of trouble calls and storm activity during the quarter. We also experienced increased year-over-year forestry program expenditures as we took advantage of favourable weather conditions. These increases were partially offset by lower planned line corrective maintenance requirements given our smaller program this year. Our expenditures in support of our distribution system decreased by $3 million, reflecting a redirection of resources in support of our Transmission Business, partly offset by higher information technology expenses and investments supporting our Customer Information System (CIS) phase of our entity-wide information system replacement and improvement project.

Depreciation and Amortization

Depreciation and amortization expense increased by $8 million, or 6%, to $152 million in the first quarter compared to the same period last year. This increase was attributable to higher depreciation of approximately $9 million resulting from our placement of new assets in service, consistent with our ongoing capital work program. This was partially offset by a reduction of $1 million in the amortization of our regulatory and other assets.

Financing Charges

Financing charges of $83 million decreased slightly by $1 million, or 1%, compared to the first quarter of 2011. The decrease resulted from higher interest capitalized of $4 million reflecting higher interest capitalization rates used on construction in progress, offset by a $3 million increase in long-term debt interest expense primarily as a result of an increased average level of debt, partially offset by a lower average effective interest rate.

Provision for Payments in Lieu of Corporate Income Taxes

The provision for payments in lieu of corporate income taxes decreased by $7 million, or 18%, to $32 million compared to 2011. This decrease was a result of a reduction in the statutory tax rate from 28.25% to 26.25% effective January 1, 2012, lower levels of pre-tax income compared to the comparative period in the prior year, as well as a small change to net temporary differences.

Net Income

Net income of $210 million for the quarter was slightly lower than our comparable 2011 results by $2 million, or 1%. During the first quarter of 2012, our net revenues were impacted by unseasonably warm weather resulting in decreased transmission peak demands and lower distribution consumption. In addition, our net income reflects higher depreciation and amortization costs resulting from our placement of new assets in service consistent with our increased capital work program. These impacts were partially offset by new OEB-approved Uniform Transmission Rates effective January 1, 2012 that will support our aging critical infrastructure and the supply mix objectives for generation, including off-coal initiatives and investments in support of the Green Energy Act. Our net income was also positively impacted by a lower statutory income tax rate that became effective January 1, 2012.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth unaudited quarterly information for each of the eight quarters from June 30, 2010 through March 31, 2012. This information has been derived from our unaudited interim Consolidated Financial Statements which include all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of our financial position and results of operations for those periods. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict our future performance.

(Canadian dollars in millions)	**2012**		**2011**				**2010**	
Quarter ended	**Mar. 31**	**Dec. 31**	**Sep. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**[2]	**Sep. 30**[2]	**Jun. 30**[2]
Total revenue[1]	1,468	1,359	1,384	1,268	1,460	1,280	1,360	1,165
Net income[1]	210	120	167	142	212	99	218	105
Net income to common shareholder[1]	206	115	163	137	208	94	214	100

[1] The demand for electricity generally follows normal weather-related variations, and therefore our electricity-related revenues and profit, all other things being equal, would tend to be higher in the first and third quarters than in the second and fourth quarters.

[2] Based on Canadian GAAP. US GAAP results would not differ significantly.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity and capital resources are funds generated from our operations, debt capital market borrowings and bank financing. These resources will be used to satisfy our capital resource requirements, which continue to include our capital expenditures, servicing and repayment of our debt, payments related to our outsourcing arrangements, investing activities, and dividends.

Summary of Sources and Uses of Cash

Three months ended March 31 (Canadian dollars in millions)	**2012**	**2011**
Operating activities	237	240
Financing activities		
Long-term debt issued	300	300
Long-term debt retired	-	(250)
Dividends paid	(281)	(42)
Investing activities		
Capital expenditures	(317)	(295)
Other financing and investing activities	1	3
Net change in cash and cash equivalents	(60)	(44)

Operating Activities

Net cash from operating activities decreased by $3 million, or 1%, to $237 million compared to the same period last year. The decrease primarily reflects reductions in taxes payable, resulting from a payment made in the first quarter of 2012 related to the 2011 taxation year, and changes in certain regulatory account balances. These reductions were largely offset by changes in accounts receivable balances compared to the same period last year in line with changes in revenue in the same periods, and to improved accounts receivable collection cycles.

Financing Activities

Short-term liquidity is provided through funds from operations, our Commercial Paper Program under which we are authorized to issue up to $1,000 million in short-term notes with a term to maturity of less than 365 days, our revolving credit facility and through our holding of Province of Ontario Floating-Rate Notes.

Our Commercial Paper Program is supported by a total of $1,500 million in liquidity facilities comprised of our $1,250 million committed revolving credit facility with a syndicate of banks, which matures in June 2014, and our holding of $250 million of Province of Ontario Floating-Rate Notes. The short-term liquidity under this program and anticipated levels of funds from operations should be sufficient to fund our normal operating requirements.

As at March 31, 2012, we had $8,275 million in long-term debt outstanding, including the current portion. Our notes and debentures mature between 2012 and 2051. Long-term financing is provided by our access to the debt markets, primarily through our Medium-Term Note (MTN) Program. The maximum authorized principal amount of medium-term notes issuable under this program is $3,000 million. As at March 31, 2012, $2,300 million remains available until September 2013.

	Rating	
Rating Agency	**Short-term Debt**	**Long-term Debt**
DBRS Limited	R-1 (middle)	A (high)
Moody's Investors Service Inc.[2]	Prime-1	A1
S&P[1]	A-1	A+

[1] On April 25, 2012, S&P revised their outlook on our company to negative from stable.
[2] On April 27, 2012, Moody's Investors Service Inc. downgraded our senior unsecured rating to A1 from Aa3.

We have the customary covenants normally associated with long-term debt. Among other things, our long-term debt covenants limit our permissible debt as a percentage of our total capitalization, limit our ability to sell assets and impose a negative pledge provision, subject to customary exceptions. The credit agreements related to our credit facilities have no material adverse change clauses that could trigger default. However, the credit agreements require that we provide notice to the lenders of any material adverse change within three business days of the occurrence. The agreements also provide limitations that debt cannot exceed 75% of total capitalization and that debt issued by our subsidiaries cannot exceed 10% of the total book value of our assets. We were in compliance with all these covenants and limitations as at March 31, 2012.

In the first quarter of 2012, we successfully issued $300 million in cost-effective long-term debt under our MTN Program and no long-term debt matured in the period. In the first quarter of 2011, we issued $300 million in long-term debt under our MTN Program and repaid $250 million in maturing long-term debt. In the first quarters of 2012 and 2011, we did not issue any short-term notes and we had no short-term notes outstanding as at either March 31, 2012 or March 31, 2011.

Common dividends are declared at the sole discretion of our Board of Directors, and are recommended by management based on results of operations, maintenance of the deemed regulatory capital structure, financial condition, cash requirements, and other relevant factors such as industry practice and shareholder expectations. Common dividends pertaining to our quarterly financial results are generally declared and paid in the immediately following quarter.

In the first quarter of 2012, we paid dividends to the Province in the amount of $281 million, consisting of $277 million in common dividends and $4 million in preferred dividends. In the comparative period, we paid common dividends of $38 million and preferred dividends of $4 million.

Our objectives with respect to our capital structure are to maintain effective access to capital on a long-term basis at reasonable rates and to deliver appropriate financial returns to our shareholder. In order to ensure ongoing effective access to capital, we target an "A" category long-term credit rating.

Investing Activities

Cash used for investing activities, primarily representing capital expenditures to enhance and reinforce our transmission and distribution infrastructure in the public interest, was as follows:

Three months ended March 31 (Canadian dollars in millions)	**2012**	**2011**	**$ Change**	**% Change**
Transmission	187	172	15	9
Distribution	127	123	4	3
Other	3	-	3	100
	317	295	22	7

Transmission

Our transmission capital expenditures increased by $15 million, or 9%, to $187 million compared to the first quarter in 2011. Expenditures to expand and reinforce our transmission system were $93 million, representing an increase of $3 million from the comparable period last year. The majority of our expenditures were made on inter-area network projects to support the Province’s supply mix objectives for generation, although we continue to make significant investments on load customer connection and local area supply projects to address growing loads. The year-over-year increase in our expenditures results from our local area supply projects progressing into their build phases, investments in our transformer stations related to the Advanced Distribution System (ADS) Project, as well as increased investments related to our transmission projects and upgrades to safely and reliably accommodate additional renewable energy. The impacts of these increases were offset during the quarter by lower expenditures related to inter-area network upgrade projects that were completed in the last quarter of last year, including the installation of complex static var compensators (SVCs) at our Nanticoke, Detweiler, Porcupine and Kirkland Lake transformer stations.

Our inter-area network projects include our Bruce to Milton Transmission Reinforcement Project to connect refurbished nuclear and new wind generation sources in the Huron-Grey-Bruce area. Our local area supply project expenditures include investments in our Switchyard Reconstruction Project at our Burlington Transformer Station, which will address aging infrastructure and increase the load supply capacity to ensure reliability of supply to customers in the area. Together with Toronto Hydro-Electric System Limited, we continue to invest in our Midtown Electricity Infrastructure Renewal project to replace aging cable and overhead line facilities and to provide additional supply capability to meet future load growth in midtown Toronto as well as areas to the west. During the quarter, we also incurred expenditures related to our Woodstock Area Transmission Reinforcement Project to increase capacity and ensure supply reliability in the Woodstock area. This project was successfully put into service on March 26, 2012.

Expenditures to sustain our existing transmission system were $82 million, representing an increase of $9 million compared to the same period in 2011. This increase was primarily related to the refurbishment and replacement of end-of-life equipment at our transformer stations in order to improve reliability. We also incurred higher expenditures related to the advancement of our wood pole replacement program.

Our other transmission capital expenditures were $12 million, representing an increase of $3 million compared to the same quarter in the prior year. The majority of these expenditures were related to fleet acquisitions and to information technology investments.

Distribution

Our distribution capital expenditures increased by $4 million, or 3%, to $127 million in the first quarter of 2012, compared to the same period last year.

Capital expenditures to expand and reinforce our distribution network were $55 million, representing a reduction of $8 million compared to last year. We experienced reduced expenditures within our Smart Meter Project compared to last year as it is nearing completion. This impact was partially offset by our continued investments in our ADS Project.

Expenditures to sustain our distribution system were $45 million, representing a decrease of $2 million from the same period in 2011. Our sustainment program was impacted by the timing of capital contributions received in respect of work for joint use and relocation of our lines. This impact was partially offset by additional requirements for emergency restoration work as a result of increased storm activity this year combined with increased work for our lines program as resources were utilized early in the year to advance the program given favourable weather conditions.

Our other distribution capital expenditures were $27 million, representing an increase of $14 million from the first quarter in 2011. This increase is primarily attributable to expenditures for the CIS phase of our entity-wide information system replacement and improvement project. In addition to replacing end-of-life systems, this implementation will result in process improvements which are expected to provide many benefits including enhancements to customer satisfaction through reduced call times and first call resolution of issues given faster availability of information.

Future Capital Expenditures

Our capital expenditures for 2012 are budgeted at approximately $1.8 billion. Our 2012 capital budgets for our transmission and distribution businesses are about $1 billion and $0.8 billion respectively. Consolidated capital expenditures are also expected to be approximately $1.8 billion in each of 2013 and 2014. These expenditure levels reflect meeting the sustainment requirements of our aging infrastructure. Our sustainment program is budgeted at approximately $700 million in 2012, $950 million in 2013 and $1,000 million in 2014. Our development projects include the ADS, inter-area network upgrades that reflect supply mix policies, local area supply requirements, and requirements to enable Distributed Generation (DG). Our development expenditures are budgeted at approximately $750 million in 2012, $600 million in 2013 and $550 million in 2014. These development investments also reflect customer demand work. Other budgeted capital expenditures are budgeted at approximately $350 million in 2012 and $250 million in each of 2013 and 2014. These expenditures include investments to replace our end-of-life customer billing system and to realize increased productivity from our enterprise-wide SAP platform.

On December 22, 2010, we received a letter from the Minister of Energy requesting us to proceed with the necessary planning and development work for specified transmission projects and upgrades to safely and reliably accommodate additional renewable energy. The estimated capital expenditures associated with these projects and upgrades to the system are anticipated to be up to approximately $700 million over a period to the in-service dates of these projects and the applicable expenditures are reflected in our budgets. On February 28, 2011, the OEB amended our subsidiary Hydro One Networks Inc.'s (Hydro One Networks) transmission licence in accordance with a directive from the Minister of Energy. This licence amendment requires Hydro One Networks to develop and seek approvals for these projects in accordance with recommendations from the OPA. In a letter dated April 7, 2011, to accommodate small-scale renewable generation, the OPA provided the scope and timing requirements to increase short circuit and/or transformer capacity at 10 of 15 transformer stations noted in the licence. Six of these upgrades have been completed and we are currently anticipating that one additional station upgrade will be placed in-service in the remainder of 2012. For the remaining three upgrades, alternative solutions have been identified. The overall capital cost for the stations is estimated to be up to $50 million. On June 30, 2011, we received a letter from the OPA recommending the scope and timing to reconductor two circuits between Sarnia and London. This West of London Transmission Upgrade Project will enable the connection of additional renewable generation in the west of London area. This project has a required in-service date of December 2014. On October 3, 2011, we received a letter from the OPA recommending the scope and timing of a Southwestern Ontario Reactive Compensation Priority Project, formerly known as the Southwestern Ontario Series Compensation Project. After consideration of the options, the OPA recommended that we install a SVC at our Milton Switching Station to increase the transmission capability of the Bruce transmission system. We are awaiting an OPA recommendation regarding the construction of a new transmission line west of the City of London.

In accordance with the memorandum of agreement between Her Majesty the Queen in Right of the Province of Ontario as represented by the Minister of Energy (the Shareholder) and our company, the Shareholder made a declaration, dated April 19, 2011, pursuant to subsection 108 (3) of the *Business Corporations Act (Ontario)* pertaining to the cost recovery of the expenditures related to the February 28, 2011 licence condition amendment. Specifically, the rights, powers and duties of our company's Directors have been restricted with regard to any decisions regarding: the pursuit of cost recovery by Hydro One Networks from micro feed in tariff (FIT) and small-scale (capacity allocation exempt) FIT generation projects or proponents thereof for costs related to investments and expenditures made, or required to be made, by Hydro One Networks in order to appropriately fund the upgrades at up to 15 transformer stations pursuant to the February 28, 2011 licence condition amendment made to Hydro One Networks' transmission licence; the pursuit of cost recovery by Hydro One Networks of such costs through regulatory processes designed to ultimately recover costs from Ontario electricity consumers through electricity rates; and whether or not to pursue and implement internal cost recovery or cost mitigation measures designed to offset the costs associated with the upgrades, and to pursue further cost minimization strategies and to increase overall cost efficiencies within our company, including the timing of any such decisions. In 2011, we spent approximately $19 million on these projects, and in the first quarter of 2012 we spent an additional $7 million, all of which was charged to results of operations.

In August 2010, the OEB introduced a framework for competitive designation for the development of eligible transmission projects. As a result, we did not include in our budgeted capital expenditures any projects that could meet the definition of expansion under the OEB's competitive framework. We will not undertake large capital expenditures without a reasonable expectation of recovering them in our rates, with the exception of the transformer station upgrades noted above.

Summary of Contractual Obligations and Other Commercial Commitments

The following table presents a summary of our debt and other major contractual obligations, as well as other major commercial commitments.

March 31, 2012 (Canadian dollars in millions)	**Total**	**2012[1]**	**2013/2014**	**2015/2016**	**After 2016**
Contractual Obligations *(due by year)*					
Long-term debt – principal repayments	8,275	600	1,350	1,000	5,325
Long-term debt – interest payments	6,806	344	736	634	5,092
Inergi LP (Inergi) outsourcing agreement[2]	386	103	262	21	-
Operating lease commitments	54	7	17	10	20
Environmental and asset retirement obligations[3]	326	27	61	48	190
Total Contractual Obligations	15,847	1,081	2,426	1,713	10,627
Other Commercial Commitments *(by year of expiry)*					
Bank line[4]	1,250	-	1,250	-	-
Letters of credit[5]	125	124	1	-	-
Guarantees[5]	326	326	-	-	-
Pension[6]	125	125	-	-	-
Total Other Commercial Commitments	1,826	575	1,251	-	-

[1] The amounts disclosed represent the amounts due over the period April 1, 2012 to December 31, 2012.

[2] On May 1, 2010, we extended our Master Services Agreement with Inergi for a further three-year period. The term of the agreement, which would otherwise have expired on February 29, 2012, has been extended to February 28, 2015. Under the extended agreement, Inergi will provide business processing and information technology outsourcing services, as well as core system support related primarily to SAP implementation and optimization. The amounts disclosed include an estimated annual inflation adjustment in the range of 1.8% to 3.0%.

[3] We record a liability for the estimated future expenditures associated with the phase-out and destruction of polychlorinated biphenyl (PCB)-contaminated insulating oil from electrical equipment and for the assessment and remediation of contaminated lands, as well as asset retirement obligations for the removal of asbestos-contaminated materials from our facilities and the decommissioning and removal of certain switching stations. The expenditure pattern reflects our planned work programs for the periods.

[4] In support of our liquidity requirements, we have a $1,250 million revolving standby credit facility with a syndicate of banks that matures in June 2014. On April 13, 2012, we received unanimous consent from the syndicate of banks to extend the maturity date to June 1, 2017.

[5] We currently have outstanding bank letters of credit of $124 million relating to retirement compensation arrangements. The other $1 million included in letters of credit pertains to operating letters of credit. We have also provided prudential support to the IESO on behalf of our subsidiaries as required by the IESO's Market Rules, using parental guarantees of up to a maximum of $325 million and on behalf of two distributors using guarantees of up to a maximum of $660 thousand. On April 27, 2012, our highest credit rating declined from the "Aa" category to the "A" category. Based on this credit rating category, we estimate that we will be required to provide prudential support of between $10 million and $35 million in the form of letters of credit or Government of Canada T-bills. On May 9, 2012, we provided letters of credit in the amount of approximately $14 million to meet our current requirement.

[6] Contributions to the pension fund are generally made one month in arrears. Contributions for 2012 are based on an actuarial valuation filed in September 2010 and effective December 31, 2009. Our annual pension contributions for 2012 will be approximately $163 million based on the expected level of pensionable earnings. Future minimum contributions will be based on an actuarial valuation effective no later than December 31, 2012 and will depend on future investment returns, changes in benefits or actuarial assumptions. Pension contributions beyond 2012 are not estimable at this time.

The amounts in the above table under long-term debt – principal repayments are not charged to our results of operations, but are reflected on our Consolidated Balance Sheets and Consolidated Statements of Cash Flows. Interest associated with this debt is recorded under financing charges on our Consolidated Statements of Operations and Comprehensive Income or in our capital programs. Payments in respect of operating leases and our outsourcing agreement with Inergi are recorded under operation, maintenance and administration expense on our Consolidated Statements of Operations and Comprehensive Income or within our capital expenditures.

RELATED PARTY TRANSACTIONS

Related party transactions primarily consist of our transmission revenues received from, and our power purchases payments made to, the IESO, which is a related party by virtue of its status as an agency of our shareholder, the Province. The year-over-year changes related to these amounts are described more fully in the discussion of our transmission revenues and purchased power costs. Other significant related party transactions include our dividends which are paid to the Province and our payments in lieu of corporate income taxes which are paid or payable to the Ontario Electricity Financial Corporation (OEFC). In January 2010, we purchased $250 million of Province of Ontario Floating Rate Notes, maturing on November 19, 2014, as a form of alternate liquidity to supplement our bank credit facilities.

CONSIDERATIONS OF CURRENT ECONOMIC CONDITIONS

Pension

During the first quarter of 2012, we contributed $38 million into our pension plan and incurred $52 million in net periodic pension benefit cost based on an actuarial valuation effective December 31, 2009 that was filed in September of 2010. Actuarial valuations are minimally required to be filed every three years. We currently estimate our annual pension contributions to be approximately $163 million in 2012 based on the projected level of pensionable earnings. Future minimum contributions will be based on an actuarial valuation effective no later than December 31, 2012 and will depend on future investment returns, changes in benefits and actuarial assumptions. The plan experienced positive returns of about 4.7% in the first quarter of this year.

TRANSITION TO US GAAP

Accounting Framework for External Reporting

Our unaudited interim Consolidated Financial Statements and accompanying notes as at, and for the three months ended March 31, 2012 have been prepared in accordance with US GAAP. These are our first US GAAP unaudited interim Consolidated Financial Statements. Our first US GAAP annual Consolidated Financial Statements will be dated December 31, 2012.

Our company's Consolidated Financial Statements were prepared in accordance with Canadian GAAP until December 31, 2011. Canadian GAAP differs in some areas from US GAAP as is disclosed in the reconciliation to US GAAP included in Note 17 to the unaudited interim Consolidated Financial Statements as at and for the three months ended March 31, 2012. Descriptions of the effect of the transition from Canadian GAAP to US GAAP on our financial position, financial performance and cash flows as at and for the year ended December 31, 2011 are also provided in Note 17 to our first quarter unaudited interim Consolidated Financial Statements. The accounting policies set out in the unaudited interim Consolidated Financial Statements for the period ended March 31, 2012 have been consistently applied to all the periods presented. The comparative figures in respect of 2011 were restated to reflect the adoption of US GAAP.

Accounting Framework for Rate Setting

In 2011, we applied for and received Ontario Securities Commission (OSC) approval allowing us to adopt US GAAP as the basis for our accounting, external financial reporting and periodic securities filings. Consistent with this OSC decision, in 2011 two of our subsidiaries, Hydro One Networks and Hydro One Remote Communities (Hydro One Remotes) requested that the OEB approve the adoption of US GAAP as the basis for future rate setting and regulatory accounting and reporting in place of the OEB's standard modified IFRS basis. The OEB has granted approval for Hydro One Networks' regulated distribution and transmission businesses and for Hydro One Remotes to adopt US GAAP as their approved regulatory basis for rate setting effective January 1, 2012. We did not make a request to adopt US GAAP for rate setting purposes on behalf of our subsidiary, Hydro One Brampton Networks Inc. (Hydro One Brampton Networks). Hydro One Brampton Networks implemented International Financial Reporting Standards (IFRS) accounting for its 2011 fiscal year. As a result, Hydro One Brampton Networks will have its rates set based on modified IFRS once its current incentive rate setting period is complete.

Debt Covenants

No financial covenants were impacted by our conversion to US GAAP.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

Our transition to US GAAP did not have any significant impact on our internal controls over financial reporting and disclosure controls and procedures.

Financial Reporting Expertise

Given the similarities between US GAAP and Canadian GAAP, there has also been no significant impact from the transition to US GAAP on our financial reporting expertise. Our US GAAP training efforts have been focused on specific areas of difference between the two accounting frameworks and these efforts have been targeted to specific staff, senior executive management and the Audit and Finance Committee of our Board of Directors. We continue to provide additional training to our other finance and operational staff, concentrating on communicating the key differences between Canadian and US GAAP at a level of detail that is appropriate to meet their respective needs. During the remainder of 2012, we will focus our US GAAP training on new accounting and reporting developments and emerging issues.

IT Systems

Given the similarities between US GAAP and Canadian GAAP pertaining to our company, there has been no significant impact from the transition to US GAAP on our information technology systems.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

To optimize our customer service operations, we have started the final phase of our SAP enterprise-wide information system by initiating our CIS Project. This new system will increase productivity by replacing two legacy applications currently providing service to our distribution customers and key constituents for billing, customer contacts, field services, settlements and customer choice administration. With the design phase complete, the CIS Project is currently in the build and test phases. During these phases, internal controls will be tested for adequacy and effectiveness with any remediation effort to be completed prior to the go-live date. In addition to the benefits associated with CIS, we continue to leverage our other SAP enterprise systems to gain other productivity improvements.

In compliance with the requirements of National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, our Certifying Officers have reviewed and certified the unaudited interim Consolidated Financial Statements for the period ended March 31, 2012, together with other financial information included in our quarterly securities filings. Our Certifying Officers have also certified that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to our company is made known within our company. Further, our Certifying Officers have also certified that internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the unaudited interim Consolidated Financial Statements.

RECENT DEVELOPMENTS

Ontario Electricity System Operator

On April 26, 2012, the Government of Ontario introduced Bill 75, to be known as the Ontario Electricity System Operator Act, 2012, which will reflect the amalgamation of the OPA and the IESO. This proposed legislation will amend the Electricity Act, 1998 and the Ontario Energy Board Act, 1998 as well as make some complementary amendments in other legislation. The proposed name for the amalgamated entity is the Ontario Electricity System Operator (OESO). The functions and objects of the OPA and the IESO as presently set out in the Electricity Act, 1998 for each entity will be substantially the same in the amalgamated entity under Bill 75 with a governance structure in place to separate the functions and activities of the OESO related to market operations and procurement and contract management activities.

Southpoint Wind Legal Claim

On April 4, 2012, we received a legal claim by SouthPoint Wind asserting a claim against Hydro One Networks, the OPA, three Ministries of the Provincial Government and Environment Canada for $1.2 billion. The allegations against Hydro One Networks relate to applications Southpoint Wind had made under the Renewable Energy Standard Offer Program (RESOP). All of Southpoint Wind's allegations must be considered in the context of two moratoriums imposed by the Provincial Government on offshore wind projects, which are the projects Southpoint Wind was pursuing in the RESOP and FIT programs. At this point, without further details, it is difficult to assess the factual and legal context of this claim.

OEB Applications

Hydro One Remotes

On April 3, 2012, the OEB approved Hydro One Remotes' request to adopt US GAAP as its basis for rate setting, and regulatory accounting and reporting.

Hydro One Networks

On March 23, 2012, the OEB approved Hydro One Networks' request to adopt US GAAP as its basis for rate setting, and regulatory accounting and reporting within its Distribution Business, consistent with an earlier approval granted to its Transmission Business.

A transmission Cost of Service rate application continues to be planned for 2013 and 2014 rates, with a proposed regulated return on equity based on the application of the OEB's cost of capital report. Regarding our Distribution Business, we have not filed for a 2012 rate adjustment and are currently considering using the OEB's Incentive Rate Mechanism for 2013 and 2014.

Renewed Regulatory Framework for Electricity (RRFE)

Between March 28, 2012 and March 30, 2012, the OEB hosted a stakeholder conference on the five staff discussion papers and supporting consulting reports that it released on November 8, 2011 as part of its coordinated consultation process for the development of a renewed regulatory framework for electricity distributors and transmitters. This initiative was originally launched in late 2010. The sessions followed a series of meetings in February and March 2012 between the Chair of the OEB and sector leaders to discuss the development of the RRFE at a strategic level. The three-day session covered a number of topics, which were supported by different panels and parties. Our company made presentations on regional planning and Incentive Regulation Mechanism filing alternatives. There were consistent messages expressed by participants during these meetings. Key areas of agreement included the ability to recover investments in infrastructure during Incentive Regulation Mechanism periods, the need to prioritize solutions for regional planning and consideration of implications of outcome-based regulation. Stakeholders' written comments were provided to the OEB by April 20, 2012. The OEB plans to make a policy statement in the summer of 2012.

West of London Transmission Upgrade Project

On March 28, 2012, Hydro One Networks filed a Section 92 leave-to-construct application with the OEB for our West of London Transmission Upgrade Project. The project is anticipated to enable the connection of approximately 500 MW of additional renewable generation in the west of London area, depending on various future conditions.

Provincial Budget

On March 27, 2012, the Province tabled its 2012-2013 Budget, *Strong Action for Ontario*, aimed at eliminating Ontario's deficit by 2017-2018. Included were several items aimed at reducing costs within the greater public sector, within the energy sector specifically, and on energy bills. As a result of the budget, on April 18, 2012, the Minister of Energy announced the Province's plans to merge the OPA and the IESO into a single organization, as noted above, in order to achieve cost savings and improve the effectiveness of the two organizations. Also as a result of the budget, on April 13, 2012, the Province announced that it is launching a comprehensive review of Ontario's electricity sector. The review will explore options to improve efficiencies, including opportunities for additional consolidation of local distribution companies. Another part of this review is an independent benchmarking study of electricity agencies. The Budget was passed in the Ontario Legislature on April 24, 2012.

FIT Program Review

On March 22, 2012, the Province announced the results of its scheduled two-year FIT Program Review (the Review). The Review reaffirmed the Province's commitment to develop clean energy in Ontario and stated that Ontario is on-track to achieve the target of 10,700 MW of non-hydroelectric renewable generation by 2015. Recommendations resulting from the Review included: creating more jobs sooner by streamlining the regulatory approvals process while maintaining the highest environmental standards; reducing FIT prices for solar by approximately 20% on average and wind prices by approximately

15%; encouraging greater community and Aboriginal participation through a new priority point system which will also prioritize projects with municipal support; reserving 10% of remaining capacity for projects with significant participation from local or Aboriginal communities; and developing a Clean Energy Economic Development Strategy to leverage Ontario's significant expertise and strengths to become a global leader in the sector. On April 5, 2012, the Province formally directed the OPA to implement the recommendations from the Review.

The Drummond Report

On February 15, 2012, the Province released the report by the Commission on the Reform of Ontario's Public Services, authored by economist Don Drummond. The report, *Public Services for Ontarians: A Path to Sustainability and Excellence*, lists several recommendations that have the potential to impact the Ontario electricity distribution sector and the wider electricity industry. A key finding, among others, was the consolidation of Ontario's 80 local distribution companies along regional lines to create economies of scale.

Power Workers' Union (PWU) Appeal

On February 14, 2012, a decision was issued by the Ontario Superior Court of Justice (Divisional Court) dismissing an appeal against the OEB's December 23, 2010 decision with reasons on Hydro One Networks' 2011 and 2012 transmission rate applications. This appeal was initially submitted on January 17, 2011 by the PWU. The PWU had appealed to the Divisional Court asserting that the OEB failed to permit Hydro One Networks to recover its proposed prudently incurred operation, maintenance and administration costs and therefore, that a legal error was made.

SELECTED FINANCIAL HIGHLIGHTS AND RATIOS

Three months ended March 31 (Canadian dollars in millions, except earnings per common share)	**2012**	**2011**
Net income	210	212
Net cash from operating activities	237	240
Capital expenditures	317	295
Earnings per common share	2,054	2,076
Earnings coverage ratio[1]	2.67	2.55
Net asset coverage on long-term debt[2]	1.77	1.81
Total debt to capitalization[3]	57%	55%

[1] The earnings coverage ratio has been presented for the twelve months ended March 31, 2012 and March 31, 2011, respectively and has been calculated as the sum of net income, provision for payments in lieu of corporate income taxes and financing charges divided by the sum of financing charges, capitalized interest and cumulative preferred dividends.

[2] The net asset coverage on long-term debt ratio has been presented as at March 31, 2012 and December 31, 2011 and has been calculated as total assets minus total liabilities excluding long-term debt (including current portion) divided by long-term debt (including current portion).

[3] Total debt to capitalization ratio has been presented as at March 31, 2012 and December 31, 2011 and has been calculated as total debt divided by total debt plus total shareholder's equity and preferred shares.

FORWARD-LOOKING STATEMENTS AND INFORMATION

Our oral and written public communications, including this document, often contain 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. Such statements include, but are not limited to: expectations regarding energy related revenues and profit and their trend; statements related to the use of our approved rates; statements related to the OEB's RRFE; statements about outstanding legal proceedings; statements regarding our liquidity and capital resources and operational requirements; statements about our standby credit facility including its expected interest rate; expectations regarding our financing activities; expectations about our maturing debt and interest payments; statements regarding our ongoing and planned projects and/or initiatives including the expected results of these projects and/or initiatives and their completion dates; expectations regarding the recoverability of liabilities and assets; statements regarding expected future capital and development expenditures, the timing of these expenditures and our investment plans; statements regarding contractual obligations and other commercial commitments; statements related to the expected term of our use of our facilities; expectations regarding the impact of the decline in our credit rating: statements related to Bill 75; expectations regarding the timing and conyent of applications to the OEB; expectations related to decisions from the OEB, including impacts of such decisions on an average residential customer's bill; statements regarding new accounting standards and their anticipated impacts; statements regarding the funding of the Conservation and Demand Management programs; statements relating to the strategies we may use to manage the risks related to our debt portfolio and interest rate exposure; the effect of interest rates on our results of operations; statements regarding the estimated impact of changes in the forecasted long-term Government of Canada bond yield on our results of operations; regarding future pension contributions and our pension plan and actuarial valuation; statements related to the credit risk of our counterparties; expectations regarding our exposure under our supplementary pension plan; the possibility of the Province exercising its right to redeem the preferred shares; expectations regarding anticipated expenditures associated with transferring assets located on Indian lands; statements about our outsourcing arrangement with Inergi; statements about critical accounting estimates; statements about US GAAP and our adoption of US GAAP, including the effects it will have on our revenue requirements; and expectations regarding future payments made under our operating leases. Words such as "expect," "anticipate," "intend," "attempt," "may," "plan," "will", "believe," "seek," "estimate," "goal," "aim," "target," and variations of such words and similar expressions 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.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to the following: no unforeseen changes in the legislative and operating framework for Ontario's electricity market; no unfavourable decisions from the OEB and other regulatory bodies concerning outstanding rate and other applications; no delays in obtaining the required approvals; no unforeseen changes in rate orders or rate structures for our Distribution and Transmission businesses; a stable regulatory environment; no unfavourable changes in environmental regulation; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to us, including information obtained from third-party sources. Actual results may differ materially from those predicted by such forward-looking statements. While we do not know what impact any of these differences may have, our business, results of operations, financial condition and our credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- the impact of the GEA and the Province's Long Term Energy Plan, including unexpected expenditures arising therefrom;
- the risk that unexpected capital expenditures may be needed to support renewable generation or resolve unforeseen technical issues;
- the risk that previously granted regulatory approvals may be subsequently challenged, appealed or overturned;
- public opposition to and delays or denials of the requisite approvals and accommodations for our planned projects;
- the risks associated with being controlled by the Province including the possibility that the Province may make declarations pursuant to the memorandum of agreement, as well as potential conflicts of interest that may arise between us, the Province and related parties;
- the risks associated with being subject to extensive regulation including risks associated with OEB action or inaction;
- unanticipated changes in electricity demand or in our costs;
- the risk that we are not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures and other obligations;
- the risks associated with the execution of our capital and operation, maintenance and administration programs necessary to maintain the performance of our aging asset base;
- the result of regulatory decisions regarding our revenue requirements, cost recovery and rates;

- the risk to our facilities posed by severe weather conditions, natural disasters or catastrophic events and our limited insurance coverage for losses resulting from these events;
- future interest rates, future investment returns, inflation, changes in benefits and changes in actuarial assumptions;
- the risks associated with changes in interest rates;
- the risks of counterparty default on our outstanding derivative contracts;
- the risks associated with current economic uncertainty and financial market volatility;
- the risk that our long-term credit rating would deteriorate;
- the risk that we may incur significant costs associated with transferring assets located on Indian lands;
- the potential that we may incur significant expenses to replace some or all of the functions currently outsourced if our agreement with Inergi is terminated; and
- the impact of the ownership by the Province of lands underlying our transmission system.

We caution the reader that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section Risk Management and Risk Factors in the 2011 Management's Discussion and Analysis (MD&A). You should review this section in detail.

In addition, we caution the reader that information provided in this MD&A regarding our outlook on certain matters, including future expenditures, is provided in order to give context to the nature of some of our future plans and may not be appropriate for other purposes.

This MD&A is dated as at May 10, 2012. Additional information about our company, including our Annual Information Form, is available on SEDAR at www.sedar.com.

RESULTS OF OPERATIONS

As used in this section, references to increases and decreases, whether in terms of amounts or percentages, are made by comparison of the three and six months ended June 30, 2012 to the three and six months ended June 30, 2011, respectively. On January 1, 2012, Hydro One Inc. (Hydro One) adopted United States (US) Generally Accepted Accounting Principles (GAAP) as its approved basis for accounting and financial reporting. Comparative 2011 information is presented under US GAAP, unless otherwise noted.

Revenues

	Three months ended June 30				Six months ended June 30			
(Canadian dollars in millions)	2012	2011	$ Change	% Change	2012	2011	$ Change	% Change
Transmission	370	337	33	10	731	688	43	6
Distribution	974	915	59	6	2,065	2,008	57	3
Other	15	16	(1)	(6)	31	32	(1)	(3)
	1,359	1,268	91	7	2,827	2,728	99	4
Average Ontario 60-minute peak demand (MW) [1]	21,029	20,519	510	2	20,870	21,138	(268)	(1)
Distribution - units distributed to customers (TWh) [1]	6.7	6.5	0.2	3	14.5	14.8	(0.3)	(2)

[1] System-related statistics are preliminary

Electricity demand generally follows normal weather-related variations, and consequently, our energy-related revenues, all other things being equal, will tend to be higher in the first and third quarters than in the second and fourth quarters.

Transmission

Transmission revenues primarily consist of our transmission tariff, which is based on the monthly peak electricity demand across our high-voltage network. The tariff is designed to recover revenues necessary to support a transmission system with sufficient capacity to accommodate the maximum expected demand, as demonstrated by our first quartile reliability results. Demand is primarily influenced by weather and economic conditions. Transmission revenues also include export revenues associated with transmitting excess generation to surrounding markets and ancillary revenues which are mostly attributable to maintenance services provided primarily to generators and secondary use of our land rights.

Our transmission revenues were higher by $33 million, or 10%, in the second quarter of 2012, and by $43 million, or 6%, in the first six months of 2012, compared to the same periods in 2011. On December 23, 2010, the Ontario Energy Board (OEB) rendered its Decision With Reasons on our 2011 and 2012 transmission rate applications. This decision followed extensive oral and written reviews of our evidence submitted for the necessary funding in support of system requirements. On November 23, 2011, the OEB issued its Decision With Reasons which approved the use of US GAAP as the basis for setting rates for our Transmission Business. In that decision, the OEB made adjustments to our previously approved 2012 transmission revenue requirement, capital expenditure levels and rate base, consistent with those proposed in our evidence. On December 20, 2011, effective January 1, 2012, the OEB approved new transmission tariff rates for 2012 that reflect the inclusion of new capital investments in our transmission rate base effective January 1, 2012. These new assets will support our aging critical infrastructure and the Province of Ontario’s (Province) supply mix objectives for generation, including off-coal initiatives and investments in support of the Green Energy Act (GEA). These decisions resulted in higher transmission revenues of $26 million and $52 million for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011.

Our 2012 transmission revenues also increased due to a higher average monthly peak demand experienced during the second quarter of 2012. The average Ontario 60-minute peak demand was 510 MW higher in the second quarter of 2012 than in the same period in 2011, resulting in higher revenues of $13 million. This increase in demand was attributable to warmer weather experienced in the second quarter of 2012, compared to 2011. This increase in our transmission revenues was partially offset by a $2 million decrease associated with OEB-approved regulatory accounts, a $2 million decrease following the completion of recovery of a regulatory account effective December 31, 2011, as well as a $2 million decrease in transmission-related external revenues.

The increase in our 2012 transmission revenues related to OEB rate decisions for the six months ended June 30, 2012 was partially offset by a $5 million decrease following the completion of recovery of a transmission regulatory account effective December 31, 2011, a $2 million reduction associated with OEB-approved regulatory accounts, and a $2 million decrease in transmission-related external revenues and lower average monthly peak demand experienced during the period.

Distribution

Distribution revenues include our distribution tariff and amounts to recover the cost of purchased power used by the customers of our Distribution Business. Our consolidated Distribution Business consists of the separate distribution businesses of our subsidiaries Hydro One Networks Inc. (Hydro One Networks), Hydro One Brampton Networks Inc. (Hydro One Brampton Networks), and Hydro One Remote Communities Inc. (Hydro One Remote Communities). Accordingly, distribution revenues are influenced by the amount of electricity we distribute, the cost of purchased power and our distribution tariff rates. Distribution revenues also include minor ancillary distribution services revenues, such as fees related to the joint use of our distribution poles by the telecommunications and cable television industries as well as miscellaneous charges, such as those charged for late payments.

Our distribution revenues increased by $59 million, or 6%, in the second quarter of 2012, and by $57 million, or 3%, in the first six months of 2012, compared to 2011. These increases were primarily due to the recovery of higher purchased power costs of $53 million and $63 million for the three and six months ended June 30, 2012, respectively, as described below under “Purchased Power”. Our distribution revenues were also higher due to $4 million and $9 million revenue increases for the three and six months ended June 30, 2012, respectively, related to our placement of new smart grid and smart meter investments in-service. These investments are currently recovered through separate rate mechanisms.

Our second quarter revenues also increased by $2 million as we experienced slightly higher energy consumption from warmer weather experienced in the second quarter of 2012 compared to 2011. The increase in our distribution revenues for the six months ended June 30, 2012 was partially offset by a $15 million decrease due to lower energy consumption in the six months ended June 30, 2012, resulting primarily from the milder winter experienced in 2012 compared to 2011.

Purchased Power

Purchased power costs are incurred by our Distribution Business and represent the cost of electricity delivered to customers within our distribution service territory. These costs comprise the wholesale commodity cost of energy, the Independent Electricity System Operator’s (IESO) wholesale market service charges, and transmission charges levied by the IESO. The commodity cost of energy for certain low-volume and designated customers is based on the OEB’s Regulated Price Plan (RPP), which consists of a two-tiered pricing structure with threshold amounts and a separate pricing structure for RPP customers on time-of-use (TOU) billing, both of which are adjusted twice annually. We began transitioning our RPP customers to TOU billing in May 2010, and a large majority of our RPP customers are now on TOU billing. Customers who are not eligible for the RPP pay the market price for electricity, adjusted for the difference between market prices and the prices paid to generators under the *Electricity Restructuring Act, 2004*. A summary of the RPP for the reporting and comparative periods is provided below.

Summary of RPP

	Tier Threshold (kWh/month)		Tier Rates (cents/kWh)	
Effective Date	**Residential**	**Non-Residential**	**First Tier**	**Second Tier**
November 1, 2010	1,000	750	6.4	7.4
May 1, 2011	600	750	6.8	7.9
November 1, 2011	1,000	750	7.1	8.3
May 1, 2012	600	750	7.5	8.8

RPP TOU		Rates (cents/kWh)	
Effective Date	**On Peak**	**Mid Peak**	**Off Peak**
November 1, 2010	9.9	8.1	5.1
May 1, 2011	10.7	8.9	5.9
November 1, 2011	10.8	9.2	6.2
May 1, 2012	11.7	10.0	6.5

Purchased power costs increased by $53 million, or 9%, in the second quarter of 2012, and by $63 million, or 5%, in the first six months of 2012, compared to the same periods in 2011.

The increase in our second quarter purchased power costs was primarily due to an increase of $27 million from changes in the OEB's RPP rates for residential and other eligible customers, a $20 million increase resulting from higher electricity demand, and a $8 million increase due to higher transmission charges resulting from the OEB transmission rate decision effective January 1, 2012. The increase in our 2012 second quarter purchased power costs was partially offset by a $2 million reduction in wholesale market service charges levied by the IESO, compared to 2011.

The increase in our purchased power costs for the six months ended June 30, 2012 was primarily due to an increase of $63 million resulting from the impact of changes in the OEB's RPP rates for residential and other eligible customers, a $17 million increase resulting from the OEB transmission rate decision effective January 1, 2012, and an $11 million increase resulting from higher purchased power costs for customers who are not eligible for the RPP. The increase for the six months ended June 30, 2012 was partially offset by a $21 million decrease related to lower electricity demand, and a $7 million reduction in wholesale market service charges levied by the IESO, compared to 2011.

Operation, Maintenance and Administration

Our operation, maintenance and administration costs consist of labour, material, equipment and purchased services which support the operation and maintenance of the transmission and distribution systems. Also included in these costs are property taxes and payments in lieu thereof related to certain of our transmission and distribution facilities.

Operation, maintenance and administration costs for each of our three business segments were as follows:

	Three months ended June 30				Six months ended June 30			
(Canadian dollars in millions)	**2012**	**2011**	**$ Change**	**% Change**	**2012**	**2011**	**$ Change**	**% Change**
Transmission	102	104	(2)	(2)	214	210	4	2
Distribution	156	155	1	1	296	297	(1)	-
Other	20	16	4	25	30	30	-	-
	278	275	3	1	540	537	3	1

Our Company continues to focus on managing costs, which resulted in a slight increase in total operation, maintenance and administration expenditures in the second quarter and the first six months of 2012, as compared to the same periods in 2011.

Transmission

Transmission operation, maintenance and administration costs incurred to sustain our high-voltage transmission stations, lines and rights-of-way decreased by $2 million, or 2%, to $102 million in the second quarter of 2012, and increased by $4 million, or 2%, to $214 million in the first six months of 2012, compared to the same periods in 2011. Within our work programs, we continued to invest in the safe and reliable operation of our transmission system that spans Ontario. Our work program costs decreased by $4 million in the second quarter of 2012 and by $2 million in the first six months of 2012, compared to 2011, mainly due to lower demand for station-related corrective maintenance, particularly for power equipment, partially offset by increased expenditures related to the Ontario Power Authority's (OPA) recommendation to increase short circuit and/or transformer capacity at 10 of our transmission stations to enable the connection of small renewable projects, for which recovery is restricted (see "Future Capital Expenditures"). Expenditures in support of our transmission system increased by $2 million in the second quarter of 2012 and by $6 million in the first six months of 2012, compared to 2011, mainly due to higher information technology expenditures relating to service contracts, which were partially offset by management cost reduction initiatives.

Distribution

Distribution operation, maintenance and administration costs required to maintain our low-voltage distribution system increased by $1 million in the second quarter of 2012, and decreased by $1 million in the first six months of 2012, compared to 2011. Our work program expenditures were unchanged in the second quarter of 2012, and increased by $1 million in the first six months of 2012, compared to 2011, mainly due to increased forestry program expenditures, resulting from more favourable weather conditions in 2012. The increase in forestry program expenditures in the second quarter of 2012 was offset by decreased power restoration expenditures resulting from lower storm activity in 2012, compared to 2011. Our expenditures in support of our distribution system increased by $1 million in the second quarter of 2012, and decreased by $2 million in the first six months of 2012, compared to 2011, mainly due to higher information technology expenses and investments supporting the Customer Information System (CIS) phase of our entity-wide information system replacement and improvement project, which were more than offset by a redirection of resources in support of our Transmission Business and cost reduction initiatives in the first six months of 2012.

Depreciation and Amortization

Depreciation and amortization expense increased by $7 million, or 5%, in the second quarter of 2012, and by $15 million, or 5%, in the first six months of 2012, compared to 2011. These increases were attributable to higher depreciation expense of $8 million and $17 million in the second quarter and the first six months of 2012, respectively, compared to 2011, related to our placement of new assets in service consistent with our ongoing capital work program. These increases were partially offset by lower asset removal costs during the three and six months ended June 30, 2012, compared to 2011.

Financing Charges

Financing charges increased by $4 million, or 5%, in the second quarter of 2012, and by $3 million, or 2%, in the first six months of 2012, compared to 2011. These increases were primarily due to higher interest expense, related to our long-term debt, of $4 million and $6 million in the second quarter and the first six months of 2012, respectively. This increase was associated with a higher average level of debt, partially offset by a lower average effective interest rate. Higher financing charges in the first six months of 2012 were partially offset by a $3 million increase in interest capitalized, reflecting higher interest capitalization rates used on construction in progress.

Provision for Payments in Lieu of Corporate Income Taxes

The provision for payments in lieu of corporate income taxes decreased by $3 million, or 11%, in the second quarter of 2012, and by $10 million, or 15%, in the first six months of 2012, compared to 2011. These decreases resulted from a reduction in the statutory tax rate from 28.25% to 26.50%, as well as changes in net temporary differences, partially offset by higher levels of pre-tax income, compared to the same periods in 2011.

Net Income

Net income of $169 million for the second quarter of 2012 and $379 million for the first six months of 2012 was higher than our comparable 2011 net income by $27 million, or 19%, and by $25 million, or 7%, respectively.

These increases were primarily due to higher revenues resulting from new OEB-approved Uniform Transmission Rates that were effective January 1, 2012 and which reflect capital investments to address our aging critical infrastructure and the supply mix objectives for generation, including off-coal initiatives and investments in support of the GEA. Second quarter transmission revenues were further impacted by a higher average Ontario 60-minute peak demand. Increased revenues for the first six months of 2012 were partially offset by lower distribution energy consumption resulting from the mild winter in 2012.

Our net income was also positively impacted by lower payments in lieu of corporate income taxes resulting from a lower statutory income tax rate that became effective January 1, 2012, as well as changes in net temporary differences. In addition, our 2012 net income reflects higher depreciation and amortization costs resulting from our placement of new assets in service consistent with our increased capital work program.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth unaudited quarterly information for each of the eight quarters from September 30, 2010 through June 30, 2012. This information has been derived from our unaudited interim Consolidated Financial Statements and our audited annual Consolidated Financial Statements which include all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of our financial position and results of operations for those periods. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict our future performance.

(Canadian dollars in millions)	**2012**		**2011**				**2010**	
Quarter ended	**Jun.30**	**Mar.31**	**Dec.31**	**Sep.30**	**Jun.30**	**Mar.31**	**Dec.31**[2]	**Sep.30**[2]
Total revenue[1]	1,359	1,468	1,359	1,384	1,268	1,460	1,280	1,360
Net income[1]	169	210	120	167	142	212	99	218
Net income to common shareholder[1]	164	206	115	163	137	208	94	214

[1] The electricity demand generally follows normal weather-related variations, and consequently, our electricity-related revenues and profit, all other things being equal, would tend to be higher in the first and third quarters than in the second and fourth quarters.

[2] Based on Canadian GAAP. US GAAP results would not differ significantly.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity and capital resources are funds generated from our operations, debt capital market borrowings and bank financing. These resources will be used to satisfy our capital resource requirements, which continue to include our capital expenditures, servicing and repayment of our debt, payments related to our outsourcing arrangements and dividends.

Summary of Sources and Uses of Cash

	Three months ended June 30		**Six months ended June 30**	
(Canadian dollars in millions)	**2012**	**2011**	**2012**	**2011**
Operating activities	217	334	454	574
Financing activities				
Long-term debt issued	425	-	725	300
Long-term debt retired	-	-	-	(250)
Dividends paid	(30)	(42)	(311)	(84)
Investing activities				
Capital expenditures	(350)	(345)	(667)	(640)
Other financing and investing activities	2	17	(4)	46
Net change in cash and cash equivalents	264	(36)	197	(54)

Operating Activities

Net cash from operating activities decreased by $117 million to $217 million in the second quarter of 2012, and by $120 to $454 million in the first six months of 2012, compared to 2011. These decreases were primarily due to pension plan contributions paid during the second quarter of 2012 that resulted in a prepaid pension contributions asset, partly offset by higher net income compared to the prior year. During the second quarter of 2012, we experienced growth in accounts receivable balances resulting from higher revenues, which were more than offset by improved accounts receivable collection cycles during the first six months of 2012. In addition, for the six months ended June 30, 2012, we experienced a reduction in taxes payable, resulting from a payment made in the first quarter of 2012 related to the 2011 taxation year.

Financing Activities

Short-term liquidity is provided through funds from operations, our Commercial Paper Program, under which we are authorized to issue up to $1,000 million in short-term notes with a term to maturity of less than 365 days, our revolving credit facility and through our holding of Province of Ontario Floating-Rate Notes.

Our Commercial Paper Program is supported by a total of $1,500 million in liquidity facilities comprised of our $1,250 million committed revolving credit facility with a syndicate of banks, which matures in June 2017, and our holding of $250 million of Province of Ontario Floating-Rate Notes. The short-term liquidity under this program and anticipated levels of funds from operations should be sufficient to fund our normal operating requirements.

As at June 30, 2012, we had $8,726 million in long-term debt outstanding, including the current portion. Our notes and debentures mature between 2012 and 2051. Long-term financing is provided by our access to the debt markets, primarily through our Medium-Term Note (MTN) Program. The maximum authorized principal amount of medium-term notes issuable under this program is $3,000 million. As at June 30, 2012, $1,875 million remained available until September 2013.

	Rating	
Rating Agency	**Short-term Debt**	**Long-term Debt**
DBRS Limited	R-1 (middle)	A (high)
Moody's Investors Service Inc.[1]	Prime-1	A1
S&P[2]	A-1	A+

1 On April 27, 2012, Moody's Investors Service Inc. downgraded our senior unsecured rating to A1 from Aa3.
2 On April 25, 2012, S&P revised their outlook on our company to negative from stable.

We have the customary covenants normally associated with long-term debt. Among other things, our long-term debt covenants limit our permissible debt as a percentage of our total capitalization, limit our ability to sell assets, and impose a negative pledge provision, subject to customary exceptions. The credit agreements related to our credit facilities have no material adverse change clauses that could trigger default. However, the credit agreements require that we provide notice to the lenders of any material adverse change within three business days of the occurrence. The agreements also provide limitations that debt cannot exceed 75% of total capitalization and that third party debt issued by our subsidiaries cannot exceed 10% of the total book value of our assets. We were in compliance with all these covenants and limitations as at June 30, 2012.

In the second quarter and the first six months of 2012, we successfully issued $425 million and $725 million, respectively, in cost-effective long-term debt under our MTN Program, and no long-term debt matured in 2012. In the first six months of 2011, we issued $300 million in long-term debt under our MTN Program and repaid $250 million in maturing long-term debt, all in the first quarter. In the first six months of 2012 and 2011, we did not issue any short-term notes and had no short-term notes outstanding as at either June 30, 2012 or June 30, 2011.

Common dividends are declared at the sole discretion of our Board of Directors, and are recommended by management based on results of operations, maintenance of the deemed regulatory capital structure, financial condition, cash requirements, and other relevant factors such as industry practice and shareholder expectations. Common dividends pertaining to our quarterly financial results are generally declared and paid in the immediately following quarter.

In the second quarter of 2012, we paid dividends to the Province in the amount of $30 million, consisting of $25 million in common dividends and $5 million in preferred dividends. In the second quarter of 2011, we paid common dividends of $37 million and preferred dividends of $5 million.

In the first six months of 2012, we paid dividends to the Province in the amount of $311 million, consisting of $302 million in common dividends and $9 million in preferred dividends. In the first six months of 2011, we paid common dividends of $75 million and preferred dividends of $9 million.

Our objectives with respect to our capital structure are to maintain effective access to capital on a long-term basis at reasonable rates and to deliver appropriate financial returns to our shareholder. In order to ensure ongoing effective access to capital, we target an "A" category long-term credit rating.

Investing Activities

Cash used for investing activities, primarily representing capital expenditures to enhance and reinforce our transmission and distribution infrastructure in the public interest, was as follows:

	Three months ended June 30				Six months ended June 30			
(Canadian dollars in millions)	**2012**	**2011**	**$ Change**	**% Change**	**2012**	**2011**	**$ Change**	**% Change**
Transmission	189	189	-	-	376	361	15	4
Distribution	161	155	6	4	288	278	10	4
Other	-	1	(1)	(100)	3	1	2	200
	350	345	5	1	667	640	27	4

Transmission

Transmission capital expenditures were unchanged at $189 million in the second quarter of 2012, and increased by $15 million, or 4%, to $376 million in the first six months of 2012, compared to the same periods in 2011.

Investments to expand and reinforce our transmission system were $73 million in the second quarter and $166 million for the first six months of 2012, representing respective reductions of $20 million and $17 million, compared to 2011. The majority of our expenditures were made on inter-area network projects to support the Province's supply mix objectives for generation, although we continue to make significant investments on load customer connection and local area supply projects to address growing loads. The 2012 decrease in our expenditures results from the completion of several large projects in 2011. Major inter-area network projects completed and put into service in 2011 included the installation of complex static var compensators (SVCs) at our Nanticoke, Detweiler, Porcupine and Kirkland Lake transformer stations. Also contributing to the variance were lower expenditures in 2012 related to our Bruce to Milton Transmission Reinforcement Project connecting refurbished nuclear and new wind generation sources in the Huron-Grey-Bruce area. This project was successfully declared in-service ahead of schedule on May 14, 2012 and contributed approximately half of our total 2012 investments to expand and reinforce our transmission system. The impact of the reductions in expenditures in both periods was partially offset by increases in our expenditures resulting from local area supply projects progressing into their build phases, investments in our transformer stations related to the Advanced Distribution System (ADS) Project, which supports clean Distributed Generation (DG) connected to our transmission system consistent with the GEA, as well as increased investments related to our transmission projects and upgrades to safely and reliably accommodate additional renewable energy.

Our local area supply project expenditures include investments in our Switchyard Reconstruction Project at our Burlington Transformer Station, which will address aging infrastructure and increase the load supply capacity to ensure reliability of supply to customers in the area. Together with Toronto Hydro-Electric System Limited, we continue to invest in our Midtown Electricity Infrastructure Renewal Project to replace aging cable and overhead line facilities and to provide additional supply capability to meet future load growth in midtown Toronto as well as areas to the west. Work is progressing at our Hearn Switching Station to rebuild an existing switchyard that has reached its end-of-life. This project will also increase short circuit capability to accommodate future connection of renewable generation in central and downtown Toronto. In 2012, we also incurred expenditures related to our Woodstock Area Transmission Reinforcement Project to increase capacity and ensure supply reliability in the Woodstock area. This project was put into service in March 2012.

Expenditures to sustain our existing transmission system were $104 million in the second quarter and $186 million in the first six months of 2012, representing increases of $16 million and $25 million, respectively, compared to 2011. These increases were primarily related to the refurbishment and replacement of end-of-life equipment at our transformer stations in order to improve reliability.

Our other transmission capital expenditures were $12 million in the second quarter and $24 million in the first six months of 2012, representing increases of $4 million and $7 million, respectively, compared to 2011. The majority of these expenditures were related to fleet acquisitions and to information technology investments.

Distribution

Our distribution capital expenditures increased by $6 million, or 4%, in the second quarter, and by $10 million, or 4%, in the first six months of 2012, compared to 2011.

Capital investments to expand and reinforce our distribution network were $78 million in the second quarter and $133 million in the first six months of 2012, representing increases of $10 million and $2 million, respectively, compared to 2011. We experienced increases in 2012 related to our continued investments in our ADS Project, a multi-year initiative to identify, deploy, analyze and assess equipment and applications to modernize our distribution system. The ADS Project is anticipated to improve outage restoration, reduce construction and ongoing maintenance costs, and reduce line losses. Increased capital expenditures in 2012 were also due to investments related to our other distribution projects and upgrades to safely and reliably accommodate additional renewable energy, and higher volumes of new customer connections and upgrades, partially offset by reduced expenditures within our Smart Meter Project as it nears completion.

Expenditures to sustain our distribution system were $63 million in the second quarter and $108 million in the first six months of 2012, representing decreases of $3 million and $5 million, respectively, compared to 2011. Our sustainment program reduction in 2012 was related to lower storm restoration work given two major storms in Ontario in 2011. This impact was partially offset by increased work within our wood pole replacement and lines programs, as resources were utilized in 2012 to advance these programs given favourable weather conditions.

Other distribution capital expenditures were $20 million in the second quarter and $47 million for the first six months of 2012, representing a decrease of $1 million and an increase of $13 million, respectively, compared to 2011. The year-to-date variance is primarily attributable to expenditures for the CIS phase of our entity-wide information system replacement and improvement project. In addition to replacing end-of-life systems, this implementation will result in process improvements that are expected to provide many benefits, including enhancements to customer satisfaction through reduced call times and first call resolution of issues given faster availability of information.

Future Capital Expenditures

Our capital expenditures for 2012 are budgeted at approximately $1,800 million. Our 2012 capital budgets for our transmission and distribution businesses are about $1,000 million and $800 million, respectively. Consolidated capital expenditures are also expected to be approximately $1,800 million in each of 2013 and 2014. These expenditure levels reflect meeting the sustainment requirements of our aging infrastructure. Our sustainment program is budgeted at approximately $700 million in 2012, $950 million in 2013 and $1,000 million in 2014. Our development projects include the ADS, inter-area network upgrades that reflect supply mix policies, local area supply requirements, and requirements to enable DG. Our development expenditures are budgeted at approximately $750 million in 2012, $600 million in 2013 and $550 million in 2014. These development investments also reflect customer demand work. Other capital expenditures are budgeted at approximately $350 million in 2012 and $250 million in each of 2013 and 2014. These expenditures include investments to replace our end-of-life customer billing system and to realize increased productivity from our enterprise-wide SAP platform. Our capital expenditures for 2012 are anticipated to be lower than budget by approximately $165 million, primarily due to changes in the cost and timing of certain large transmission projects, for example the Midtown Electricity Infrastructure Renewal Project, as well as lower distribution development including DG capital expenditures reflecting a lower volume of activity due to proponent delays and lower than anticipated proponent applications received by our Company.

On December 22, 2010, we received a letter from the Minister of Energy requesting us to proceed with the necessary planning and development work for specified transmission projects and upgrades to safely and reliably accommodate additional renewable energy. The estimated capital expenditures associated with these projects and upgrades to the system are anticipated to be up to approximately $700 million over a period to the in-service dates of these projects and the applicable expenditures are reflected in our budgets. On February 28, 2011, the OEB amended our subsidiary Hydro One Networks' transmission licence in accordance with a directive from the Minister of Energy. This licence amendment requires Hydro One Networks to develop and seek approvals for these projects in accordance with recommendations from the OPA. In a letter dated April 7, 2011, to accommodate small-scale renewable generation, the OPA provided the scope and timing requirements to increase short circuit and/or transformer capacity at 10 of 15 transformer stations noted in the licence. Six of these upgrades have been completed and we are currently anticipating that one additional station upgrade will be placed in-service later in 2012. For the remaining three upgrades, alternative solutions have been identified. The overall capital cost for the stations is estimated to be up to $40 million. On June 30, 2011, we received a letter from the OPA recommending the scope and timing to reconductor two circuits between Sarnia and London. This West of London Transmission Upgrade Project will enable the connection of additional renewable generation in the west of London area. On March 28, 2012, we filed a Section 92 leave-to-construct application with the OEB for our West of London Transmission Upgrade Project. This project has a required in-service date of December 2014. On October 3, 2011, we received a letter from the OPA recommending the scope and timing of a Southwestern Ontario Reactive Compensation Priority Project, formerly known as the Southwestern Ontario Series Compensation Project. After consideration of the options, the OPA recommended that we install an SVC at our Milton Switching Station to increase the transmission capability of the Bruce transmission system. A new transmission line west of the City of London was also included in the Hydro One Transmission Licence Amendment. We have not yet received a recommendation from the OPA regarding the construction of this line.

In accordance with the memorandum of agreement between Her Majesty the Queen in Right of the Province of Ontario as represented by the Minister of Energy (the Shareholder) and our company, the Shareholder made a declaration, dated April 19, 2011, pursuant to subsection 108 (3) of the *Business Corporations Act (Ontario)* pertaining to the cost recovery of the expenditures related to the February 28, 2011 licence condition amendment. Specifically, the rights, powers and duties of our company's Directors have been restricted with regard to any decisions regarding: the pursuit of cost recovery by Hydro One Networks from micro Feed-in Tariff (FIT) and small-scale (capacity allocation exempt) FIT generation projects or proponents thereof for costs related to investments and expenditures made, or required to be made, by Hydro One Networks in order to appropriately fund the upgrades at up to 15 transformer stations pursuant to the February 28, 2011 licence condition amendment made to Hydro One Networks' transmission licence; the pursuit of cost recovery by Hydro One Networks of such costs through regulatory processes designed to ultimately recover costs from Ontario electricity consumers through electricity rates; and whether or not to pursue and implement internal cost recovery or cost mitigation measures designed to offset the costs associated with the upgrades, and to pursue further cost minimization strategies and to increase overall cost efficiencies within our company, including the timing of any such decisions. In the first six months of 2011 and the full year 2011, we spent approximately $2 million and $21 million, respectively, on these projects, and in the first six months of 2012, we spent approximately $12 million. Of the amounts spent, $2 million and $19 million was charged to results of operations in the first six months of 2011 and the full year 2011, respectively, and in the first six months of 2012, $11 million was charged to results of operations.

In August 2010, the OEB introduced a framework for competitive designation for the development of eligible transmission projects. As a result, we did not include in our budgeted capital expenditures any projects that could meet the definition of expansion under the OEB's competitive framework. We do not plan to undertake large capital expenditures without a reasonable expectation of recovering them in our rates, with the exception of the transformer station upgrades noted above.

Summary of Contractual Obligations and Other Commercial Commitments

The following table presents a summary of our debt and other major contractual obligations, as well as other major commercial commitments.

June 30, 2012 (Canadian dollars in millions)	**Total**	**2012**[1]	**2013/2014**	**2015/2016**	**After 2016**
Contractual Obligations *(due by year)*					
Long-term debt – principal repayments	8,700	600	1,350	1,000	5,750
Long-term debt – interest payments	6,964	216	765	663	5,320
Inergi LP (Inergi) outsourcing agreement[2]	352	69	262	21	-
Operating lease commitments	55	5	19	11	20
Environmental and asset retirement obligations[3]	322	23	61	48	190
Total Contractual Obligations	16,393	913	2,457	1,743	11,280
Other Commercial Commitments *(by year of expiry)*					
Bank line[4]	1,250	-	-	-	1,250
Letters of credit[5]	135	124	11	-	-
Guarantees[5]	326	326	-	-	-
Pension[6]	327	-	313	14	-
Total Other Commercial Commitments	2,038	450	324	14	1,250

1 The amounts disclosed represent the amounts due over the period July 1, 2012 to December 31, 2012.

2 On May 1, 2010, we extended our Master Services Agreement with Inergi for a further three-year period. The term of the agreement, which would otherwise have expired on February 29, 2012, has been extended to February 28, 2015. Under the extended agreement, Inergi will provide business processing and information technology outsourcing services, as well as core system support related primarily to SAP implementation and optimization. The amounts disclosed include an estimated annual inflation adjustment in the range of 1.8% to 3.0%.

3 We record a liability for the estimated future expenditures associated with the phase-out and destruction of polychlorinated biphenyl (PCB)-contaminated insulating oil from electrical equipment and for the assessment and remediation of contaminated lands, as well as asset retirement obligations for the removal of asbestos-contaminated materials from our facilities and the decommissioning and removal of certain switching stations. The expenditure pattern reflects our planned work programs for the periods.

4 In support of our liquidity requirements, we have a $1,250 million revolving standby credit facility with a syndicate of banks that matures in June 2017.

5 We currently have outstanding bank letters of credit of $124 million relating to retirement compensation arrangements. On April 27, 2012, our highest credit rating declined from the "Aa" category to the "A" category. Based on this credit rating category, we provided letters of credit to the IESO in the amount of $10 million to meet our current prudential requirement. The other $1 million included in letters of credit pertains to operating letters of credit. We have also provided prudential support to the IESO on behalf of our subsidiaries as required by the IESO's Market Rules, using parental guarantees of up to a maximum of $325 million, and on behalf of two distributors using guarantees of up to a maximum of $660 thousand.

6 Contributions to the Hydro One pension fund are generally made one month in arrears. The 2012, 2013 and 2014 minimum contributions are based on an actuarial valuation filed in May 2012 and effective December 31, 2011. Based on expected levels of 2012 pensionable earnings, our total 2012 annual pension contributions of approximately $163 million were paid during the six months ended June 30, 2012. Future minimum contributions beyond 2014

will be based on an actuarial valuation effective no later than December 31, 2014, and will depend on future investment returns, changes in benefits or actuarial assumptions. Pension contributions beyond 2014 are not estimable at this time.

The amounts in the above table under long-term debt – principal repayments are not charged to our results of operations, but are reflected on our Consolidated Balance Sheets and Consolidated Statements of Cash Flows. Interest associated with this debt is recorded under financing charges on our Consolidated Statements of Operations and Comprehensive Income or as a cost of our capital programs. Payments in respect of operating leases and our outsourcing agreement with Inergi are recorded under operation, maintenance and administration expense on our Consolidated Statements of Operations and Comprehensive Income or as a cost of our capital programs.

RELATED PARTY TRANSACTIONS

Related party transactions primarily consist of our transmission revenues received from, and our power purchases payments made to the IESO, which is a related party by virtue of its status as an agency of the Province. The year-over-year changes related to these amounts are described more fully in the discussion of our transmission revenues and purchased power costs. Other significant related party transactions include our dividends, which are paid to the Province, and our payments in lieu of corporate income taxes and property taxes, which are paid or payable to the Ontario Electricity Financial Corporation (OEFC). In January 2010, we purchased $250 million of Province of Ontario Floating-Rate Notes, maturing on November 19, 2014, as a form of alternate liquidity to supplement our bank credit facilities.

CONSIDERATIONS OF CURRENT ECONOMIC CONDITIONS

Pension

During the first six months of 2012, we contributed $163 million to our pension plan and incurred $104 million in net periodic pension benefit cost. An actuarial valuation filed in May 2012 and effective December 31, 2011 did not result in significant changes to our 2012 required contributions or our 2012 net periodic benefit cost. Actuarial valuations are minimally required to be filed every three years. We currently estimate our total annual pension contributions to be approximately $163 million, $162 million, and $165 million for 2012, 2013, and 2014, respectively, based on the projected level of pensionable earnings and the same actuarial valuation effective December 31, 2011. Future minimum contributions beyond 2014 will be based on the actuarial valuation effective no later than December 31, 2014. Our pension plan experienced positive returns of about 3.6% in the first six months of 2012.

TRANSITION TO US GAAP

Accounting Framework for External Reporting

In 2011, the Ontario Securities Commission (OSC) and our Board of Directors approved our application to adopt US GAAP as the basis for our accounting, external financial reporting and periodic securities filings, without becoming a Securities and Exchange Commission (SEC) registrant, for our 2012, 2013 and 2014 fiscal years. As a result, our unaudited interim Consolidated Financial Statements and accompanying notes as at, and for the three and six months ended June 30, 2012 have been prepared in accordance with US GAAP. Our first US GAAP unaudited interim Consolidated Financial Statements were as at, and for the three months ended March 31, 2012. Our first US GAAP annual Consolidated Financial Statements will be dated December 31, 2012.

Our company's Consolidated Financial Statements were prepared in accordance with Canadian GAAP until December 31, 2011. Canadian GAAP differs in some areas from US GAAP as disclosed in the reconciliation to US GAAP included in Note 17 to the unaudited interim Consolidated Financial Statements as at and for the three and six months ended June 30, 2012. Descriptions of the effect of the transition from Canadian GAAP to US GAAP on our financial position, financial performance and cash flows as at and for the year ended December 31, 2011 are also provided in Note 17 to our unaudited interim Consolidated Financial Statements for the period ended June 30, 2012. The accounting policies set out in the unaudited interim Consolidated Financial Statements for the period ended June 30, 2012 have been consistently applied to all the periods presented. The comparative figures in respect of 2011 were retrospectively restated effective January 1, 2011 to reflect our adoption of US GAAP.

Accounting Framework for Rate-Setting

Consistent with the OSC's decision to approve our adoption of US GAAP, two of our subsidiaries, Hydro One Networks and Hydro One Remote Communities requested that the OEB approve the adoption of US GAAP as the basis for future rate-setting and regulatory accounting and reporting in place of its standard modified International Financial Reporting Standards (IFRS) basis. The OEB approved Hydro One Networks' request to adopt US GAAP for its regulated distribution and transmission businesses, and approved Hydro One Remote Communities' request to adopt US GAAP as its approved basis for rate-setting, all effective January 1, 2012. We did not make a request to adopt US GAAP for rate-setting purposes on behalf of our subsidiary, Hydro One Brampton Networks. Hydro One Brampton Networks has implemented IFRS for its 2012 fiscal year. As a result, Hydro One Brampton Networks will have its rates set based on modified IFRS once its current incentive rate-setting period is complete.

Debt Covenants

None of our financial covenants were impacted by our conversion to US GAAP.

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Our transition to US GAAP did not result in any significant revisions to our internal controls over financial reporting and disclosure controls and procedures.

Financial Reporting Expertise

Given the similarities between US GAAP and Canadian GAAP for our company, there has also been no significant impact from the transition to US GAAP with respect to financial reporting expertise. Our US GAAP training efforts have been focused on specific areas of difference between the two accounting frameworks and these efforts have been targeted to specific finance staff, senior executive management and the Audit and Finance Committee of our Board of Directors. We continue to provide additional training to our other finance and operational staff, concentrating on communicating the key differences between Canadian and US GAAP at a level of detail that is appropriate to meet their respective needs. During the remainder of 2012, we will focus our US GAAP training on new accounting and reporting developments and on emerging issues.

Information Systems

Given the similarities between US GAAP and Canadian GAAP, we did not experience any significant impacts from the transition to US GAAP with respect to our information systems.

IFRS

Prior to our adoption of US GAAP as the basis for our accounting, external financial reporting and periodic securities filings, we had planned to adopt IFRS effective January 1, 2012, with comparative restatement of our 2011 results. Accordingly, by mid-2011, we had substantively completed our four-phase IFRS conversion project, which included separate diagnostic, design and planning, solution development, and implementation phases. Our IFRS conversion project involved, among other initiatives, a detailed assessment of the effects of IFRS on our financial statements, a review and upgrade of our information systems to meet IFRS requirements, an assessment of our internal controls over financial reporting and disclosure controls and processes, as well as training of our key finance and operational staff.

As a result of our 2011 decision to adopt US GAAP, our IFRS conversion project efforts were effectively halted. However, our IFRS conversion work has been, and will continue to be, managed in such a way that it can effectively be restarted if a future transition to IFRS is required. We continue to monitor major accounting developments arising from initiatives of the international standard setter, particularly as several major projects are joint efforts with the US Financial Accounting Standards Board.

Training of our key finance and operational staff commenced in 2007, and continues on a reduced but on-going basis, as we have certain subsidiaries that are required to prepare their unconsolidated financial statements in accordance with IFRS. IFRS training was also previously provided to our Audit and Finance Committee and senior executive management. In 2012, we will continue to provide IFRS training to specific staff with a focus on new IFRS accounting and reporting developments and emerging issues.

Our company has the customary financial covenants normally associated with long-term debt. Among other things, our long-term debt covenants limit our permissible debt as a percentage of our total capitalization. Depending on the outcome of various international standard setting initiatives, including the Rate Regulated Accounting Project, a potential future adoption of IFRS could result in changes to our financial position and increased volatility in our results of operations that could impact our debt covenants. We continue to monitor the potential impact that an IFRS conversion could have under various scenarios.

As part of a company-wide information systems improvement project, many of our major financial systems were replaced in 2008 and 2009. Our new financial systems were designed with maximum flexibility given the uncertainty of the outcome of certain impactive International Accounting Standards Board projects. Our financial systems have the ability and capacity to handle current accounting and reporting processes in accordance with IFRS, should that be required in the future.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

To optimize our customer service operations, we have started the final phase of our SAP enterprise-wide information system by initiating our CIS Project. This new system will increase productivity by replacing two legacy applications currently providing service to our distribution customers and key constituents for billing, customer contacts, field services, settlements and customer choice administration. With the design phase complete, the CIS Project is currently in the build and test phases. During these phases, internal controls will be tested for adequacy and effectiveness with any remediation effort to be completed prior to the go-live date. In addition to the benefits associated with CIS, we continue to leverage our other SAP enterprise systems to gain other productivity improvements.

In compliance with the requirements of National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, our Certifying Officers have reviewed and certified the unaudited interim Consolidated Financial Statements for the period ended June 30, 2012, together with other financial information included in our quarterly securities filings. Our Certifying Officers have also certified that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to our company is made known within our company. Further, our Certifying Officers have also certified that internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the unaudited interim Consolidated Financial Statements.

RECENT DEVELOPMENTS

Debt Issuances

On July 31, 2012, we issued $75 million notes under our MTN Program with a maturity date of July 31, 2062 and a coupon rate of 3.79%.

On May 22, 2012, we issued $300 million and $125 million notes under our MTM Program with maturity dates of January 13, 2022 and December 22, 2051, and coupon rates of 3.20% and 4.00%, respectively. These notes were additional offerings of notes originally issued on January 13, 2012 for $300 million and December 22, 2011 for $100 million. These additional issuances bring the total amounts outstanding for these debt issues to $600 million and $225 million, respectively.

Ontario's FIT Program

On July 12, 2012, the OPA re-launched the microFIT Program, following an April 5, 2012 letter received from the Ministry of Energy directing it to implement recommendations from the Ontario Government's FIT Program Review. Highlights of changes implemented include encouraging greater community and aboriginal participation and the protection of agricultural lands. The FIT Program will be re-launched to reflect recommendations from the review at a later date.

Provincial Budget

On June 20, 2012, Bill 55, *Strong Action for Ontario Act (Budget Measures)* received royal assent. Bill 55 is aimed at eliminating Ontario's deficit by 2017-2018, and includes several items aimed at reducing costs within the greater public sector, within the energy sector specifically, and on energy bills. In support of these initiatives, the Ontario government will engage an independent consultant to identify opportunities for efficiencies and benchmark Hydro One against comparable entities.

Bruce to Milton Transmission Reinforcement Project

In May 2012, our Bruce to Milton Transmission Reinforcement Project was declared in-service, ahead of the December 2012 target. The new line will connect refurbished nuclear and new wind generation sources in the Huron-Grey-Bruce area.

Agreement with Saugeen Ojibway Nation

On June 18, 2012, our subsidiary Hydro One Networks, and the Chippewas of Nawash First Nation and the Chippewas of Saugeen First Nation, collectively known as the Saugeen Ojibway Nation (SON), entered into an agreement which contemplates a new Limited Partnership (LP) to hold only the lines and related land rights of our recently completed Bruce to Milton Transmission Reinforcement Project. The carrying value of these assets is expected to be approximately $600 million when they are transferred to the LP. Under the terms of this agreement, the SON will be eligible to purchase a non-controlling equity interest in the LP at fair value. The LP will be a rate regulated entity under the jurisdiction of the OEB. Transfer of the assets to the LP and subsequent sale of an equity interest to the SON are both subject to the receipt of future regulatory approvals from the OEB.

Retirement of our Chief Executive Officer (CEO)

On June 13, 2012, Laura Formusa, our President and CEO, informed the Board of Directors that she will retire, effective December 31, 2012. Our Board of Directors has made it its priority to ensure we have a robust succession plan in place. Ms. Formusa's retirement at the end of 2012 allows the Board of Directors to execute the succession plan in a manner that provides for an orderly succession process. The Board of Directors has initiated this process to identify our new President and CEO.

East-West Tie LP (EWT LP)

On May 31, 2012, EWT LP, an equal partnership of three entities including Hydro One, received approval from the OEB for its transmission licence, which is required to participate in the East-West Tie Line bid process. On July 12, 2012, the OEB announced that applications for designation of the East-West Tie Line must be filed no later than January 4, 2013.

OEB Rate Applications

On May 28, 2012, our subsidiary Hydro One Networks filed a revenue requirement and cost-of-service rate application for 2013 and 2014 transmission rates. The application seeks approval for revenue requirements of approximately $1,464 million and $1,557 million for 2013 and 2014, respectively. This represents an estimated increase in rates of less than 1% in 2013 and 9% in 2014. These increases are estimated to result in no impact on an average customer's total monthly bill in 2013 and a less than 1% increase in 2014.

On May 28, 2012, Hydro One Networks also filed an Incentive Regulation Mechanism rate application for 2013 distribution rates, to be effective January 1, 2013. If approved as filed, distribution rates for a residential customer would rise by approximately 2.9%. Including previously OEB approved Retail Transmission Service Rate (RTSR) adjustments for 2011 and 2012, the total bill impact for 2013 would be approximately 2.1%. A distribution rate application for 2012 was not filed, and therefore, 2012 tariff rates were held at the 2011 levels.

SouthPoint Wind Legal Claim

SouthPoint Wind has discontinued its claims against the Ontario government ministries and Environment Canada because the claims were not properly served, leaving Hydro One Networks and the OPA as defendants to the claim received on April 4, 2012. The reason for the discontinuance is that the plaintiff failed to give the above mentioned defendants proper notice, as required by law for proceedings against government entities, before issuing the claim. As the statement of claim serves as sufficient notice, SouthPoint Wind can issue a new claim against the government defendants. Our company is not aware whether SouthPoint Wind has issued a new claim against the government defendants at this time.

SELECTED FINANCIAL HIGHLIGHTS AND RATIOS

	Three months ended June 30		Six months ended June 30	
(Canadian dollars in millions, except earnings per common share and ratios)	**2012**	**2011**	**2012**	**2011**
Net income	169	142	379	354
Net cash from operating activities	217	334	454	574
Capital expenditures	350	345	667	640
Earnings per common share	1,651	1,375	3,705	3,451
Earnings coverage ratio[1]			2.70	2.65
Net asset coverage on long-term debt ratio[2]			1.75	1.81
Total debt to capitalization ratio[3]			59%	55%

[1] The earnings coverage ratio has been presented for the twelve months ended June 30, 2012 and June 30, 2011, respectively and has been calculated as the sum of net income, provision for payments in lieu of corporate income taxes and financing charges divided by the sum of financing charges, capitalized interest and cumulative preferred dividends.

[2] The net asset coverage on long-term debt ratio has been presented as at June 30, 2012 and December 31, 2011 and has been calculated as total assets minus total liabilities excluding long-term debt (including current portion) divided by long-term debt (including current portion).

[3] Total debt to capitalization ratio has been presented as at June 30, 2012 and December 31, 2011 and has been calculated as total debt divided by total debt plus total shareholder's equity and preferred shares.

FORWARD-LOOKING STATEMENTS AND INFORMATION

Our oral and written public communications, including this document, often contain 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. Such statements include, but are not limited to: expectations regarding energy related revenues and profit and their trend; statements related to the use of our approved rates; statements regarding our liquidity and capital resources and operational requirements; statements about our standby credit facility and our long-term credit rating target; expectations regarding our financing activities; expectations about our maturing debt and interest payments; statements regarding our ongoing and planned projects and/or initiatives including the expected results of these projects and/or initiatives and their completion dates; expectations regarding the recoverability of large capital expenditures; statements regarding expected future capital and development expenditures, the timing of these expenditures and our investment plans; statements regarding contractual obligations and other commercial commitments; expectations related to OEB rate applications, including impacts of such decisions on an average residential customer's bill; statements regarding the retirement of our CEO; statements regarding future pension contributions, our pension plan and actuarial valuation; statements about our outsourcing arrangement with Inergi; statements relating to US GAAP and our adoption of US GAAP; statements regarding accounting related international standard setting initiatives, including the potential future adoption of IFRS and its associated impacts; statements about our agreement with SON; statements related to the FIT program; statements regarding the Ontario government; and expectations regarding future payments made under our operating leases. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "aim", "target", and variations of such words and similar expressions 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.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to the following: no unforeseen changes in the legislative and operating framework for Ontario's electricity market; no unfavourable decisions from the OEB and other regulatory bodies concerning outstanding rate and other applications; no delays in obtaining the required approvals; no unforeseen changes in rate orders or rate structures for our Distribution and Transmission businesses; a stable regulatory environment; no unfavourable changes in environmental regulation; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to us, including information obtained from third-party sources. Actual results may differ materially from those predicted by such forward-looking statements. While we do not know what impact any of these differences may have, our business, results of operations, financial condition and our credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- the impact of the GEA and the Province's Long-Term Energy Plan, including unexpected expenditures arising therefrom;
- the risk that unexpected capital expenditures may be needed to support renewable generation or resolve unforeseen technical issues;
- the risk that previously granted regulatory approvals may be subsequently challenged, appealed or overturned;
- public opposition to and delays or denials of the requisite approvals and accommodations for our planned projects;
- the risks associated with being controlled by the Province including the possibility that the Province may make declarations pursuant to the memorandum of agreement, as well as potential conflicts of interest that may arise between us, the Province and related parties;
- the risks associated with being subject to extensive regulation including risks associated with OEB action or inaction;
- unanticipated changes in electricity demand or in our costs;
- the risk that we are not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures and other obligations;
- the risks associated with the execution of our capital and operation, maintenance and administration programs necessary to maintain the performance of our aging asset base;
- the result of regulatory decisions regarding our revenue requirements, cost recovery and rates;
- the risk to our facilities posed by severe weather conditions, natural disasters or catastrophic events and our limited insurance coverage for losses resulting from these events;
- future interest rates, future investment returns, inflation, changes in benefits and changes in actuarial assumptions;
- the risks associated with changes in interest rates;
- the risks of counterparty default on our outstanding derivative contracts;
- the risks associated with current economic uncertainty and financial market volatility;
- the risk that our long-term credit rating would deteriorate;
- the risk that we may incur significant costs associated with transferring assets located on Indian lands;
- the potential that we may incur significant expenses to replace some or all of the functions currently outsourced if our agreement with Inergi is terminated; and
- the impact of the ownership by the Province of lands underlying our transmission system.

We caution the reader that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section Risk Management and Risk Factors in the 2011 Management's Discussion and Analysis (MD&A). You should review this section in detail.

In addition, we caution the reader that information provided in this MD&A regarding our outlook on certain matters, including future expenditures, is provided in order to give context to the nature of some of our future plans and may not be appropriate for other purposes.

This MD&A is dated as at August 9, 2012. Additional information about our company, including our Annual Information Form, is available on SEDAR at www.sedar.com.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)

(Canadian dollars in millions, except per share amounts)	**Three months ended June 30** **2012**	**2011**	**Six months ended June 30** **2012**	**2011**
Revenues		*(Note 17)*		*(Note 17)*
Distribution	974	915	2,065	2,008
Transmission	370	337	731	688
Other	15	16	31	32
	1,359	1,268	2,827	2,728
Costs				
Purchased power	640	587	1,369	1,306
Operation, maintenance and administration	278	275	540	537
Depreciation and amortization	158	151	310	295
	1,076	1,013	2,219	2,138
Income before financing charges and provision for payments in lieu of corporate income taxes	283	255	608	590
Financing charges *(Note 4)*	90	86	173	170
Income before provision for payments in lieu of corporate income taxes	193	169	435	420
Provision for payments in lieu of corporate income taxes *(Note 5)*	24	27	56	66
Net income	169	142	379	354
Other comprehensive income	-	-	-	-
Comprehensive income	169	142	379	354
Basic and fully diluted earnings per common share *(Canadian dollars)*	1,651	1,375	3,705	3,451
Dividends per common share declared *(Canadian dollars) (Note 11)*	250	375	3,023	750

See accompanying notes to interim Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (unaudited)

(Canadian dollars in millions)	**June 30, 2012**	**December 31, 2011**
Assets		*(Note 17)*
Current assets:		
Short-term investments *(Note 8)*	425	228
Accounts receivable (net of allowance for doubtful accounts - $20 million; 2011 - $18 million) *(Notes 6, 12)*	958	961
Prepaid pension contributions *(Note 9)*	83	-
Regulatory assets	28	24
Materials and supplies	23	25
Deferred income tax assets *(Note 5)*	20	19
Derivative instruments *(Note 8)*	1	1
Other	14	19
	1,552	1,277
Property, plant and equipment:		
Property, plant and equipment in service	21,940	21,008
Less: accumulated depreciation	7,918	7,679
	14,022	13,329
Construction in progress	1,106	1,436
Future use land, components and spares	141	138
	15,269	14,903
Other long-term assets:		
Regulatory assets	2,138	1,966
Long-term investment *(Notes 8, 12)*	250	250
Intangible assets (net of accumulated amortization of $280 million; 2011 - $257 million)	241	224
Goodwill	133	133
Deferred debt costs	34	32
Derivative instruments (*Note 8)*	26	33
Deferred income tax assets *(Note 5)*	15	17
Other	2	1
	2,839	2,656
Total assets	19,660	18,836

See accompanying notes to interim Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (unaudited) (continued)

(Canadian dollars in millions)	**June 30, 2012**	**December 31, 2011**
Liabilities		*(Note 17)*
Current liabilities:		
Bank indebtedness *(Note 8)*	23	39
Accounts payable *(Note 12)*	144	154
Accrued liabilities *(Note 12)*	760	917
Accrued interest	94	85
Regulatory liabilities	26	25
Long-term debt payable within one year *(Notes 7, 8)*	600	600
	1,647	1,820
Long-term debt *(Note 7, 8)*	8,126	7,408
Other long-term liabilities:		
Post-retirement and post-employment benefit liability *(Note 9)*	1,189	1,163
Deferred income tax liabilities *(Note 5)*	896	758
Pension benefit liability *(Note 9)*	779	779
Environmental liabilities	228	235
Regulatory liabilities	222	169
Net unamortized debt premiums	25	23
Asset retirement obligations	15	15
Long-term accounts payable and other liabilities	11	12
	3,365	3,154
Total liabilities	13,138	12,382
Preferred shares (authorized: unlimited; issued: 12,920,000) *(Note 10)*	323	323
Shareholder's equity		
Common shares (authorized: unlimited; issued: 100,000)	3,314	3,314
Retained earnings	2,895	2,827
Accumulated other comprehensive loss	(10)	(10)
Total shareholder's equity	6,199	6,131
Total liabilities, preferred shares and shareholder's equity	19,660	18,836

See accompanying notes to interim Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (unaudited)

Six months ended June 30, 2012 *(Canadian dollars in millions)*	**Common Shares**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total Shareholder's Equity**
January 1, 2012	3,314	(10)	2,827	6,131
Net income	-	-	379	379
Other comprehensive income	-	-	-	-
Dividends on preferred shares	-	-	(9)	(9)
Dividends on common shares	-	-	(302)	(302)
June 30, 2012	3,314	(10)	2,895	6,199

Six months ended June 30, 2011 *(Canadian dollars in millions)* *(Note 17)*	**Common Shares**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total Shareholder's Equity**
January 1, 2011	3,314	(10)	2,354	5,658
Net income	-	-	354	354
Other comprehensive income	-	-	-	-
Dividends on preferred shares	-	-	(9)	(9)
Dividends on common shares	-	-	(75)	(75)
June 30, 2011	3,314	(10)	2,624	5,928

See accompanying notes to interim Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Canadian dollars in millions)	Three months ended June 30 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
Operating activities		*(Note 17)*		*(Note 17)*
Net income	169	142	379	354
Environmental expenditures	(4)	(3)	(7)	(7)
Adjustments for non-cash items:				
Depreciation and amortization (excluding removal costs)	140	132	279	263
Regulatory asset and liability accounts	8	10	15	36
Deferred income taxes	(1)	1	-	3
Other	(1)	-	-	(1)
Changes in non-cash balances related to operations *(Note 13)*	(94)	52	(212)	(74)
Net cash from operating activities	217	334	454	574
Financing activities				
Long-term debt issued	425	-	725	300
Long-term debt retired	-	-	-	(250)
Dividends paid	(30)	(42)	(311)	(84)
Change in bank indebtedness	(9)	7	(16)	33
Other	2	-	1	(2)
Net cash from (used in) financing activities	388	(35)	399	(3)
Investing activities				
Capital expenditures				
Property, plant and equipment	(331)	(327)	(627)	(604)
Intangible assets	(19)	(18)	(40)	(36)
Other assets	9	10	11	15
Net cash used in investing activities	(341)	(335)	(656)	(625)
Net change in cash and cash equivalents	264	(36)	197	(54)
Cash and cash equivalents, beginning of period	161	154	228	172
Cash and cash equivalents, end of period *(Note 13)*	425	118	425	118

See accompanying notes to interim Consolidated Financial Statements.

1. DESCRIPTION OF THE BUSINESS

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

The demand for electricity generally follows normal weather-related variations, and consequently, the Company's energy-related revenues, all other things being equal, will tend to be higher in the first and third quarters than in the second and fourth quarters.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

These unaudited interim Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries: Hydro One Networks Inc. (Hydro One Networks), Hydro One Remote Communities Inc. (Hydro One Remote Communities), Hydro One Brampton Networks Inc. (Hydro One Brampton Networks), Hydro One Telecom Inc. (Hydro One Telecom), Hydro One Lake Erie Link Management Inc. and Hydro One Lake Erie Link Company Inc.

Intercompany transactions and balances have been eliminated.

Basis of Accounting

These unaudited interim Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP). These statements are to be read in conjunction with Note 17, Transition to US GAAP, which discloses information on the Canadian GAAP to US GAAP transition and related reconciliations from Canadian GAAP to US GAAP. The results of operations for the three and six months ended June 30, 2011 and the Consolidated Balance Sheet at December 31, 2011 have been restated under US GAAP for comparative purposes. The Company's Consolidated Financial Statements were previously prepared using Canadian GAAP.

These unaudited interim Consolidated Financial Statements do not contain all disclosures required by US GAAP for annual audited consolidated financial statements. Accordingly, they should be read in conjunction with the Company's annual Consolidated Financial Statements as at and for the year ended December 31, 2011, and Note 17 to these unaudited interim Consolidated Financial Statements for Canadian GAAP to US GAAP transition and reconciliation information. In the opinion of management, these unaudited interim Consolidated Financial Statements include all adjustments that are necessary to fairly state the financial position of Hydro One at June 30, 2012. Financial results for this interim period are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2012.

Hydro One performed an evaluation of subsequent events for the accompanying unaudited interim Consolidated Financial Statements and notes included through to August 9, 2012, the date these unaudited interim Consolidated Financial Statements were issued, to determine whether the circumstances warranted recognition and disclosure of any events or transactions in these unaudited interim Consolidated Financial Statements. See Note 18 - Subsequent Event.

Use of Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management evaluates these estimates on an on-going basis based upon: historical experience; current conditions; and assumptions believed to be reasonable at the time the assumption is made with any adjustments being recognized in results of operations in the year they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, pension benefits, post-retirement and post-employment benefits, asset retirement obligations (ARO), goodwill, asset impairment, contingencies, unbilled revenue, and deferred income tax assets and liabilities. Actual results may differ significantly from these estimates, which may be impacted by future decisions made by the OEB or the Province.

Rate-setting

The rates of the Company's electricity transmission and distribution businesses are regulated by the OEB. The Company's consolidated Distribution Business includes the separately regulated distribution businesses of Hydro One Networks, Hydro One Brampton Networks, and Hydro One Remote Communities. The OEB approved US GAAP as the basis for rate-setting for Hydro One Networks' Transmission Business in 2011 and for its Distribution Business on March 23, 2012. The OEB approved the use of US GAAP by Hydro One Remote Communities on April 3, 2012. Hydro One Brampton Networks' rates are expected to be set under the OEB's modified International Financial Reporting Standards framework commencing in 2015, once its current incentive regulation mechanism period is complete.

A description of previous OEB rate decisions impacting the financial results of the current and comparative periods may be found in Note 2 to the Company's annual Consolidated Financial Statements for the year ended December 31, 2011.

On March 22, 2012, the OEB issued its decision with reasons approving a rate increase of 1.08% effective May 1, 2012 for Hydro One Remote Communities, which services the far north, representing an increase of about $1 on an average residential customer's monthly bill.

Regulatory Accounting

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities that generally represent amounts that are refundable to electricity customers. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a regulatory asset or liability in setting future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made.

Revenue Recognition and Allocation

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as power is transmitted and delivered to customers.

Distribution revenues are recognized on an accrual basis and include billed and unbilled revenues. Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized as electricity is delivered to customers. The Company estimates monthly revenue for a period based on wholesale power purchases because customer meters are not generally read at the end of each month. At the end of each month, the electricity delivered to customers, but not billed, is estimated and revenue is recognized. The unbilled revenue estimate is affected by energy demand, weather, line losses and changes in the composition of customer classes.

Distribution revenue also includes an amount relating to rate protection for rural residential and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB. Current legislation provides rate protection for prescribed classes of rural residential and remote consumers by reducing the electricity rates that would otherwise apply.

Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Corporate Income Taxes

Under the *Electricity Act, 1998*, Hydro One is required to make payments in lieu of corporate income taxes (PILs) to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) as modified by the *Electricity Act, 1998*, and related regulations.

Current and deferred income taxes are computed based on the tax rates and tax laws enacted at the balance sheet date. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the “more likely than not” recognition threshold is satisfied and are measured at the largest amount of benefit that has a greater than 50 percent likelihood of being realized upon settlement. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant management judgment is required to determine recognition thresholds and the related amount of tax benefits to be recognized in the Consolidated Financial Statements. Management re-evaluates tax positions each period in which new information about recognition or measurement becomes available.

Current Income Taxes

The provision for current taxes and the assets and liabilities recognized for the current and prior periods are measured at the amounts receivable from, or payable to, the OEFC.

Deferred Income Taxes

Deferred income taxes are provided for using the liability method. Deferred income taxes are recognized based on the estimated future tax consequences attributable to temporary differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases.

Deferred income tax liabilities are generally recognized on all taxable temporary differences. Deferred tax assets are recognized to the extent that it is more likely than not that these assets will be realized from taxable income available against which deductible temporary differences can be utilized.

Deferred income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted at the balance sheet date. Deferred income taxes that are not included in the rate-setting process are charged or credited to the Consolidated Statements of Operations and Comprehensive Income.

If management determines that it is more likely than not that some or all of a deferred income tax asset will not be realized, a valuation allowance is recorded against the deferred income tax asset to report the net asset balance at the amount expected to be realized. Previously unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more likely than not that the tax benefit will be utilized.

The Company has recognized regulatory assets and liabilities associated with deferred income taxes that will be included in the rate-setting process.

Materials and Supplies

Materials and supplies represent consumables, small spare parts and construction material held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and overdue amounts related to regulated billings bear interest at OEB-approved rates. The allowance for doubtful accounts reflects the Company’s best estimate of losses on accounts receivable balances. The allowance is based on accounts receivable aging, historical experience and other currently available information. The Company estimates the allowance for doubtful accounts on customer receivables by applying internally developed loss rates to the outstanding receivable balances by risk segment. Risk segments represent groups of customers with similar credit quality indicators and are computed based on various attributes, including number of days receivables are past due, delinquency of balances and payment history. Loss rates applied to the accounts receivable balances are based on historical average write-offs as a percentage of accounts receivable in each risk segment. An account is considered delinquent if the amount billed is not received within 120 days of the invoiced date. Accounts receivable are written off against the allowance when they are deemed uncollectible. The existing allowance for uncollectible accounts will continue to be affected by changes in volume, prices and economic conditions.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost including capitalized financing costs, and net of customer contributions received in aid of construction, and any accumulated impairment losses. The cost of additions, including betterments and replacements of asset components, is included on the Consolidated Balance Sheet as property, plant and equipment.

The cost of property, plant and equipment represents the original cost, consisting of direct materials, direct labour including employee benefits, contracted services, attributable financing costs, asset retirement costs, and direct and indirect overheads that are related to the capital project or program. Indirect overhead includes a portion of corporate shared costs such as finance, human resources, information technology and executive and other costs related to support functions, insurance, procurement, and fleet operations. Overhead costs, including shared corporate functions and services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology. Financing costs are capitalized on property, plant and equipment assets under construction and on intangible assets under development.

Property, plant and equipment in service consists of transmission, distribution, communication, administration and service assets and land easements. Property, plant and equipment also includes future use assets, such as land, major components and spare parts, and capitalized project development costs associated with deferred capital projects.

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware and grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, including transformers, circuit breakers and switches.

Distribution

Distribution assets include assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

Communication

Communication assets include the fibre-optic and microwave radio system, optical ground wire, towers, telephone equipment and associated buildings.

Administration and Service

Administration and service assets include administrative buildings, personal computers, transport and work equipment, tools and other minor assets.

Easements

Easements include statutory rights of use for transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other amounts related to acquisition of land access rights.

Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of property, plant and equipment or development of intangible assets. The cost of attributable borrowed funds is capitalized as part of the acquisition cost of such assets. The capitalized portion of financing costs is a reduction to financing charges recognized in the Consolidated Statements of Operations and Comprehensive Income. Capitalized financing costs are calculated using the Company's weighted average effective cost of debt financing.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost which comprises purchased software, direct labour including employee benefits and consulting, engineering, overheads and attributable financing charges. Following initial recognition, intangible assets are carried at cost net of any accumulated amortization and accumulated impairment losses. The Company's intangible assets primarily represent major administrative computer applications software assets.

Construction and Development in Progress

Construction and development in progress includes constructed assets that are not yet completed and which have not yet been placed in service.

Depreciation and Amortization

The cost of property, plant and equipment and intangible assets is depreciated or amortized on a straight-line basis based on the estimated remaining service life of each asset category. The sole exception is transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external independent review of its property, plant and equipment and intangible asset depreciation and amortization rates, as required by the OEB. Any changes arising from such a review are implemented on a remaining service life basis, consistent with their inclusion in electricity rates. The last review resulted in changes to rates effective January 1, 2007.

A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average Service Life	Rate (%) Range	Average
Transmission	55 years	1% - 3%	2%
Distribution	42 years	1% - 13%	2%
Communication	19 years	1% - 13%	5%
Administration and service	15 years	1% - 20%	8%

The cost of intangible assets is included primarily within the administration and service classification above. Amortization rates for computer applications software and other intangible assets range from 9% to 11%.

Depreciation rates for finite life easements are based on their contract lives. However, the majority of easements are held in perpetuity and are not depreciated.

In accordance with group depreciation practices, the original cost of property, plant and equipment, or major components thereof, and intangible assets that are normally retired, is charged to accumulated depreciation with no gain or loss being reflected in results of operations. Where a disposition of property, plant and equipment occurs through sale, a gain or loss is calculated based on proceeds and is included in depreciation expense. Depreciation expense also includes the costs incurred to remove property, plant and equipment where no ARO has been recorded.

Goodwill

Goodwill represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased. Goodwill is evaluated for impairment on an annual basis in the fourth quarter, or more frequently if circumstances require. The impairment assessment is performed using a two-step, fair value-based test. The first step compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities using purchase price allocation in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and as a charge to results of operations.

On September 15, 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, *Testing Goodwill for Impairment*. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. An entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. An entity can choose to perform the qualitative assessment on none, some or all of its reporting units. Moreover, an entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period.

The Company determined that goodwill was not impaired at December 31, 2011. During the six months ended June 30, 2012, no events occurred or circumstances changed that would, more likely than not indicate that the fair value of a reporting unit had been reduced below its carrying amount. Therefore, goodwill was not evaluated for impairment during the six months ended June 30, 2012.

Long-Lived Asset Impairment

When circumstances indicate the carrying value of long-lived assets may not be recoverable, the Company evaluates whether the carrying value of such assets, excluding goodwill, has been impaired. For such long-lived assets, impairment exists when the carrying value exceeds the sum of the future estimated undiscounted cash flows expected to result from the use and eventual disposition of the asset. When alternative courses of action to recover the carrying amount of a long-lived asset are under consideration, a probability-weighted approach is used to develop estimates of future undiscounted cash flows. If the carrying value of the long-lived asset is not recoverable based on the estimated future undiscounted cash flows, an impairment loss is recorded, measured as the excess of the carrying value of the asset over its fair value. As a result, the asset’s carrying value is adjusted to its estimated fair value.

Within its regulated business, the carrying costs of Hydro One’s long-lived assets are generally included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the return are recovered through approved revenue requirements. As a result, such assets would only generally be tested for impairment in the event that the OEB disallowed recovery in whole or in part or if such a disallowance was judged to be probable.

Hydro One regularly monitors the assets of its unregulated Hydro One Telecom subsidiary for indications of impairment. Management assesses the fair value of such long-lived assets using commonly accepted techniques, and may use more than one. Techniques used to determine fair value include, but are not limited to, the use of recent third party comparable sales for reference and internally developed discounted cash flow analysis. Significant changes in market conditions, changes to the condition of an asset, or a change in management’s intent to utilize the asset are generally viewed by management as triggering events to reassess the cash flows related to these long-lived assets. As at June 30, 2012, no asset impairment had been recorded for assets within either the Company’s regulated or unregulated businesses.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Company defers the external transaction costs related to obtaining debt financing and presents them as deferred debt costs on the Consolidated Balance Sheets. Deferred debt costs are amortized over the contractual life of the related debt on an effective-interest basis and the amortization is included in the Consolidated Statements of Operations and Comprehensive Income within financing charges. Transaction costs for items classified as held-for-trading are expensed immediately.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI). OCI includes the change in fair value on existing cash flow hedges to the extent that the hedge is effective.

In 2011, the FASB issued authoritative guidance to clarify that an entity has the option to present the total of comprehensive income, the components of net income, and the components of OCI either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of OCI along with a total for OCI, and a total amount for comprehensive income. This update eliminates the option to present the components of OCI as part of the statement of changes in shareholders' equity. The amendments in this update do not change the items that must be reported in OCI or when an item of OCI must be reclassified to net income. These amendments are effective for reporting periods beginning after December 15, 2011 with retrospective application.

Hydro One has elected to present OCI and net income in a single continuous Consolidated Statement of Operations and Comprehensive Income.

Financial Assets and Liabilities

All financial assets and liabilities are classified into one of the following five categories: held-to-maturity investments; loans and receivables; held-for-trading; other liabilities; or available-for-sale. Financial assets and liabilities classified as held-for-trading are measured at fair value. All other financial assets and liabilities are measured at amortized cost, except accounts receivable which are measured at the lower of cost or fair value. Accounts receivable are classified as loans and receivables. The Company considers the carrying amount of accounts receivable to be a reasonable estimate of fair value because of the short time to maturity of these instruments. Provisions for impaired accounts receivable are recognized as adjustments to the allowance for doubtful accounts and are recognized when there is objective evidence that the Company will not be able to collect amounts according to the original terms.

Derivative instruments are measured at fair value. Gains and losses from fair valuation are included within financing charges in the period in which they arise. The Company determines the classification of its financial assets and liabilities at the date of initial recognition. The Company designates certain of its financial assets and liabilities to be held at fair value, when it is consistent with the Company's risk management policy disclosed in Note 8.

Short-term investments have an original maturity of three months or less. Short-term investments are generally classified as held-to-maturity. However, the Company may classify pools of short-term investments as held-for-trading where there is no intention to hold a pool of assets to maturity. Documentation of the short-term investment classification is made on inception. As at June 30, 2012 and December 31, 2011, all short-term investments were classified as held-to-maturity.

The Company’s long-term investment in Province of Ontario Floating-Rate Notes, which is held as an alternate form of liquidity to supplement the bank credit facilities, is classified as held-for-trading and is measured at fair value.

Transaction costs associated with financial assets and liabilities that are measured at fair value are recognized immediately in results of operations.

All financial instrument transactions are recorded at trade date.

Derivative Instruments and Hedge Accounting

The Company closely monitors the risks associated with changes in interest rates on its operations and, where appropriate, uses various instruments to hedge these risks. Certain of these derivative instruments qualify for hedge accounting and are designated as accounting hedges, while others either do not qualify as hedges or have not been designated as hedges (hereinafter referred to as undesignated contracts) as they are part of economic hedge relationships.

The accounting guidance for derivatives requires the recognition of all derivative instruments not identified as meeting the normal purchase and sale exemption as either assets or liabilities recorded at fair value in the Consolidated Balance Sheets. For derivative instruments that qualify for hedge accounting, the Company may elect to designate such derivatives as either cash flow hedges or fair value hedges. The Company offsets fair value amounts recognized in its Consolidated Balance Sheets related to derivative instruments executed with the same counterparty under the same master netting agreement.

For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss is reported as a component of accumulated OCI (AOCI) and reclassified to results of operations in the same period or periods during which the hedged transaction affects results of operations. Any gains or losses on the derivative instrument that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations. For fair value hedges, changes in fair value of both the derivative instrument and the underlying hedged exposure are recognized in the Consolidated Statement of Operations and Comprehensive Income in the current period. The gain or loss on the derivative instrument is included in the same line item as the offsetting gain or loss on the hedged item in the Consolidated Statements of Operations and Comprehensive Income. Additionally, the Company enters into derivative agreements that are economic hedges that either do not qualify for hedge accounting or have not been designated as hedges. The changes in fair value of these undesignated derivative instruments are reflected in results of operations.

Embedded derivatives are separated from their host contracts and carried at fair value on the Consolidated Balance Sheets when: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) the hybrid instrument is not measured at fair value, with changes in fair value recognized in results of operations each period; and (c) the embedded derivative itself meets the definition of a derivative. The Company does not engage in derivative trading or speculative activities.

The Company periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship, the Company formally documents the hedging relationship between the hedged item and the hedging instrument, its risk management objective for establishing the hedging relationship, the nature of the specific risk exposure being hedged, and the method for assessing effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging instruments are effective in offsetting changes in fair values or cash flows of the hedged items.

Employee Future Benefits

Employee future benefits provided by Hydro One include pension, post retirement and post-employment benefits. The costs of the Company's pension, post-retirement and post-employment benefit programs are recorded over the periods during which employees render service.

The Company recognizes the funded status of its pension, post-retirement and post-employment plans on its Consolidated Balance Sheets and subsequently recognizes the changes in funded status at the end of each reporting year. Pension, post-retirement and post-employment funds are considered to be underfunded when the projected benefit obligation exceeds the fair value of the plan assets. Liabilities are recognized in the Consolidated Balance Sheets for any net underfunded projected benefit obligation. The net underfunded projected benefit obligation may be disclosed as a current liability, long-term liability, or both. The current portion is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months exceeds the fair value of plan assets. If the fair value of plan assets exceeds the projected benefit obligation of the plan, an asset is recognized equal to the net overfunded projected benefit obligation. The net asset for an overfunded plan is classified as a long-term asset in the Consolidated Balance Sheets. For Hydro One, the post-retirement and post-employment benefit plans are unfunded because there are no related investments in plan assets.

Hydro One records a regulatory asset equal to the net underfunded projected benefit obligation for pension, post-retirement and post-employment plans. The regulatory asset for the net underfunded projected benefit obligation for pension, post-retirement and post-employment plans, in absence of regulatory accounting, would be recognized in AOCI. A regulatory asset is recognized because management considers it to be probable that pension, post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The pension, post-retirement and post-employment regulatory assets are remeasured at the end of each reporting period based on the current status of the respective plans.

In accordance with the OEB's rate orders, pension costs are recorded on a cash basis as employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act (Ontario).* Pension costs are also calculated on an accrual basis. Pension costs are actuarially determined using the projected benefit method prorated on service and are based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases, on the actuarial present value of accrued pension benefits. Past service costs from plan amendments and all actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service period of active employees in the plan and over the estimated remaining life expectancy of inactive employees in the plan. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are valued using fair values at the end of each reporting period.

Employee future benefits other than pension, including post-retirement and post-employment benefits, are recognized on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments are amortized to results of operations based on the expected average remaining service period. All actuarial gains or losses are deferred using the "corridor" approach. The amount calculated above the "corridor" is amortized to results of operations on a straight-line basis over the expected average remaining service life of active employees in the plan and over the remaining life expectancy of inactive employees in the plan.

Employee future benefit costs are attributed to labour and are either charged to results of operations or capitalized as part of the cost of property, plant and equipment and intangible assets.

Multiemployer Pension Plan

Employees of Hydro One Brampton Networks participate in the Ontario Municipal Employees Retirement System Fund (OMERS Plan), a multiemployer public sector pension fund. On September 21, 2011, the FASB issued ASU 2011-09, *Disclosures About an Employer's Participation in a Multiemployer Benefit Plan* which discusses the quantitative and qualitative disclosures an employer is required to provide about its participation in significant multiemployer plans that offer pension, post-retirement and post-employment benefits. The ASU's objective is to enhance the transparency of disclosures about the significant multiemployer plans in which an employer participates, the level of the employer's participation in those plans, the financial health of the plans, and the nature of the employer's commitments to the plans. The ASU does not change the recognition and measurement guidance for an employer's participation in a multiemployer plan.

The ASU requires employers to disclose a narrative description of the nature of the multiemployer pension plans and information about the employer's participation in the plans including the plan's legal name and details about the contributions made. An employer that is not able to provide some of the quantitative information required by the ASU must disclose what information has been omitted and why it could not obtain the information. The revised standard is effective for fiscal years beginning after December 15, 2011.

Detailed disclosures on the Company's multiemployer plan are provided in Note 9 - Retirement Benefits.

Loss Contingencies

Hydro One is involved in certain legal and environmental matters that arise in the normal course of business. In the preparation of its Consolidated Financial Statements, management makes judgments regarding the future outcome of contingent events and records a loss for a contingency based on its best estimate when it is determined that such loss is probable and the amount of the loss can be reasonably estimated. When a range estimate for the probable loss exists and no amount within the range is a better estimate than any other amount, the Company records a loss at the minimum amount within the range.

Management regularly reviews current information available to determine whether recorded provisions should be adjusted and whether new provisions are required. Estimating probable losses may require analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, provincial and local courts or regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the Consolidated Financial Statements may differ from the actual outcome once the contingency is resolved. Such differences could have a material impact on future results of operations, financial position and cash flows of the Company.

Provisions are based upon current estimates and are subject to greater uncertainty the longer the projection period. A significant upward or downward trend in the number of claims filed, the nature of the alleged injury, and the average cost of resolving each such claim could change the estimated provision, as could any substantial adverse or favorable verdict at trial. A federal or provincial legislative outcome or structured settlement transaction could also change the estimated liability.

Unless otherwise required by GAAP, legal fees are expensed as incurred.

Environmental Liabilities

Environmental liabilities are recorded in respect of past contamination when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated. Hydro One records a liability for the estimated future expenditures associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyl (PCB) contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. The Company determines the present value with a discount rate equal to its credit-adjusted risk-free interest rate on financial instruments with comparable maturities to the pattern of future environmental expenditures. As the Company anticipates that the future expenditures will continue to be recoverable in future rates, an offsetting regulatory asset has been recorded to reflect the future recovery of these environmental expenditures from customers. Hydro One reviews its estimates of future environmental expenditures annually or more frequently if there are indications that circumstances have changed.

Asset Retirement Obligations

AROs are recorded for legal obligations associated with the future removal and disposal of long-lived assets. Such obligations may result from the acquisition, construction, development and/or normal use of the asset. Conditional AROs are recorded when there is a legal obligation to perform a future asset retirement activity but where the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. In such a case, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement.

When recording an ARO, the present value of the estimated future expenditures required to complete the asset retirement activity is recorded in the period in which the obligation is incurred, if a reasonable estimate can be made. In general, the present value of the estimated future expenditures is added to the carrying amount of the associated asset and the resulting asset retirement cost is depreciated over the estimated useful life of the asset.

Some of the Company's transmission and distribution assets, particularly those located on unowned easements and rights-of-way, may have AROs, conditional or otherwise. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Company expects to use the majority of its facilities in perpetuity, no ARO currently exists for these assets. If, at some future date, a particular facility is shown not to meet the perpetuity assumption, it will be reviewed to determine whether an estimable ARO exists. In such a case, an ARO would be recorded at that time.

The Company's AROs recorded to date relate to estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities and with the decommissioning of specific switching stations located on unowned sites.

3. NEW ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The ASU is the result of joint efforts by the FASB and the International Accounting Standards Board to develop common, converged fair value guidance on how to measure fair value and on what disclosures to provide about fair value measurements. The ASU is largely consistent with existing US GAAP fair value measurement principles under ASC 820. However, the ASU expands the existing disclosure requirements for fair value measurements, particularly of Level 3 inputs, and requires categorization by level of the fair value hierarchy for items that are not measured at fair value on the Consolidated Balance Sheets but for which the fair value is required to be disclosed. The ASU is effective for interim and annual periods beginning after December 15, 2011, for public entities. Required disclosures have been included in Note 8. As this accounting standard only requires enhanced disclosure, the adoption of this standard did not have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. This newly issued accounting standard requires an entity to disclose both gross and net information about instruments and transactions eligible for offset in the Consolidated Balance Sheets as well as instruments and transactions executed under a master netting or similar arrangement and was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on its financial position. This ASU is required to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. As this accounting standard only requires enhanced disclosure, the adoption of this standard is not anticipated to have a significant impact on the Company's financial position or results of operations.

4. FINANCING CHARGES

(Canadian dollars in millions)	Three months ended June 30 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
Interest on long-term debt	106	102	210	204
Other	3	2	3	3
Less: Interest capitalized on construction and development in progress	(15)	(15)	(32)	(29)
Gain on interest-rate swap agreements	(3)	(3)	(6)	(7)
Interest earned on investments	(1)	-	(2)	(1)
	90	86	173	170

5. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

Current PILs represent the amounts to be remitted to the OEFC. At June 30, 2012, an outstanding balance of $3 million due from the OEFC was included in accounts receivable in the Consolidated Balance Sheets (December 31, 2011 – payable of $85 million included in accrued liabilities). The total provision for PILs includes deferred income taxes that are not included in the rate-setting process, using the balance sheet liability method of accounting. Deferred PILs balances expected to be included in the rate-setting process are offset by regulatory assets and liabilities to reflect the anticipated recovery or disposition of these balances within future electricity rates.

For the six months ended June 30, 2012, the Company's overall effective tax rate of 12.87% differed from the enacted statutory rate of 26.50% primarily due to higher deductible temporary differences included in the rate-setting process, such as capital cost allowance in excess of depreciation, deductions for pension payments made in excess of amounts expensed, and interest deducted for tax purposes in excess of interest expensed for accounting purposes.

The Deferred income tax assets and liabilities as at December 31, 2011 consisted of the following:

December 31 (Canadian dollars in millions)	2011
Deferred income tax assets	
Depreciation and amortization in excess of capital cost allowance	6
Employee future benefits other than pension expense in excess of cash payments	5
Environmental expenditures	5
Other	1
Total deferred income tax assets	17
Less: current portion	-
	17
Deferred income tax liabilities	
Capital cost allowance in excess of depreciation and amortization	(1,106)
Employee future benefits other than pension expense in excess of cash payments	356
Environmental expenditures	61
Transmission and distribution amounts received but not recognized for accounting purposes	(46)
Goodwill	(18)
Retail settlement variance accounts	10
Other	4
Total deferred income tax liabilities	(739)
Less: current portion	19
	(758)

6. ACCOUNTS RECEIVABLE

(Canadian dollars in millions)	**June 30, 2012**	**December 31, 2011**
Accounts receivable – billed	290	268
Accounts receivable – unbilled	688	711
Accounts receivable, gross	978	979
Allowance for doubtful accounts	(20)	(18)
Accounts receivable, net	958	961

The following table shows the movements in the allowance for doubtful accounts for the six month period ended June 30, 2012 and for the year ended December 31, 2011.

(Canadian dollars in millions)	
Allowance for doubtful accounts - January 1, 2012	(18)
Write-offs	7
Additions to allowance	(9)
Allowance for doubtful accounts – June 30, 2012	(20)

(Canadian dollars in millions)	
Allowance for doubtful accounts - January 1, 2011	(25)
Write-offs	30
Additions to allowance	(23)
Allowance for doubtful accounts - December 31, 2011	(18)

7. DEBT AND CREDIT AGREEMENTS

Issuance of Short-Term Notes

Hydro One meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under its credit facility. Short-term notes are denominated in Canadian dollars with varying maturities not exceeding 365 days.

Hydro One had no commercial paper borrowings outstanding as at June 30, 2012 or December 31, 2011:

(Canadian dollars in millions)	Maximum Program Size	Outstanding Commercial Paper	Average Interest Rate
June 30, 2012	1,000	-	-
December 31, 2011	1,000	-	-

Issuances of Long-Term Debt

On January 13, 2012, Hydro One issued $300 million notes under its Medium-Term Note (MTN) Program with a maturity date of January 13, 2022 and a coupon rate of 3.20%.

On May 22, 2012, Hydro One issued $300 million notes under its MTN Program with a maturity date of January 13, 2022 and a coupon rate of 3.20%. These notes were an additional offering of notes originally issued on January 13, 2012 for $300 million. This additional issuance brings the total amount outstanding for this issue to $600 million.

On May 22, 2012, Hydro One issued $125 million notes under its MTN Program with a maturity date of December 22, 2051 and a coupon rate of 4.00%. These notes were an additional offering of notes originally issued on December 22, 2011 for $100 million. This additional issuance brings the total amount outstanding for this issue to $225 million.

Credit Agreements

Hydro One has a $1,250 million committed and unused revolving standby credit facility with a syndicate of banks maturing in June 2017. If used, interest on the facility would apply based on Canadian benchmark rates. This credit facility supports the Company's Commercial Paper Program.

The Company may use the credit facilities for general corporate purposes, including meeting short-term funding requirements and the issuance of letters of credit. The obligation of each lender to make any credit extension to the Company under its credit facilities is subject to various conditions including, among other things, that no event of default has occurred or would result from such credit extension.

In addition, the Company holds a long-term investment in $250 million of Province of Ontario Floating-Rate Notes as an alternative source of liquidity.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition focuses on an exit price, which is the price that would be received in the sale of an asset or the amount that would be paid to transfer a liability.

Hydro One classifies its fair value measurements based on the following hierarchy, as prescribed by the accounting guidance for fair value, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Hydro One has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occurs with sufficient frequency and volume to provide ongoing pricing information.

Level 2 inputs are those other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates. A Level 2 measurement cannot have more than an insignificant portion of the valuation based on unobservable inputs.

Level 3 inputs are any fair value measurements that include unobservable inputs for the asset or liability for more than an insignificant portion of the valuation. A Level 3 measurement may be based primarily on Level 2 inputs.

Non−Derivative Financial Assets and Liabilities

As at June 30, 2012 and December 31, 2011, the Company's carrying amounts of accounts receivable, short-term investments, bank indebtedness, accounts payable and accrued liabilities are representative of fair value because of the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt as at June 30, 2012 and December 31, 2011 are as follows:

(Canadian dollars in millions)	**June 30, 2012**		**December 31, 2011**	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt				
$500 million of MTN Series 19 Note[1]	516	516	521	521
$250 million of MTN Series 21 Note[2]	260	260	262	262
Other notes and debentures[3]	7,950	9,428	7,225	8,615
	8,726	10,204	8,008	9,398

[1] The fair value of $500 million of the MTN Series 19 Note subject to hedging is primarily based on changes in the present value of future cash flows due to a change in the yield in the swap market for the related swap (hedged risk).

[2] The fair value of $250 million of the MTN Series 21 Note subject to hedging is primarily based on changes in the present value of future cash flows due to a change in the yield in the swap market for the related swap (hedged risk).

[3] The fair value of other notes and debentures, and the portions of the MTN Series 19 Note and the MTN Series 21 Note that are not subject to hedging, represents the market value of the notes and debentures and is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

Fair Value Measurements of Derivatives

As at June 30, 2012, the Company had interest-rate swaps totaling $750 million that were used to convert fixed-rate debt to floating-rate debt. These swaps are classified as fair value hedges. The Company's fair value hedge exposure is equal to about 9% of its total long-term debt of $8,726 million. The Company has the following interest-rate swaps designated as fair value hedges:

(a) two $250 million fixed-to-floating interest-rate swap agreements to convert $500 million of the $750 million MTN Series 19 Note maturing November 19, 2014 into three-month variable rate debt; and

(b) two $125 million fixed-to-floating interest-rate swap agreements to convert $250 million of the $500 million MTN Series 21 Note maturing September 11, 2015 into three-month variable rate debt.

The Company also has interest-rate swaps totaling $550 million that are classified as undesignated contracts. The undesignated contracts consist of the following interest-rate swaps:

(c) two $250 million floating-to-fixed interest-rate swap agreements that lock in the floating-rate the Company pays on a portion of the above fixed-to-floating interest-rate swaps from December 12, 2011 to December 11, 2012 and February 21, 2012 to February 19, 2013, respectively; and

(d) a $50 million floating-to-fixed interest-rate swap agreement that locks in the floating-rate the Company pays on the $50 million floating-rate notes from January 24, 2012 to January 24, 2013.

As at June 30, 2012 and December 31, 2011, the Company's carrying amounts of derivative instruments are representative of fair value.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at June 30, 2012 and December 31, 2011 are as follows:

June 30, 2012 (Canadian dollars in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Short-term investments	425	425	-	425	-
Long-term investment	250	250	-	250	-
Derivative instruments					
Fair value hedges – interest-rate swaps	26	26	-	26	-
Undesignated contracts – interest-rate swaps	1	1	-	1	-
	702	702	-	702	-
Liabilities:					
Bank indebtedness	23	23	23	-	-
Long-term debt	8,726	10,204	-	10,204	-
	8,749	10,227	23	10,204	-

December 31, 2011 (Canadian dollars in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Short-term investments	228	228	-	228	-
Long-term investment	250	250	-	250	-
Derivative instruments					
Fair value hedges – interest-rate swaps	33	33	-	33	-
Undesignated contracts – interest-rate swaps	1	1	-	1	-
	512	512	-	512	-
Liabilities:					
Bank indebtedness	39	39	39	-	-
Long-term debt	8,008	9,398	-	9,398	-
	8,047	9,437	39	9,398	-

The short-term investments represent investments with an original maturity of three months or less. Short-term investments are measured at inputs other than quoted prices that are observable for the assets and are classified as Level 2.

The long-term investment represents $250 million (2011 - $250 million) of Province of Ontario Floating-Rate Notes. The notes are measured at inputs other than quoted prices that are observable for the asset and are classified as Level 2, with unrecognized gains or losses recognized in financing charges.

The derivative instruments representing interest-rate swaps are measured using other than quoted prices that are observable for these assets and are classified as Level 2.

There were no significant transfers between any of the levels during the three and six months ended June 30, 2012 and year ended December 31, 2011.

See Note 9 for further information regarding the fair value and related valuation techniques for pension plan assets.

Risk Management

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to the risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk. The Company does have foreign exchange risk as it enters into agreements to purchase materials and equipment associated with capital programs and projects that are settled in foreign currencies. This foreign exchange risk is not material, although the Company could in the future decide to issue foreign currency-denominated debt which would be hedged back to Canadian dollars consistent with its risk management policy. Hydro One is exposed to fluctuations in interest rates as the regulated rate of return for the Company's transmission and distribution businesses is derived using a formulaic approach that is based on the forecast for long-term Government of Canada bond yields and the spread in 30-year "A"-rated Canadian utility bonds over the 30-year benchmark Government of Canada bond yield. The Company estimates that a 1% decrease in the forecasted long-term Government of Canada bond yield or the "A"-rated Canadian utility spread used in determining the Company's rate of return would reduce the Transmission Business' results of operations by approximately $18 million and Hydro One Networks' Distribution Business' results of operations by approximately $10 million.

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. In addition, the Company may utilize interest-rate derivatives to lock in interest rate levels in anticipation of future financing. Hydro One may also enter into derivative agreements such as forward-starting pay fixed-interest-rate swap agreements to hedge against the effect of future interest rate movements on long-term fixed-rate borrowing requirements. Such arrangements are typically designated as cash flow hedges. No cash flow hedge agreements were outstanding as at June 30, 2012 or December 31, 2011.

A hypothetical 10% increase in the interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's results of operations for the three and six months ended June 30, 2012.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest rate swaps for the three and six months ended June 30, 2012 and 2011 are included in financing charges as follows:

	Three months ended June 30		**Six months ended June 30**	
(Canadian dollars in millions)	**2012**	**2011**	**2012**	**2011**
Unrealized loss (gain) on hedged debt	2	12	(7)	4
Unrealized loss (gain) on fair value interest-rate swaps	(2)	(12)	7	(4)
Net unrealized loss (gain)	-	-	-	-

At June 30, 2012 and December 31, 2011, Hydro One had $750 million of notional amounts of fair value hedges outstanding related to interest rate swaps, with assets at fair value of $26 million and $33 million, respectively. During the three and six months ended June 30, 2012 and 2011, there was no significant impact on the results of operations as a result of any ineffectiveness attributable to fair value hedges.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. As at June 30, 2012 or December 31, 2011, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a significant amount of revenue from any individual customer. As at June 30, 2012 or December 31, 2011, there was no significant accounts receivable balance due from any single customer.

At June 30, 2012, the Company's provision for bad debts was $20 million (December 31, 2011 - $18 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience.

As at June 30, 2012, approximately 3% of the Company's accounts receivable were aged more than 60 days (December 31, 2011 – 3%).

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly-rated counter-parties; limiting total exposure levels with individual counterparties consistent with the Company's Board-approved Credit Risk Policy; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counterparties. In addition to payment netting language in master agreements, the Company establishes credit limits, margining thresholds and collateral requirements for each counterparty. Counterparty credit limits are based on an internal credit review that considers a variety of factors, including the results of a scoring model, leverage, liquidity, profitability, credit ratings and risk management capabilities. The determination of credit exposure for a particular counterparty is the sum of current exposure plus the potential future exposure with that counterparty. The current exposure is calculated as the sum of the principal value of money market exposures and the market value of all contracts that have a positive mark-to-market position on the measurement date. The Company would only offset the positive market values against negative values with the same counterparty where permitted by the existence of a legal netting agreement such as an International Swap Dealers Association master agreement. The potential future exposure represents a safety margin to protect against future fluctuations of interest rates, currencies, equities, and commodities. It is calculated based on factors developed by the Bank of International Settlements, following extensive historical analysis of random fluctuations of interest rates and currencies. To the extent that a counterparty's margining thresholds are exceeded, the counterparty is required to post collateral with the Company as specified in each agreement. The Company monitors current and forward credit exposure to counterparties both on an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the Consolidated Balance Sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At June 30, 2012, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was $29 million (December 31, 2011 - $36 million). At June 30, 2012, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparties. The credit exposure of each of the four counterparties accounted for more than 10% of the total credit exposure.

9. RETIREMENT BENEFITS

Hydro One has a defined benefit pension plan, a supplementary pension plan, and post-retirement and post-employment plans. The defined benefit pension plan (the Pension Plan) is contributory and covers all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton Networks. Employees of Hydro One Brampton Networks participate in the OMERS Plan, a multiemployer public sector pension fund. The supplementary pension plan provides members of the Pension Plan with benefits that would have been earned and payable under the Pension Plan but for the limitations imposed by the *Income Tax Act* (Canada).

The OMERS Plan

The OMERS plan provides fixed, monthly retirement payments on the basis of the credits earned by the participating employees. The OMERS plan is a defined contribution plan that provides pensions based on an employee's length of service and salary. The OMERS Plan participating employees and the Company contribute to the OMERS Plan. The OMERS plan had approximately 419,000 members at December 31, 2011. Hydro One Brampton Networks had 277 members in the OMERS plan at December 31, 2011.

Current contributions by Hydro One Brampton Networks are recognized as pension expense, with a portion being capitalized. The expensed amount is included in operation, maintenance and administration costs in the Consolidated Statements of Operations and Comprehensive Income. Contributions for the three and six months ended June 30, 2012 were about $380 thousand and $770 thousand, respectively (2011 - $330 thousand and $650 thousand, respectively). Contributions payable at June 30, 2012 and included in accrued liabilities on the Consolidated Balance Sheets amounted to about $145 thousand (December 31, 2011 - $150 thousand).

The OMERS plan is accounted for as a defined contribution plan by Hydro One because it is not practicable to determine the present value of the Company's obligations, the fair value of plan assets or the related current service cost. The OMERS plan assets are pooled together to provide benefits to employees of other plan participants and the plan assets are not segregated in separate accounts for each member entity. The OMERS plan financial statements at December 31, 2011 show an unfunded liability of $10,063 million. This unfunded liability will likely result in future payments by participating employers and employees. The total contributions of all participating employers and employees were $2,813 million for the year ended December 31, 2011. The Company's and employees' future contributions may be increased substantially if other entities withdraw from the plan. The OMERS Plan financial statements indicate that the plan was funded at 81.7% at December 31, 2011.

Pension Plan, Post-Retirement and Post-Employment Plans

The Pension Plan provides benefits based on highest three-year average pensionable earnings. For new management employees who commenced employment on or after January 1, 2004, and for new Society of Energy Professionals hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation. Company and employees' contributions to the Pension Plan are based on actuarial valuations performed at least every three years. Estimated 2012 annual Pension Plan contributions of $163 million were paid during the six months ended June 30, 2012, based on an actuarial valuation effective December 31, 2011 and the expected level of 2012 pensionable earnings, resulting in a prepaid pension contributions asset of $83 million at June 30, 2012.

Hydro One recognizes the overfunded or underfunded status of the Pension Plan, the supplementary pension plan, post-retirement and post-employment plans (the Plans) as an asset or liability on its Consolidated Balance Sheets, with offsetting regulatory assets and liabilities as appropriate. The underfunded benefit obligations for the Plans, in the absence of regulatory accounting, would be recognized in AOCI. The impact of changes in assumptions used to measure pension, post-retirement and post-employment benefit obligations is generally recognized over the expected average remaining service period of the employees. The measurement date for the Plans will be December 31, 2012 for the current year. The last measurement date was December 31, 2011.

(Canadian dollars in millions)	Pension Benefits	Post-retirement and Post-employment Benefits
Change in accrued benefit obligation		
Accrued benefit obligation, January 1, 2011	4,996	1,178
Current service cost	108	30
Interest cost	286	68
Reciprocal transfers	4	-
Benefits paid	(289)	(42)
Net actuarial loss (gain)	356	(28)
Accrued benefit obligation, December 31, 2011	5,461	1,206
Change in plan assets		
Fair value of plan assets, January 1, 2011	4,699	-
Actual return on plan assets	102	-
Reciprocal transfers	4	-
Benefits paid	(289)	-
Employer's contributions[1]	153	-
Employees' contributions	27	-
Administrative expenses	(14)	-
Fair value of plan assets, December 31, 2011	4,682	-
Unfunded status (accrued benefit obligation less fair value of plan assets)	779	1,206

[1] In January 2012, the Company made a contribution of $12 million in respect of 2011.

Hydro One presents its benefit obligations and plan assets net on its Consolidated Balance Sheets within the following line items:

December 31, 2011 (Canadian dollars in millions)	Pension Benefits	Post-retirement and Post-employment Benefits
Accrued liabilities	-	43
Pension benefit liability	779	-
Post-retirement and post-employment benefit liability	-	1,163
Unfunded status (accrued benefit obligation less plan assets)	779	1,206

The funded/unfunded status of the pension, post-retirement and post-employment benefit obligations refers to the difference between plan assets and estimated obligations under the Plans. The funded/unfunded status changes over time due to several factors, including contribution levels, assumed discount rates and actual returns on plan assets.

The following table provides the projected benefit obligation (PBO), accumulated benefit obligation (ABO) and fair value of plan assets for the Pension Plan.

December 31, 2011 (Canadian dollars in millions)	
Projected benefit obligation	5,461
Accumulated benefit obligation	5,038
Fair value of plan assets	4,682

On an ABO basis, the plans were funded at 93% at December 31, 2011. On a PBO basis, the plans were funded at 86% at December 31, 2011. The ABO differs from the PBO in that the ABO includes no assumption about future compensation levels.

Components of Net Periodic Benefit Costs

The following tables provide the components of the net periodic benefit costs for the three and six months ended June 30, 2012 and 2011 for all plans combined.

	Pension Benefits		Post-retirement and Post-employment Benefits	
Three months ended June 30 (Canadian dollars in millions)	**2012**	**2011**	**2012**	**2011**
Current service cost, net of employee contributions	24	20	7	7
Interest cost	71	71	16	17
Expected return on plan assets net of expenses[3]	(72)	(73)	-	-
Actuarial loss amortization	28	17	1	2
Prior service cost amortization	1	1	1	1
Net Periodic Benefit Cost	52	36	25	27
Charged to results of operations[1]	19	26	11	16

	Pension Benefits		Post-retirement and Post-employment Benefits	
Six months ended June 30 (Canadian dollars in millions)	**2012**	**2011**	**2012**	**2011**
Current service cost, net of employee contributions	48	40	14	14
Interest cost	142	142	32	34
Expected return on plan assets net of expenses[3]	(144)	(146)	-	-
Actuarial loss amortization	56	34	2	4
Prior service cost amortization	2	2	2	2
Net Periodic Benefit Cost	104	72	50	54
Charged to results of operations[2]	37	48	22	32

[1] The Company follows the cash basis of accounting consistent with the inclusion of pension costs in OEB-approved rates. In the three months ended June 30, 2012, pension costs of $40 million (June 30, 2011 - $41 million) were attributed to labour, of which $19 million (June 30, 2011 - $26 million) was

charged to operations and $21 million (June 30, 2011- $15 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

[2] The Company follows the cash basis of accounting consistent with the inclusion of pension costs in OEB-approved rates. In the six months ended June 30, 2012, pension costs of $78 million (June 30, 2011 - $78 million) were attributed to labour, of which $37 million (June 30, 2011 - $48 million) was charged to operations and $41 million (June 30, 2011- $30 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

[3] The expected long-term rate of return on Pension Plan assets is 6.25%.

Components of Regulatory Assets

A portion of actuarial gains and losses and prior service costs and credits is recorded within regulatory assets on Hydro One's Consolidated Balance Sheets to reflect the expected regulatory inclusion of these amounts in future rates, which would otherwise be recorded in OCI. The following tables provide the components of regulatory assets for the year ended December 31, 2011 for all plans combined.

Year ended December 31, 2011 (Canadian dollars in millions)	Pension Benefits	Post-retirement and Post-employment Benefits
Changes in plan assets and benefit obligations recognized in regulatory assets:		
Actuarial loss (gain) for the year	558	(27)
Amortization of actuarial loss to net income	(68)	(7)
Amortization of prior service credit to net income	(4)	(3)
	486	(37)

The following table provides the components of Hydro One's regulatory assets that have not been recognized as components of periodic benefit cost as of December 31, 2011 for all plans combined:

Year ended December 31, 2011 (Canadian dollars in millions)	Pension Benefits	Post-retirement and Post-employment Benefits
Prior service cost	7	7
Actuarial loss	772	116
	779	123

Pension Plan Assets

Investment Strategy

On a regular basis, Hydro One evaluates its investment strategy to ensure that plan assets will be sufficient to pay Pension Plan benefits when due. As part of this ongoing evaluation, Hydro One may make changes to its targeted asset allocation and investment strategy. The Pension Plan is managed at a net asset level. The main objective of the Pension Plan is to sustain a certain level of net assets in order to meet the pension obligations of the Company. The Pension Plan fulfills its primary objective by adhering to specific investment policies outlined in its Summary of Investment Policies and Procedures (SIPP), which is reviewed and approved by the Investment-Pension Committee of Hydro One's Board of Directors. The Company manages net assets by engaging knowledgeable external investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP. The performance of the managers is monitored through a governance structure. Increases in net assets are a direct result of investment income generated by investments held by the Pension Plan and contributions to the Pension Plan by eligible employees and by the Company. The main use of net assets is for benefit payments to eligible Pension Plan members.

Pension Plan Asset Mix

The Pension Plan target asset allocations and weighted average asset allocations were as follows as at December 31, 2011:

	Target Allocation (%)	Pension Plan Assets (%)
Equity securities	60.0	59.4
Debt securities	35.0	37.1
Other [1]	5.0	3.5
	100.0	100.0

[1] Other investments include cash and cash equivalents, pooled funds and real estate investments.

Concentrations of Credit Risk

Hydro One evaluated its Pension Plan's asset portfolio for the existence of significant concentrations of credit risk as at December 31, 2011. Concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, concentrations in a type of industry, and concentrations in individual funds. At December 31, 2011, there were no significant concentrations (defined as greater than 10 percent of plan assets) of risk in the Pension Plan's assets.

The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade and government bonds and with respect to derivatives by transacting only with financial institutions rated at least "A" by S&P or "A2" by Moody's Investors Service Inc. and also by utilizing exposure limits to each counterparty. The risk of default on transactions in listed securities is considered minimal, as the trade will fail if either party to the transaction does not meet its obligation.

Fair Value Measurements

The following table presents the Pension Plan assets measured and recorded at fair value on Hydro One's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of December 31, 2011:

December 31, 2011 (Canadian dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Pooled funds	3	15	165	183
Cash and cash equivalents	128	-	-	128
Short-term securities	-	38	-	38
Real estate	-	-	2	2
Corporate shares - Canadian	820	-	-	820
Corporate shares - Foreign	1,820	-	-	1,820
Bonds and debentures - Canadian	-	1,675	-	1,675
Bonds and debentures - Foreign	-	1	-	1
	2,771	1,729	167	4,667

The total fair value of pension plan assets excludes $17 million of interest and dividends receivable, $8 million related to pending sales transactions and $10 million relating to accruals for pension administration expense as of December 31, 2011.

See Note 8 for a description of levels within the fair value hierarchy.

Changes in the Fair Value of Financial Instruments Classified in Level 3

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the year ended December 31, 2011. The Pension Plan classifies financial instruments as Level 3 when the fair value is measured based on at least one significant input that is not observable in the markets or due to lack of liquidity in certain markets. The gains and losses presented in the table below may include changes in fair value based on both observable and unobservable inputs.

(Canadian dollars in millions)	
Fair value as at January 1, 2011	167
Transfers in	-
Realized and unrealized gains	18
Purchases	9
Sales and disbursements	(27)
Fair value as at December 31, 2011	167

The Company performs sensitivity analysis for fair value measurements classified in Level 3, substituting the unobservable inputs with one or more reasonably possible alternative assumptions. These sensitivity analyses resulted in negligible changes in the fair value of financial instruments classified in this level.

Valuation Techniques Used to Determine Fair Value

Pooled Funds

The pooled fund category mainly consists of hedge fund investments and private equity investments. Hedge fund investments seek to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. Hedge fund valuations are provided by the fund manager and reported using the net asset value per share (NAV) of the investments. Hydro One has the ability to redeem these investments at NAV within the near term. Since these valuations are not highly observable, hedge fund investments have been categorized as Level 3 within pooled funds.

Private equity investments represent private equity funds that invest in operating companies that are not publicly traded on a stock exchange. Investment strategies in private equity include limited partnerships in businesses that are characterized by high internal growth and operational efficiencies, venture capital, leveraged buyouts and special situations such as distressed investments. Private equity valuations are reported by the fund manager and are based on the valuation of the underlying investments which include inputs such as cost, operating results, discounted future cash flows and market based comparable data. Since these valuation inputs are not highly observable, private equity investments have been categorized as Level 3 within pooled funds.

Cash Equivalents

Demand cash deposits held with banks and cash held by the investment managers are considered cash equivalents and are included in the fair value measurements hierarchy as Level 1.

Short-Term Securities

Short-term securities are valued at cost plus accrued interest, which approximates fair value due to their short-term nature. Short-term securities have been categorized as Level 2.

Real Estate

Real estate investments represent private equity investments in holding companies that invest in real estate properties. The investment in the holding company is valued using NAV reported by the fund manager. This investment is categorized as Level 3.

Corporate Shares

Corporate shares are valued based on quoted prices in active markets and are categorized as Level 1. Investments denominated in foreign currencies are translated into Canadian currency at year-end rates of exchange.

Bonds and Debentures

Bonds and debentures are presented at published closing trade quotations, and are categorized as Level 2.

10. PREFERRED SHARES

The Company's preferred shares are entitled to an annual cumulative dividend of $18 million, or $1.375 per share, which is payable on a quarterly basis. The preferred shares are not subject to mandatory redemption (except on liquidation) but are redeemable in certain circumstances. The shares are redeemable at the option of the Province at a price of $25 per share, representing the stated value, plus any accrued and unpaid dividends if the Province sells a number of the common shares which it owns to the public such that the Province's holdings are reduced to less than 50% of the common shares of the Company. The 12,920,000 preferred shares outstanding have a redemption value of $323 million. Hydro One may elect, without condition, to pay all or part of this redemption price by issuing additional common shares to the Province. If the Province does not exercise its redemption right, the Company would have the ability to adjust the dividend on the preferred shares to produce a yield that is 0.50% less than the then-current dividend market yield for similarly rated preferred shares. The preferred shares do not carry voting rights, except in limited circumstances, and would rank in priority over the common shares upon liquidation.

These preferred shares have conditions for their redemption that are outside the control of the Company because the Province can exercise its right to redeem in the event of change in ownership without approval of the Company's Board of Directors. Because the conditional redemption feature is outside the control of the Company, the preferred shares are classified outside of Shareholder's Equity on the Consolidated Balance Sheets. Management believes that it is not probable that the preferred shares will become redeemable. No adjustment to the carrying value of the preferred shares has been recognized. If it becomes probable in the future that the preferred shares will be redeemed, the redemption value would be adjusted.

11. DIVIDENDS

During the three months ended June 30, 2012, preferred dividends in the amount of $5 million (2011 - $5 million) and common dividends in the amount of $25 million (2011 - $37 million) were declared and paid.

During the six months ended June 30, 2012, preferred dividends in the amount of $9 million (2011 - $9 million) and common dividends in the amount of $302 million (2011 - $75 million) were declared and paid.

12. RELATED PARTY TRANSACTIONS

Hydro One is owned by the Province. The OEFC, IESO, Ontario Power Authority (OPA), Ontario Power Generation Inc. (OPG) and the OEB are related parties to Hydro One because they are controlled or significantly influenced by the Province of Ontario. Transactions between these parties and Hydro One were as follows:

Hydro One received revenue for transmission services from the IESO, based on uniform transmission rates approved by the OEB. Transmission revenue for the three and six months ended June 30, 2012 includes $371 million (2011 - $329 million) and $726 million (2011 - $677 million), respectively, related to these services. Hydro One receives amounts for rural rate protection from the IESO. Distribution revenue for the three and six months ended June 30, 2012 includes $32 million (2011 - $32 million) and $64 million (2011 - $64 million), respectively, related to this program. Hydro One also received revenue related to the supply of electricity to remote northern communities from the IESO. Distribution revenue for the three and six months ended June 30, 2012 includes $7 million (2011 - $7 million) and $14 million (2011 - $14 million), respectively, related to these services.

In the three and six months ended June 30, 2012, Hydro One purchased power in the amount of $518 million (2011 - $528 million) and $1,180 million (2011 - $1,201 million), respectively, from the IESO-administered electricity market; $1 million (2011 - $4 million) and $5 million (2011 - $10 million), respectively, from OPG; and $1 million (2011 - $3 million) and $3 million (2011 - $6 million), respectively, from the OEFC.

Under the *Ontario Energy Board Act, 1998*, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters. During the three and six months ended June 30, 2012, Hydro One incurred $3 million (2011 - $2 million) and $6 million (2011 - $5 million), respectively, in OEB fees.

Hydro One has service level agreements with IESO and OPG. These services include field, engineering, logistics and telecommunications services. During the three and six months ended June 30, 2012, revenues related to the provision of construction and equipment maintenance services with respect to these service level agreements were $3 million (2011 - $1 million) and $5 million (2011 - $3 million), respectively, primarily for the Transmission Business. Operation, maintenance and administration costs related to the purchase of services with respect to these service level agreements were $1 million (2011 - $1 million) for the six months ended June 30, 2012, and insignificant for the three months ended June 30, 2012.

The OPA funds substantially all of the Company's Conservation and Demand Management (CDM) programs. The funding includes program costs, incentives, and management fees. In the three and six months ended June 30, 2012, Hydro One received $7 million (2011 - $13 million) and $19 million (2011 - $16 million), respectively, from the OPA in respect of CDM programs.

The provision for PILs and payments in lieu of property taxes were paid or payable to the OEFC, and dividends were paid or payable to the Province.

Sales to and purchases from related parties occur at normal market prices or at a proxy for fair value based on the requirements of the OEB's Affiliate Relationships Code. Outstanding balances at period end are unsecured, interest free and settled in cash. As at June 30, 2012, the Company held $250 million (December 31, 2011- $250 million) of Province of Ontario Floating-Rate Notes.

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

(Canadian dollars in millions)	**June 30, 2012**	**December 31, 2011**
Accounts receivable	169	143
	169	143
Accounts payable	(2)	(2)
Accrued liabilities	(189)	(342)
	(191)	(344)
Long-term investment	250	250

Included in accrued liabilities are amounts owing to the IESO in respect of power purchases of $144 million (December 31, 2011 - $209 million).

13. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the purposes of the Consolidated Statements of Cash Flows, "cash and cash equivalents" refers to short-term investments.

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

	Three months ended June 30		Six months ended June 30	
(Canadian dollars in millions)	**2012**	**2011**	**2012**	**2011**
Accounts receivable decrease (increase)	36	60	3	(66)
Materials and supplies decrease (increase)	1	-	2	(1)
Prepaid pension contributions increase	(83)	-	(83)	-
Other assets (increase) decrease	(5)	-	4	(6)
Accounts payable (decrease) increase	(2)	16	(10)	(11)
Accrued liabilities (decrease) increase	(27)	2	(162)	(22)
Accrued interest (decrease) increase	(26)	(39)	9	(2)
Long-term accounts payable and other liabilities decrease	(1)	(4)	(1)	-
Post-retirement and post-employment benefit liability increase	13	17	26	34
	(94)	52	(212)	(74)

Supplementary information:				
Net interest paid	133	141	202	206
Payments in lieu of corporate income taxes	25	15	139	50

14. CONTINGENCIES

Legal Proceedings

Hydro One is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Transfer of Assets

The transfer orders by which Hydro One acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on lands held for bands or bodies of Indians under the *Indian Act* (Canada). Currently, the OEFC holds these assets. Under the terms of the transfer orders, Hydro One is required to manage these assets until it has obtained all consents necessary to complete the transfer of title of these assets to itself. The Company cannot predict the aggregate amount that it may have to pay, either on an annual or one-time basis, to obtain the required consents. However, the Company anticipates having to pay more than the $1 million that it paid to these Indian bands and bodies in 2011. If Hydro One cannot obtain consents from the Indian bands and bodies, the OEFC will continue to hold these assets for an indefinite period of time. If the Company cannot reach a satisfactory settlement, it may have to relocate these assets from the Indian lands to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel-generation facilities. The costs relating to these assets could have a material adverse effect on the Company's results of operations if it is not able to recover them in future rate orders.

15. COMMITMENTS

Agreement with Inergi LP (Inergi)

Effective March 1, 2002, Inergi, a wholly-owned subsidiary of Cap Gemini Canada Inc., began providing services to Hydro One. On May 1, 2010, consistent with the terms of the contract, the Company extended the Master Services Agreement with Inergi for a further three-year period. This agreement will expire on February 28, 2015. As a result of this agreement, Hydro One receives from Inergi a range of services including business processing and information technology outsourcing services, as well as core system support related primarily to SAP implementation and optimization. Inergi billings for these services have ranged between $93 million and $130 million per year and are subject to external benchmarking every three years to ensure Hydro One is receiving a defined, competitive and continuously improved price. In connection with this agreement, on March 1, 2002, the Company transferred approximately 900 employees to Inergi, including about 130 non-regular employees.

The annual commitments under the Inergi agreement as at June 30, 2012 are as follows: remainder of 2012 - $69 million; 2013 - $134 million; 2014 - $128 million; 2015 - $21 million; 2016 and thereafter - $nil.

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. As at June 30, 2012, the Company provided prudential support to the IESO on behalf of Hydro One Networks and Hydro One Brampton Networks using parental guarantees of $325 million (December 31, 2011 - $325 million). Prudential support at June 30, 2012 was also provided on behalf of two distributors using guarantees of $660 thousand (December 31, 2011 - $660 thousand). On April 27, 2012, Hydro One's highest credit rating declined from the "Aa" category to the "A" category. Based on the new credit rating category, the Company has provided letters of credit in the amount of $10 million to the IESO. The IESO could draw on these guarantees and/or letters of credit if these subsidiaries or distributors fail to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of any bank letters of credit plus the nominal amount of the corporate guarantee.

Retirement Compensation Arrangements

Bank letters of credit have been issued to provide security for the Company's liability under the terms of a trust fund established pursuant to the supplementary pension plan for the employees of Hydro One and its subsidiaries. The trustee is required to draw upon the letters of credit if Hydro One is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to secure the Company's liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the bank letters of credit. As at June 30, 2012, Hydro One had bank letters of credit of $124 million (December 31, 2011 - $124 million) outstanding relating to retirement compensation arrangements.

Operating Leases

The future minimum lease payments under operating leases as at June 30, 2012 are as follows: remainder of 2012 - $5 million; 2013 - $10 million; 2014 - $9 million; 2015 - $4 million; 2016 - $7 million; and thereafter - $20 million.

16. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Business, which comprises the core business of providing transportation and connection services, is responsible for transmitting electricity throughout the Ontario electricity grid;
- The Distribution Business, which comprises the core business of delivering and selling electricity to customers; and
- Other, the operations of which primarily consist of those of the telecommunications business.

The designation of segments has been based on a combination of regulatory status and the nature of the products and services provided. Segment information on the above basis is as follows:

Three months ended June 30, 2012 (Canadian dollars in millions)	**Transmission**	**Distribution**	**Other**	**Consolidated**
Segment profit				
Revenues	370	974	15	1,359
Purchased power	-	640	-	640
Operation, maintenance and administration	102	156	20	278
Depreciation and amortization	77	78	3	158
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	191	100	(8)	283
Financing charges				90
Income before provision for payments in lieu of corporate income taxes				193
Capital expenditures	189	161	-	350

Three months ended June 30, 2011 (Canadian dollars in millions)	**Transmission**	**Distribution**	**Other**	**Consolidated**
Segment Profit				
Revenues	337	915	16	1,268
Purchased power	-	587	-	587
Operation, maintenance and administration	104	155	16	275
Depreciation and amortization	73	75	3	151
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	160	98	(3)	255
Financing charges				86
Income before provision for payments in lieu of corporate income taxes				169
Capital expenditures	189	155	1	345

Six months ended June 30, 2012 (Canadian dollars in millions)	**Transmission**	**Distribution**	**Other**	**Consolidated**
Segment profit				
Revenues	731	2,065	31	2,827
Purchased power	-	1,369	-	1,369
Operation, maintenance and administration	214	296	30	540
Depreciation and amortization	152	153	5	310
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	365	247	(4)	608
Financing charges				173
Income before provision for payments in lieu of corporate income taxes				435
Capital expenditures	376	288	3	667

Six months ended June 30, 2011 (Canadian dollars in millions)	**Transmission**	**Distribution**	**Other**	**Consolidated**
Segment Profit				
Revenues	688	2,008	32	2,728
Purchased power	-	1,306	-	1,306
Operation, maintenance and administration	210	297	30	537
Depreciation and amortization	145	145	5	295
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	333	260	(3)	590
Financing charges				170
Income before provision for payments in lieu of corporate income taxes				420
Capital expenditures	361	278	1	640

(Canadian dollars in millions)	**June 30, 2012**	**December 31, 2011**
Total assets		
Transmission	10,606	10,589
Distribution	7,349	7,594
Other	1,705	653
	19,660	18,836

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

17. TRANSITION TO US GAAP

The adoption of US GAAP has been made on a retrospective basis with restatement of comparative information to reflect US GAAP requirements in effect at that time. For 2012 interim reporting purposes, the transition date to US GAAP is January 1, 2011, which is the commencement of the 2011 comparative period to the Company's 2012 unaudited interim Consolidated Financial Statements.

Measurement and classification differences arising out of the Company's adoption of US GAAP are presented below. With respect to measurement and classification differences, the tables under the heading US GAAP Differences, represent quantitative reconciliations of the Consolidated Balance Sheets and the Consolidated Statements of Changes in Shareholder's Equity previously presented in accordance with Canadian GAAP, to the respective amounts and classifications under US GAAP, together with descriptions of the various significant measurement and classification differences arising from the adoption of US GAAP. Consolidated Balance Sheets and Consolidated Statements of Changes in Shareholder's Equity reconciliations are presented as at January 1, 2011 and December 31, 2011, representing the commencement and ending dates of the comparative financial year to 2012. There were no measurement or classification differences arising out of the Company's adoption of US GAAP on the Consolidated Statements of Operations and Comprehensive Income.

Except as otherwise disclosed in this note, the change in basis of accounting from Canadian GAAP to US GAAP did not materially impact accounting policies or disclosures. Reference should be made to the previously filed Canadian GAAP Consolidated Financial Statements as at and for the year ended December 31, 2011 for additional information on Canadian GAAP accounting policies and practices.

The following table summarizes the increases (decreases) to total assets:

(Canadian dollars in millions)	Notes	**January 1, 2011**	**December 31, 2011**
Total assets – Canadian GAAP		17,322	18,368
Deferred debt costs	A	32	32
Deferred pension asset	B	(460)	(466)
Regulatory assets	B	450	902
Total assets - US GAAP		17,344	18,836

The following table summarizes the increases (decreases) to total liabilities:

(Canadian dollars in millions)	Notes	**January 1, 2011**	**December 31, 2011**
Total liabilities – Canadian GAAP		11,341	11,914
Long-term debt	A	5	9
Net unamortized debt premiums	A	27	23
Pension benefit liability	B	297	779
Post-retirement and post-employment benefit liability	B	153	123
Regulatory liabilities	B	(460)	(466)
Total liabilities - US GAAP		11,363	12,382

US GAAP Differences

The reconciliations of the January 1, 2011 and December 31, 2011 Consolidated Balance Sheets from Canadian GAAP to US GAAP are as follows:

January 1, 2011 (Canadian dollars in millions)	Notes	Canadian GAAP	Effect of transition to US GAAP	US GAAP
Assets				
Current assets:				
Cash		33	-	33
Short-term investments		139	-	139
Accounts receivable		911	-	911
Regulatory assets		42	-	42
Materials and supplies		21	-	21
Deferred income tax assets		35	-	35
Derivative instruments	C	-	1	1
Other	C	8	(1)	7
		1,189	-	1,189
Property, plant and equipment:				
Property, plant and equipment in service (net of accumulated depreciation)		12,520	-	12,520
Construction in progress		1,402	-	1,402
Future use land, components and spares		139	-	139
		14,061	-	14,061
Other long-term assets:				
Regulatory assets	B	1,013	450	1,463
Deferred pension asset	B	460	(460)	-
Long-term investment		249	-	249
Intangible assets (net of accumulated amortization)		189	-	189
Goodwill		133	-	133
Deferred debt costs	A	-	32	32
Derivative instruments	C	-	7	7
Deferred income tax assets		19	-	19
Other	C	9	(7)	2
		2,072	22	2,094
Total assets		17,322	22	17,344

January 1, 2011 (Canadian dollars in millions)	Notes	Canadian GAAP	Effect of transition to US GAAP	US GAAP
Liabilities				
Current liabilities:				
Accounts payable and accrued charges	D	884	(884)	-
Accounts payable	D	-	125	125
Accrued liabilities	D	-	759	759
Accrued interest		84	-	84
Regulatory liabilities		72	-	72
Long-term debt payable within one year		500	-	500
		1,540	-	1,540
Long-term debt	A	7,278	5	7,283
Other long-term liabilities:				
Post-retirement and post-employment benefit liability	B	980	153	1,133
Deferred income tax liabilities		693	-	693
Pension benefit liability	B	-	297	297
Environmental liabilities		287	-	287
Regulatory liabilities	B	540	(460)	80
Net unamortized debt premiums	A	-	27	27
Asset retirement obligations		11	-	11
Long-term accounts payable and other liabilities		12	-	12
		2,523	17	2,540
Total liabilities		11,341	22	11,363
Preferred shares (authorized: unlimited; issued: 12,920,000)	E	-	323	323
Shareholder's equity				
Preferred shares	E	323	(323)	-
Common shares (authorized: unlimited; issued: 100,000)		3,314	-	3,314
Retained earnings		2,354	-	2,354
Accumulated other comprehensive loss		(10)	-	(10)
Total shareholder's equity		5,981	(323)	5,658
Total liabilities, preferred shares and shareholder's equity		17,322	22	17,344

December 31, 2011 (Canadian dollars in millions)	Notes	Canadian GAAP	Effect of transition to US GAAP	US GAAP
Assets				
Current assets:				
Short-term investments		228	-	228
Accounts receivable		961	-	961
Regulatory assets		24	-	24
Materials and supplies		25	-	25
Deferred income tax assets		19	-	19
Derivative instruments	C	-	1	1
Other	C	20	(1)	19
		1,277	-	1,277
Property, plant and equipment:				
Property, plant and equipment in service (net of accumulated depreciation)		13,329	-	13,329
Construction in progress		1,436	-	1,436
Future use land, components and spares		138	-	138
		14,903	-	14,903
Other long-term assets:				
Regulatory assets	B	1,064	902	1,966
Deferred pension asset	B	466	(466)	-
Long-term investment		250	-	250
Intangible assets (net of accumulated amortization)		224	-	224
Goodwill		133	-	133
Deferred debt costs	A	-	32	32
Derivative instruments	C	-	33	33
Deferred income tax assets		17	-	17
Other	C	34	(33)	1
		2,188	468	2,656
Total assets		18,368	468	18,836

December 31, 2011 (Canadian dollars in millions)	Notes	Canadian GAAP	Effect of transition to US GAAP	US GAAP
Liabilities				
Current liabilities:				
Bank indebtedness		39	-	39
Accounts payable and accrued charges	D	1,071	(1,071)	-
Accounts payable	D	-	154	154
Accrued liabilities	D	-	917	917
Accrued interest		85	-	85
Regulatory liabilities		25	-	25
Long-term debt payable within one year		600	-	600
		1,820	-	1,820
Long-term debt	A	7,399	9	7,408
Other long-term liabilities:				
Post-retirement and post-employment benefit liability	B	1,040	123	1,163
Deferred income tax liabilities		758	-	758
Pension benefit liability	B	-	779	779
Environmental liabilities		235	-	235
Regulatory liabilities	B	635	(466)	169
Net unamortized debt premiums	A	-	23	23
Asset retirement obligations		15	-	15
Long-term accounts payable and other liabilities		12	-	12
		2,695	459	3,154
Total liabilities		11,914	468	12,382
Preferred shares (authorized: unlimited; issued: 12,920,000)	E	-	323	323
Shareholder's equity				
Preferred shares	E	323	(323)	-
Common shares (authorized: unlimited; issued: 100,000)		3,314	-	3,314
Retained earnings		2,827	-	2,827
Accumulated other comprehensive loss		(10)	-	(10)
Total shareholder's equity		6,454	(323)	6,131
Total liabilities, preferred shares and shareholder's equity		18,368	468	18,836

The adjustments to the January 1, 2011 and December 31, 2011 equity from Canadian GAAP to US GAAP are as follows:

January 1, 2011 (Canadian dollars in millions)	Common Shares	Preferred Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholder's Equity
Canadian GAAP	3,314	323	(10)	2,354	5,981
Other comprehensive income	-	-	-	-	-
Preferred shares reclassed outside shareholder's equity	-	(323)	-	-	(323)
US GAAP	3,314	-	(10)	2,354	5,658

December 31, 2011 *(Canadian dollars in millions)*	Common Shares	Preferred Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholder's Equity
Canadian GAAP	3,314	323	(10)	2,827	6,454
Other comprehensive income	-	-	-	-	-
Preferred shares reclassed outside shareholder's equity	-	(323)	-	-	(323)
US GAAP	3,314	-	(10)	2,827	6,131

Notes to the Transitional Adjustments

Under US GAAP, the Company (i) measures certain assets and liabilities differently than it had under Canadian GAAP (see details on each measurement change below); and (ii) discloses certain assets, liabilities and equity on different lines in the Consolidated Financial Statements than it had under Canadian GAAP (see details on each classification change below).

A. Debt Issuance Costs (classification change)

Under Canadian GAAP, costs of arranging debt financing, premiums and discounts were netted against long-term debt. Under US GAAP, costs of arranging debt financing are included in "Deferred debt costs" as part of "Other long-term assets", and net unamortized premiums are included in "Net unamortized debt premiums" as part of "Other long-term liabilities".

As at January 1, 2011 and December 31, 2011, the effect on the Consolidated Balance Sheets is reflected by the following increases:

(Canadian dollars in millions)	**January 1, 2011**	**December 31, 2011**
Other long-term assets:		
Deferred debt costs	32	32
Other long-term liabilities:		
Net unamortized debt premiums	27	23
Long-term debt	5	9

B. Pension, Post-Retirement and Post-Employment Benefits (measurement change)

Under Canadian GAAP, the Company disclosed, but was not required to recognize, the net unfunded status of pension, post-retirement and post-employment benefits obligations on the Consolidated Balance Sheets. Under US GAAP, the Company recognized the unfunded status of pension, post-retirement and post-employment obligations on the Consolidated Balance Sheets with an offset to associated regulatory assets for the transitional fair value adjustments as the incremental obligations are expected to be recovered through future rates charged to customers. The deferred tax assets and liabilities arising on recognition of incremental pension, post-retirement and post-employment obligations and the associated regulatory assets offset each other, with no material impact on the Consolidated Statements of Operations and Comprehensive Income. In the absence of regulatory accounting, the related tax impact on the opening transitional adjustments would result in the recognition of deferred tax assets of $113 million on January 1, 2011 and $224 million on December 31, 2011, respectively.

As at January 1, 2011 and December 31, 2011, the effect on the Consolidated Balance Sheets is reflected by the following increases (decreases):

(Canadian dollars in millions)	**January 1, 2011**	**December 31, 2011**
Other long-term assets:		
Deferred pension asset	(460)	(466)
Regulatory assets [1]	450	902
Other long-term liabilities:		
Pension benefit liability	297	779
Post-retirement and post-employment benefit liability	153	123
Regulatory liabilities [2]	(460)	(466)

[1] Represents off-setting regulatory assets for incremental obligation for pension and non-pension obligations of $297 million and $153 million on January 1, 2011, and $779 million and $123 million on December 31, 2011, respectively.

[2] Represents write-off of deferred pension asset regulatory liability under Canadian GAAP.

C. Derivatives (classification change)

Under Canadian GAAP, the Company classified its derivatives in designated hedging relationships and in economic hedging relationships under the category of "Other assets" on the Consolidated Balance Sheets. Under US GAAP, the Company has included these balances in "Derivative instruments".

As at January 1, 2011 and December 31, 2011, the effect on the Consolidated Balance Sheets is reflected by the following increases (decreases):

(Canadian dollars in millions)	**January 1, 2011**	**December 31, 2011**
Current assets:		
Derivative instruments	1	1
Other	(1)	(1)
Other long-term assets:		
Derivative instruments	7	33
Other	(7)	(33)

D. Accounts Payable (classification change)

Under Canadian GAAP, trade and non-trade payables were disclosed as "Accounts payable and accrued charges". Under US GAAP, trade payables are recognized in "Accounts payable" and non-trade payables are recognized in "Accrued liabilities".

As at January 1, 2011 and December 31, 2011, the effect on the Consolidated Balance Sheets is reflected by the following increases (decreases):

(Canadian dollars in millions)	**January 1, 2011**	**December 31, 2011**
Current liabilities:		
Accounts payable	125	154
Accrued liabilities	759	917
Accounts payable and accrued charges	(884)	(1,071)

E. Preferred Shares (classification change)

Under Canadian GAAP, Hydro One's preferred shares were classified as equity and preferred dividends were deducted from retained earnings and were accrued as declared. Under US GAAP, the preferred shares are classified outside shareholder's equity because of conditional redemption features in the preferred share agreement. Under US GAAP, the preferred dividends continue to be deducted from retained earnings and are accrued as declared (refer to Note 10).

As at January 1, 2011 and December 31, 2011, the effect on the Consolidated Balance Sheets is reflected by the following increases (decreases):

(Canadian dollars in millions)	**January 1, 2011**	**December 31, 2011**
Preferred shares	323	323
Shareholder's equity:		
Preferred shares	(323)	(323)

18. SUBSEQUENT EVENT

On July 31, 2012, Hydro One issued $75 million notes under its MTN Program with a maturity date of July 31, 2062 and a coupon rate of 3.79%.

19. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the June 30, 2012 unaudited interim Consolidated Financial Statements.

Hydro One Networks Inc.
Transmission
Reconciliation of Regulatory Financial Results with Audited Financial Statements
For year ending December 31, 2011

	Total per Exhibit A-9-1, Attachment 3 (a)	Adjustments (b)	Utility Income (c)
Revenue			
Transmission Tariff	1,353		1,353
Other	37		37
	1,390	-	1,390
Costs			
Operations, maintenance and administration (Note 1) (Note 2)	434	(20)	414
Depreciation and amortization	301		301
Capital Taxes (Note 1)	-	0	0
	735	(19)	716
Income before financing charges and provision for payments in lieu of corporate income taxes	655	19	674
Financing Charges	198		198
Income before provision for payments in lieu of corporate income taxes	457	19	476
Provision for Payments in lieu of corporate income taxes	77	-	77
Net Income	380	19	399

Note 1: Moving Capital Tax out of OM&A ($0.3 mil from 2011 Financial Statements (Capital Tax and Other Costs))

Note 2: Excluding $19.2M of cost relating to *Licence Amendment to Upgrade TS's to Facilities Renewable Generation*

RATING AGENCY REPORTS

Included in this Exhibit are copies of the most recent rating agency reports performed by Dominion Bond Rating Service, Moody's Investor Service and Standard & Poor's.

Attachment 1: Standard & Poor's, Full Ratings Report Dated: May 26, 2011
Attachment 2: Standard & Poor's, Summary Ratings Report Dated: November 25, 2011
Attachment 3: DBRS Rating Report Dated September 23, 2011
Attachment 4: DBRS Rating Report Dated February 29, 2012
Attachment 5: Moody's Investor Service, Credit Opinion Dated: September 8, 2011
Attachment 6: Moody's Investor Service, Press Release Dated: December 16, 2011
Attachment 7: Standard & Poor's, Report Dated: April 25, 2012
Attachment 8: Moody's Investor Service, Dated: April 27, 2012
Attachment 9: DBRS, Report Dated: June 20, 2012
Attachment 10: Standard & Poor's, Report Dated: June 27, 2012

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May 26, 2011

Hydro One Inc.

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Hydro One Inc.

Major Rating Factors

Corporate Credit Rating
A+/Stable/A-1

Strengths:

- Low-risk electricity transmission and distribution network businesses
- Natural monopoly position
- Regulated cash flows
- Supportive shareholder

Weaknesses:

- Deteriorating cash flow measures and financial risk profile
- Large capital expenditure program

Rationale

The ratings on Hydro One Inc., a large, regulated transmission and local electricity distribution company in the Province of Ontario (AA-/Stable/A-1+), reflect Standard & Poor's Ratings Services' opinion of the company's low-risk monopoly electricity transmission and distribution assets; secure and relatively predictable regulated cash flows; and the support of its owner, the province. We believe the utility has an excellent business risk profile and view its financial risk profile as significant on our expanded risk matrix. The company had C$7.8 billion in reported total debt outstanding as of March 31, 2011.

We base our 'A+' rating on Hydro One on what we assess as the company's stand-alone credit risk profile (SACP) of 'a' and our opinion that there is a "high" likelihood that the province would provide timely and sufficient extraordinary support in the event of financial distress. We view the company's role as "important" to the province and the link between it and the province as "very strong."

We believe the company's monopoly position, the business' asset-intensive nature, and regulatory oversight limiting competitive risk, all support an excellent stand-alone business risk profile. Hydro One owns and operates substantially all of Ontario's electricity transmission system, and its distribution service territory covers about 75% of the province. In our view, the business carries relatively low operating risk and exhibits average operational efficiency and reliability.

The Ontario Energy Board's (OEB) regulatory framework supports Hydro One's cash flow stability, and we view cost recovery as generally predictable. We have no near-term expectation of major energy policy shifts that would affect the credit quality, although we expect the OEB to be mindful of overall electricity costs to consumers in the current weak economic conditions and stagnant load growth in approving proposed prudent spending by utilities. The framework allows for the recovery of prudent transmission and distribution costs and the opportunity to earn a modest-but-predictable return. Furthermore, the company's exposure to commodity risk is limited. Commodity costs flow through to the customer and the utility has no obligation to ensure an adequate supply of electricity in the province.

- In our view, Hydro One has a significant financial risk profile. We believe its cash flow strength relative to its debt obligations has weakened since 2009 due to a material capital expenditure program. The company's annual capital expenditures were C$1.5 billion in 2009 and 2010, exceeding its internal cash flow generations (C$916 million and C$1 billion in adjusted funds from operations [AFFO] in 2009 and 2010, respectively). As the company has budgeted annual capital expenditures of about C$1.8 billion-C$1.9 billion over the next three years, we believe that it will continue to face significantly sizable negative free operating cash flows of about C$550 million-C$660 million per year. Hence, despite expected moderate revenue improvements following the last rate decision, we believe Hydro One's financial measures are unlikely to return to the levels they were before 2009. The company's financial risk profile remains supported by its strong access to capital markets, adequate liquidity, the stability and predictability of its cash flows, and low merger and acquisition risk. We expect Hydro One to manage this cycle of regulated rate base growth and significantly large negative free operating cash flows such that its leverage would not exceed 65% adjusted total debt-to-capital (compared with 63% at Dec. 31, 2010), or 60% on an unadjusted basis, AFFO-to-debt of about 12%, and AFFO interest coverage of about 3x. We understand that Hydro One has some flexibility in its planned capital expenditures and dividend payments. AFFO interest coverage was 3.0x in 2010, modestly improved from 2.8x in 2009, but still lower than the pre-2009 level of 3.5x-4.0x. AFFO-to-total debt in 2010 was 12.2%, marginally improved from 11.4% in 2009, but still lower than the pre-2009 level of about 14.0%-15.0%. We consider these financial measures weak for the ratings, and therefore, leave no cushion for the company's financial measures to deteriorate from our expectations (see related research, Corporate Criteria: Business Risk/Financial Risk Matrix Expanded, published May 27, 2009, on RatingsDirect on the Global Credit Portal). We believe the SACP and consequently the rating could be pressured if its financial measures worsen from our expectations because of weaker-than-expected cash flows or a material increase in debt as Hydro One proceeds with its heavy capital spending.

Liquidity

The short-term rating on Hydro One is 'A-1'. The company has adequate liquidity to cover its needs in the near term, even in the event of unforeseen earnings declines. Standard & Poor's assessment of Hydro One's liquidity profile incorporates the following expectations and assumptions:

- The company's liquidity sources, including liquid short-term investments, FFO, and credit facility availability, will likely exceed its uses by 1.2x or more in the next 12-18 months.
- Liquidity sources include an expectation of about C$1.2 billion of FFO, access to C$1.25 billion of Hydro One's committed revolving credit facility with syndicated of banks, and C$154 million liquid short-term investments as of March 31, 2011. The C$1.25 billion credit facility was fully available as of March 31, and will expire in June 2014. The company remains well within its banking covenant of 75% total debt-to-total capital.
- Liquidity uses include C$250 million of maturing debt, an estimated dividend payment of C$170 million, and about C$1.8 billion of capital expenditures, of which about C$400 million is considered discretionary.

The company has what we consider good relationships with its banks and good standing in the debt market, having issued C$1.5 billion in debt of its medium-term note (MTN) shelf program at attractive prices (coupon rates range from 2.95%-5.49%) in 2010. Its C$3 billion MTN shelf program will mature in August 2011, C$950 million of which was available as of March 31, 2011. We expect the company to renew the shelf program in a timely manner. We understand that Hydro One also holds a C$250 million note issued by the province that matures in 2014, which it could liquidate if needed. Hydro One could also reduce its dividend payment to help satisfy its cash requirements. The company's debt maturities are well-spread with annual scheduled repayment in the next seven years averaging about C$600 million.

Hydro One provides the Independent Electricity System Operator (IESO) with C$325 million in parental guarantees in lieu of prudential support. If all the ratings on the utility were to fall, the IESO's prudential requirements would likely increase.

Outlook

The stable outlook reflects what we view as Hydro One's consistent performance and our expectation of continued predictable regulatory support despite its large capital expenditure program and negative free operating cash flows. In the event of lower-than-expected cash flows and earnings, we expect the company to maintain its leverage within the deemed capital structure of 60% reported debt-to-capital, AFFO-to-debt of about 12%, and AFFO interest coverage of about 3x, by curtailing its capital spending and additional debt financing. In our view, there is no cushion for the company to deteriorate from our expectations on its key credit measures to maintain its existing ratings.

A material adverse regulatory ruling or market restructuring (such as the assumption of the obligation to supply, not just deliver, electricity), or any deterioration of financial measures beyond our expectation, could lower the existing 'a' SACP and consequently the current ratings.

An improvement in Hydro One's SACP is unlikely without the assurance of a much stronger balance sheet, and deeper cash flow-interest and debt coverage.

All else being equal, a negative outlook or further downgrade on the province could affect the ratings on Hydro One, but likely not by more than a notch, given the company's underlying stand-alone credit strength. Conversely, all else being equal, a positive outlook or upgrade of up to two notches on the province will not affect the ratings on Hydro One. A change in the relationship with the province that leads us to reconsider the likelihood of Hydro One receiving support from the province could also move the ratings.

Business Description

Hydro One owns and operates a low-risk, regulated transmission system that represents about 57% of its total assets as of Dec. 31, 2010. Substantially all of Ontario's electricity transmission system is owned and operated by Hydro One, which has contributed to the company becoming one of the largest transmission companies in North America. It can accommodate exports of about 6,000 megawatts (MW) and imports of 4,600 MW to and from interconnected Canadian provinces and the U.S. The system transmitted 142 terawatt-hours (TWh) of electricity in 2010 compared with an average of 139 TWh in 2009.

The company also owns and operates a low-risk, regulated distribution system that represents about 40% of its total assets as of Dec. 31. It is one of the country's largest LDCs and delivered about 29 TWh of electricity to about 1.3 million customers in rural and urban areas in Ontario. Apart from the system operated under Hydro One Brampton, its regulated LDC subsidiary serving 134,000 customers in the City of Brampton (AAA/Stable/--), the system covers mainly rural areas and remote communities in the province. It has a low customer density, covering 75% of Ontario but delivering about 30% of consumed electricity.

The marketing of surplus fiber optic capacity through subsidiary Hydro One Telecom is not material to our credit analysis, given the operation's small size (consisting of about 3% of total assets).

Rating Methodology

We base our 'A+' rating on Hydro One on the company's SACP and our view that there is a "high" likelihood that the province would provide timely and sufficient extraordinary support to Hydro One in the event of financial distress. We assess Hydro One's stand-alone credit quality at 'a'.

In accordance with our criteria for government-related entities (GREs), we base our view of a "high" likelihood of extraordinary government support on the following assessment:

- Within the context of our GRE methodology and scale for assessing the importance of a GRE's role to its government owner, we view Hydro One's role as "important" to the province. The utility operates as a profit-seeking enterprise and its credit standing is important to the government because it provides an essential infrastructure service, particularly in the distribution of electricity to remote communities in the province. In addition, part of its activities relate to its public policy role for the current government. Through its Green Energy Act, the province is relying on Hydro One and other electricity transmitters and distributors to facilitate a smart grid, and the quick connection of small renewable generation assets to the grid. Furthermore, although we do not believe that default or credit stress would lead to a disruption of Hydro One's physical operations, it would affect the credibility of the entire electricity sector in Ontario, which we believe would have an overall negative economic impact.
- Within the context of our GRE methodology and scale for assessing strength and durability, we view the link between Hydro One and the province as "very strong." The government is a strong and stable shareholder, and it has a policy and track record of providing support to the utility. Government policy has a strong influence on the company's strategic and business plans. Financial support is available to the company from the province through the Ontario Electricity Finance Corp., an established provincial agency with a legislated mandate "to provide financial assistance to the successor corporations of Ontario Hydro," of which Hydro One is one. Ontario's track record is consistent with our view. In the past, the government has offered the utility access to government treasury resources when unforeseen changes in government policy exposed the company's distribution operations to liquidity pressures. We expect that liquidity support would be available again under similar circumstances. Furthermore, the province appoints Hydro One's board of directors, and the government reviews the company's business plan and dividend policy before implementation. Management updates government staff on the company's monthly financial and operational performance.

After the government had considered selling Crown assets, which include Hydro One, since December 2009, the province's finance minister indicated in July 2010 that there would be no short-term consideration of selling any material Crown assets. While we maintain our view that the company's privatization could weaken its link with the province and the likelihood of extraordinary support in times of need, we now do not consider such an event imminent. Should the idea of privatization resurface, we would treat this as an event risk and reevaluate the likelihood of extraordinary support at that time.

Excellent Business Risk Profile

A stable regulatory regime supports credit quality

OEB provides regulatory oversight of Hydro One's operations. Prudent costs incurred are generally recovered through tariffs, but rate base adjustments can lag capital requirements up to three years unless the company returns to the regulator with a resource consuming, full cost-of-service application each year. We understand that the company's strategy is to file a full cost-of-service application every two years and to receive the OEB's approval on its capital expenditure program before actual capital spending in response to rapid fixed assets growth; this mitigates the potential time lag between Hydro One's capital expenditure spending and cost recovery through rate base adjustments.

Based on Hydro One's cost submissions, the OEB sets rates by estimating the utility's revenue requirement, given forecast consumption. The company submits separate transmission and distribution applications to the regulator, which determines revenue requirements on a forward test-year basis. The regulated revenue requirement includes the cost of capital based on a deemed capital structure of 60% debt and a modest return on equity (ROE). The allowed ROE is based on a formula linked to long-term Government of Canada (GOC; AAA/Stable/A-1+) bonds, long-term utility bond spreads, plus a modest risk premium.

There is a long history of regulated entities in Ontario being allowed to recoup unforeseen previously incurred costs (regulatory assets) and having to refund the customer (regulatory liabilities) after the fact through rates. Cash recovery (or repayment) is subject to a prudency review and regulatory approval. Depending on the magnitude, the OEB might spread the recovery over several years to avoid rate shock. To date, mandated refunds to customers have not caused undue financial duress for most utilities. For Hydro One, total unrecovered regulatory assets and liabilities on the balance sheet as of Dec. 31, 2010, were C$381 million (net of nonrecurring regulatory future income tax asset) and C$612 million, respectively, representing about 2% of total assets and 5% of total liabilities, respectively. From a credit perspective, Standard & Poor's does not view these as a concern.

Profitability is predictable but constrained by regulatory directives

Weather-induced changes in energy delivered subject Hydro One's cash flows to modest fluctuations that we factor into the rating. The transmission tariff is levied on monthly peak load. The distribution tariff is levied on a mix of fixed- and variable-charges for each of 12 customer classes (formerly 80) the OEB approved in late 2008.

Hydro One's profitability is largely dictated by regulatory directives that generally allow the company to earn a modest return. In December 2009, the OEB announced a change in the cost-of-capital computation formula, originally put in place since 1998. The new formula is now linked to both utility bond spreads and the long-term GOC bond rate; in our view, the often inverse relationship between the two rates could reduce volatility of future ROE adjustments. The revised formula has resulted in favorable ROE adjustments on Hydro One's 2011-2012 transmission rates and its 2010-2011 distribution rates (see table 1). Hydro One estimated that a 1% decrease in the forecast long-term GOC bond yield or utility bond spread used in setting rates could reduce net income in transmission by about C$16 million and in distribution by about C$10 million.

Table 1

Hydro One Inc.--Historical Parameters Used To Set Regulated Rates

Fiscal year ended Dec. 31	Rate-setting year	Approved transmission rate base (used to determine revenue requirement)	Approved distribution rate base (used to determine revenue requirement)	OEB-deemed capital structure (used to set rates)	OEB-allowed ROE in rates (%)¶
2004	May 1, 2004	C$5.7 billion	Rate base was not adjusted.	60% debt; 4% preferred equity; 36% common equity	9.88
2005	May 1, 2005	C$5.7 billion	Rate base was not adjusted.	60% debt; 4% preferred equity; 36% common equity	9.88

Table 1

Hydro One Inc.--Historical Parameters Used To Set Regulated Rates (cont.)					
2006	Rate base was not adjusted.	N/A	C$3.7 billion	60% debt; 40% equity	9.0 (distribution); 9.88 (transmission)
2007*	May 1, 2007	C$ 6.3 billion	Rate base was not adjusted.	56% long-term debt; 4% short-term debt; 40% equity	9.0 (distribution); 8.35 (transmission)
2008	Rate base was not adjusted.	N/A	C$4.3 billion	56% long-term debt; 4% short-term debt; 40% equity	8.57 (distribution); 8.35 (transmission)
2009	May 1, 2009	C$7.0 billion	Rate base was not adjusted.	56% long-term debt; 4% short-term debt; 40% equity	8.35 (distribution); 8.01 (transmission)
2010	May 1, 2010	C$7.6 billion	C$4.8 billion	56% long-term debt; 4% short-term debt; 40% equity	9.85 (distribution); 8.39 (transmission)
2011	Jan. 1, 2011	C$8.4 billion	C$5.1 billion	56% long-term debt; 4% short-term debt; 40% equity	9.66 (distribution); 9.66 (transmission)
2012	Jan 1, 2012	C$8.7 billion	N.A.	56% long-term debt; 4% short-term debt; 40% equity	N.A. (distribution); 10.09§ (transmission)

*The Ontario Energy Board's (OEB) second-generation incentive rate mechanism resulted in increased distribution rates for Hydro One without a full cost-of-service application. ¶After 2005, allowed ROEs were determined based on a formula linked to long-term Government of Canada rates. §Subject to the OEB update process in fourth-quarter 2011. ROE--Return on equity. N/A--Not applicable. N.A.--Not available.

The regulatory relationship is temperate, but the spending budget could come under tighter scrutiny

In our view, large differences between rate applications and final regulatory decisions could cause a rating concern as they might indicate increased regulatory risk. The OEB acknowledges Hydro One's higher cost of operations due to low density franchise and has generally accepted the company's forward cost estimates without significant haircuts in the past. With much lower customer density than that of its municipal peers, the system is by nature more expensive on a capital- and operating-cost per customer basis.

Although we do not expect allowance of the recovery of prudent operating and capital spending to change, we expect that the OEB, in its approval of prudent spending, would be mindful of overall electricity costs to consumers in the current weak economy and stagnant load growth, as well as the province's priority to green energy, a smart grid, and conservation and demand management (CDM). In the OEB's decision on Hydro One's 2010-2011 rate application, the board required a relatively high 7% (or C$40 million) haircut to Hydro One's proposed operating, management, and administrative expenses budget. The OEB also did not approve capital expenditures related to renewable generation (other than those related to express feeders, CDM, and a smart grid) as prudent due to inadequate specificity of planned projects.

On the transmission side, the haircut on revenue requirements for its 2011 transmission rate applications was mainly due to a modest discrepancy in the requested and approved ROE; the OEB's disapproval on recovery of the cost of capital on the construction work-in-progress for Bruce to Milton; and the haircut on Hydro One's proposed operating, management, and administrative expenses budget. The OEB also did not approve capital expenditure related to renewable generation. A higher-than-requested transmission rate in 2012 was mainly due to the company's international financial reporting standards (IFRS) accounting adoption as indirect overheads that used to be capitalized under Canadian generally accepted accounting principles (GAAP) is accounted for as operating expenses under IFRS.

Notwithstanding these cuts, the decisions did not result in a materially lower revenue requirement than what Hydro One applied for.

Table 2

Hydro One Inc. Requested Versus Approved Revenue Requirement

(Mil. C$)	Year	Requested revenue requirement	Approved revenue requirement	Approved revenue requirement
Distribution	2010	1,150	1,146	0.3% lower than requested
Distribution	2011	1,264	1,218	3.6% lower than requested
Transmission	2011	1,446	1,346	6.9% lower than requested
Transmission	2012	1,547	1,658	7.2% higher than requested

Turnaround time on rate decisions of five-to-nine months is manageable but not optimal, in Standard & Poor's view. In April 2010, the OEB approved Hydro One's 2010-2011 distribution application filed in July 2009. The 2010 distribution rates were implemented on May 1, 2010. However, in November 2010, 2011's distribution revenue requirement was adjusted to C$1.218 billion from the OEB's initial April 2010 decision of C$1.236 billion mainly to reflect an updated ROE of 9.66%. The company received approval in December 2010 for its transmission rate application for 2011-2012, which was filed in May 2010.

Formula-based ratemaking (FBR) is generally a quicker process than a cost-of-service application but does not fully reflect major changes in the rate base and associated capital costs. As long as inflation remains greater than the OEB's productivity targets and other adjustments, however, the use of FBR is an improvement. Before 2006, there was no generic mechanism to implement annual rate increases between full cost-of-service applications. Hydro One received its May 1, 2009, distribution rate increase based on FBR on May 13, 2009. It included a C$20 million increase in its revenue requirement and an additional C$12 million adjustment given its large capital program. The OEB's rate adjustment of 1.18% in 2009 includes an inflation factor minus a productivity factor and several other minor adjustments (see table 1).

The asset-intensive nature of the monopoly business reduces competitive risk

Although some competitive pressures exist, Hydro One's existing transmission system is largely shielded from direct competition due to its natural monopoly position. However, the company does not hold a legal monopoly on its service territory. There is no restriction on other transmission businesses' building and operating transmission networks in Ontario. Nevertheless, we believe the capital cost that would be involved in large-scale duplication of the network reduces the risk of bypass. Should bypass strand an individual asset, we expect tariffs would be rebalanced across remaining customers with minimal financial impact, given the territory's size.

Customer profile supports Hydro One's stable revenues

We believe the diversity of Hydro One's customer base supports the overall stability of its revenues and severely limits exposure to any particular customer or customer class. In the transmission business, municipally owned investment-grade LDCs and the utility's own distribution business collect transmission revenues and forward them to Hydro One through the IESO. The company's distribution operation also collects distribution revenues from a relatively stable customer base that is about 50% residential, about 29% commercial, 13% large industrial, and 8% embedded LDCs (on a distribution revenues basis in 2010).

A well-diversified economy in the company's service territory

Hydro One owns and operates substantially all of Ontario's electricity transmission system, accounting for about 96% of Ontario's transmission capacity by revenue in 2010. Its distribution system is the largest in Ontario and spans about 75% of the province, serving the more rural areas and remote communities of Ontario except for the company's Brampton network business covering an outer suburb of Toronto.

The province has a large and well-diversified economy and Hydro One delivers an essential service. Ontario's economy rebounded in 2010, after bottoming out in mid-2009. The government estimates that real GDP rebounded by 2.8% in 2010 after declining by 3.6% in 2009. According to the government's estimates, real GDP should continue to advance by 2.4% in 2011. The recession's impact was felt chiefly in the construction and manufacturing sectors (vehicle assembly and part production). Nevertheless, we believe Ontario has a large and well-diversified economy with depth and scale in many sectors, and we believe that the provincial economy has a number of key strengths, including a large, well-educated workforce, and proximity to important northeastern U.S. markets. While recognizing that uncertainty about the tenuous recovery in Europe and the U.S. is a risk to the economic outlook, we believe that the government's forecast real GDP growth of 2.4% for 2011 is achievable. (For more information on the Province of Ontario, please see the full analysis published May 12, 2011, on RatingsDirect on the Global Credit Portal.) The company estimates about 1% of load growth associated with economic growth in Ontario. However, Hydro One expects the overall load to decline by 1.3% in 2011 mainly due to the impact of CDM. From a credit perspective, this does not cause us a significant concern about the company's future financial performances as long as there is no large discrepancy between Hydro One's estimated and actual load growth.

Commodity-related risk remains, no matter how remote

While we believe that the LDCs are not exposed to material commodity-related risks, these risks could still have a material impact on the business risk profiles of LDCs as a result of potential policy changes down the road. For instance, once generation adequacy and provincial environmental targets (such as shutting down the province's coal plants and fostering renewable energy sources) are met, the province could very well turn its attention back to the wires sector. On the backburner for the past decade, there has been a consistent underlying desire in the sector to foster, or force, more economic efficiency by rationalizing and consolidating the approximately 80 LDCs in Ontario into fewer than 10. The resulting companies would be large enough to retain the skilled staff necessary to manage the obligation to supply, and the government could choose at that time to transfer related commodity risk to the LDC sector from the Ontario Power Authority (OPA).

Low-risk operations

Hydro One's regulated retail obligation is also a relatively low-risk operation, in Standard & Poor's view. The LDC is not engaged in commodity price or volume risk management and does not engage in contractual commitments to ensure adequate supply. Energy costs are a pass-through to consumers with no markup. Any variance is recouped or rebated through the OEB-regulated retail price in the following fiscal quarter.

We believe the operational performance of Hydro One's transmission assets remains good; the system achieved top quartile transmission reliability compared with that of other large Canadian peers (as reported to the Canadian Electricity Association). The electricity market rules and transmission license governing Hydro One's transmission operations required the transmitter to comply with reliability standards established by the North American Reliability Corp. and Northeast Power Coordinating Council Inc. Those standards include penalties for noncompliance. As of Dec. 31, 2010, Hydro One is compliant with the standards and has never paid any penalties.

The company's distribution reliability, although consistently weaker than that of other rated municipal peers largely because of its expansive rural service territory, does not pose a material credit risk, in Standard & Poor's opinion. The regulator tracks performance metrics but has not yet imposed generic industry standards or penalties for substandard service.

An aging labor force causes concern

An aging workforce remains an issue that could affect Hydro One's operations. The company expects about 22% of its workforce to be eligible for retirement by 2012. We understand that it is making an effort to address the issue by employing a larger number of apprentices, investing in co-op power engineering programs with universities, and outsourcing some capital programs. During this period of workforce renewal, we expect staff levels to be higher than normal as new employees are trained to enable the execution of the large capital program. The utility's cost-of-service determination includes the related labor costs. Hydro One employed about 5,363 permanent employees at year-end 2010, up 5% from 2009.

Significant Financial Risk Profile

Consistent financial policies

Hydro One's financial policies have historically been consistent, in our view. While total leverage has increased in the past three years to support the company's large capital program, we understand that Hydro One intends to maintain its capital structure within the regulatory deemed structure (reported debt to capital of 60%). Debt maturities are well-spread, in our opinion, with annual scheduled repayment in the next seven years averaging about C$600 million. We believe derivative instruments manage interest rate exposure nonspeculatively. The company is not exposed to foreign currency risk other than through the purchase of some materials. In its annual report, Hydro One discloses its target to maintain a long-term credit rating in the 'A' category.

The company's board of directors declares common dividends, with consideration of management's recommendation based on Hydro One's operating results. Also, the shareholder agreement requires the company to consult with its owner, the province, regarding dividend payments. We understand that Hydro One could reduce dividend payments to help satisfy its cash requirement and to maintain its capital structure within the regulatory deemed capital structure of a 60% debt layer.

Management advocates an enterprisewide approach to risk management directed at balancing regulatory, strategic, operational, and financial risk exposure, and the returns allowed within the Ontario regulatory framework.

Accounting

Hydro One prepares consolidated financial statements in accordance with Canadian GAAP. The Canadian Accounting Standards Board has called for a convergence to IFRS by 2012 (effective Jan. 1, 2012) and the company began its preparations in 2006. The change in accounting practice itself should not affect Standard & Poor's credit analysis in the absence of changes in the company's economic substances.

Canadian GAAP allows utilities to defer costs or revenues that they expect the regulator to allow them to recover to the balance sheet. Assets and liabilities are recouped from or rebated to customers in periods that typically vary from one-to-four years. To date, the regulatory disallowances for assets and liabilities that Hydro One and other Ontario-based utilities have declared have been minor.

We have made material adjustments to the balance sheet related to Hydro One's postretirement benefit obligations, and negligible operating lease adjustments. Both are reviewed by the OEB but subject to prudency review, and are included in the cost-of-service determination. Given the perpetual nature of transmission and distribution utility assets, it is a generally accepted practice in Canada that asset retirement obligations cannot be reasonably estimated

~~since asset retirement dates cannot be pinpointed. We expect that these costs would also be recouped through~~ regulated revenues.

Standard & Poor's treats Hydro One's C$323 million 5.5% cumulative preferred shares as equity. The shares are held by the province, and are entitled to an annual cumulative dividend of 5.5% or C$18 million. To date, the preferred dividends have not been deferred. The shares are redeemable at the option of the Province of Ontario; however, Hydro One, at its own discretion, can pay all or part of the redemption price by issuing additional common shares to the province. We do not expect the company to do so in the near term. The shares carry voting rights under limited circumstances and rank in priority above the common shares upon liquidation. The company can issue an unlimited number of preferred and common shares.

Hydro One has C$133 million of goodwill on its balance sheet that arose when it acquired LDCs for totals exceeding their fair value. The OEB does not recognize goodwill in the regulated rate base used to determine electricity tariffs. The amount is not material to Standard & Poor's analysis but indicates the risk to the balance sheet and Hydro One's returns that acquisitions could pose. (See table 3 for reconciliation.)

Table 3

Reconciliation Of Hydro One Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)

	--Fiscal year ended Dec. 31, 2010--									
Hydro One Inc. reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	7,778.0	5,981.0	5,124.0	1,572.0	989.0	355.0	1,174.0	1,174.0	28.0	1,570.0
Standard & Poor's adjustments										
Operating leases	38.1	N/A	N/A	2.3	2.3	2.3	4.7	4.7	N/A	N/A
Postretirement benefit obligations	1,017.8	(629.3)	N/A	146.0	146.0	82.0	39.3	39.3	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	54.0	(54.0)	(54.0)	N/A	(54.0)
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	N/A	13.0	N/A	N/A	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(77.0)	N/A	N/A
Debt--accrued interest not included in reported debt	84.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	1,139.8	(629.3)	0.0	148.3	161.3	138.3	(10.0)	(87.0)	0.0	(54.0)

Table 3

Reconciliation Of Hydro One Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$) (cont.)

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	8,917.8	5,351.7	5,124.0	1,720.3	1,150.3	493.3	1,164.0	1,087.0	28.0	1,516.0

N/A--Not applicable.

Cash flow is predictable but insufficient to fully fund capital needs

Hydro One's cash flow coverage measures have weakened since 2009 as the company increased its borrowing to finance its capital expenditure to sustain its aging infrastructure and to install smart meters as required by regulator. AFFO-to-debt declined to 12% in 2010 and 11% in 2009, compared with 14%-15% from 2006-2008; while adjusted FFO interest coverage was 3.0x in 2010 and 2.8x in 2009, down from 3.5x-4.0x in the earlier three-year period.

We expect Hydro One to generate annual FFO of about C$1.2 billion in 2011, which should be adequate to cover common dividend payments and part of the company's capital expenditure program in 2011. It has budgeted C$1.8 billion, C$1.9 billion, and C$1.8 billion of capital expenditure in 2011, 2012 and 2013, respectively. Although FFO should increase with the revised higher ROE, increasing rate base, and cost recovery, we expect that the company still needs to increase its total borrowing to support its significantly large negative free operating cash flows of about C$550 million-C$660 million per year, which in turn would keep its financial measures from materially improving from their current level.

With the many major transmission network projects Hydro One expects in the medium term to sustain its aging infrastructure, relieve transmission congestion, and extend transmission extension as identified in the OPA's Integrated Power System Plan for Ontario, we expect about 60% of the budgeted capital spending in the next three years to be for the transmission business. The remaining spending on the distribution side would be largely for new connections, a smart grid, distributed generation connections, and overall system reinforcement.

Credit metrics are strained

Mainly due to its large capital expenditure program and negative free operating cash flows, we believe that Hydro One's financial metrics could be under pressure in this heavy growth period. What offsets this somewhat is that rates are based on forward test years, so the regulatory scrutiny of capital programs occurs before spending, thus reducing the risk of nonrecovery, in our view. We expect AFFO-to-debt and AFFO interest coverage to remain close to 12%-13% and 3x, respectively, depending on the timing dynamics of capital execution and regulatory rate base adjustment and tariff approvals. Nevertheless, there could be negative rating consequences if its key financial measures worsen further from their current levels as a result of weaker-than-expected cash flows and material increase in debt as Hydro One proceeds with its heavy capital spending.

The balance sheet is likely to stay within the regulatory deemed structure

We understand that Hydro One intends to maintain its capital structure within the regulated deemed capital structure with debt-to-capital of 60% on a reported basis in the long term. With higher borrowing to support capital expenditure, the company's reported debt-to-capital increased to 56.5% in 2010 (62.5% adjusted) and 56.2% in 2009 (62.3% adjusted) from the three-year average of 53.5% (59.2% adjusted) from 2006-2008. We

~~expect total adjusted debt to increase by about C$700 million-C$1.4 billion in each of the next two years from the~~ 2010 level of C$9 billion, unless planned capital spending is deferred.

Manageable debt profile and financial flexibility

Although the company has about C$600 million maturing in each of the next several years, we believe Hydro One's debt profile is manageable, in view of its good access to the debt capital market and regulated cash flows. The company's financing strategy limits debt maturities in any single year from exceeding C$600 million (about 10% of the current debt load). Furthermore, about 50% of Hydro One's C$6.9 billion reported debt outstanding as of Dec. 31, 2010, had a maturity date of more than 10 years and the company targets a weighted-average term of 12-18 years for its debt portfolio.

As a fully government-owned company, Hydro One has effectively no access to the equity market, although we do not consider this a rating concern. The company could derive additional financial flexibility from its ability to reduce dividends, as demonstrated in 2009 and 2010 when it reduced dividend payments by C$137 million and C$160 million, respectively, from that of the previous year (see the table 4). Furthermore, we consider that about C$400 million-C$450 million of the company's total annual capital expenditure is discretionary. Under extraordinary conditions, the government shareholder is also a potential source of financing and backup liquidity. Although we believe access to new equity in the form of cash injections from the shareholder is unlikely, partial or full reduction of dividend payments is a credible option for Hydro One.

Table 4

Hydro One Inc. Dividend Payment History

(Mil. C$)	2006	2007	2008	2009	2010
Common dividend	332.0	332.0	307.0	170.0	10.0
Preferred dividend	18.0	18.0	18.0	18.0	18.0
Common dividend payout ratio (%)	76.0	87.1	64.0	37.6	1.7

The pension shortfall is likely to rise

We believe Hydro One's current shortfall in its pension fund is manageable. The OEB recognizes pension contribution costs as a prudent component of the cost of service and so they are largely recovered through rates. We estimate that the company would need to make a pension contribution of C$143 million in 2011. Pension deficits added about C$205 million of adjusted debt in 2010, up from C$154 million in 2009. While we expect pension obligations to increase as the utility's workforce ages, the size of pension deficits would also depend on future discount rates and asset value.

Hydro One uses derivatives to manage interest-rate exposure

Management uses derivative financial instruments and interest rate swap contracts primarily to manage exposure to interest rate fluctuations. Hydro One manages related credit risk by dealing primarily with highly rated counterparties. Employing master agreements that allow for net settlements reduces exposure to large collateral calls. Using derivatives, the company generally maintains less than 20% of debt (including debt maturing within the year) at floating rates. Hydro One carries no debt-related foreign exchange exposure, with all debt in Canadian dollars.

Table 5

Hydro One Inc.--Peer Comparison*

Industry Sector: Electric Utility

	Hydro One Inc.¶§	Statnett SF¶	AltaLink L.P.¶	Toronto Hydro Corp.§
Rating as of May 26, 2011	A+/Stable/A-1	A+/Stable/A-1	A-/Stable/--	A/Stable/--
	--Average of past three fiscal years--			
(Mil. mixed currency)	C$	NOK	C$	
Revenues	4,821.7	4,788.3	259.2	2,485.3
EBITDA	1,568.2	1,997.0	177.9	310.8
Net income from continuing operations	519.7	1,078.3	54.5	51.7
Funds from operations (FFO)	1,003.3	1,577.6	122.0	233.8
Capital expenditures	1,437.7	2,973.0	279.5	263.6
Free operating cash flow	(378.7)	(1,424.1)	(148.9)	(19.5)
Dividends paid	158.3	316.3	24.3	55.5
Discretionary cash flow	(537.1)	(1,740.4)	(173.2)	(75.0)
Cash and short-term investments	62.7	331.7	7.0	294.0
Debt	7,959.4	11,820.9	1,020.9	1,412.9
Preferred stock	323.0	0.0	0.0	0.0
Equity	4,988.4	6,325.9	664.7	1,001.2
Debt and equity	12,947.8	18,146.8	1,685.6	2,414.1
Adjusted ratios				
FFO interest coverage (x)	3.2	4.4	2.9	3.5
FFO/debt (%)	12.6	13.3	11.9	16.5
Free operating cash flow/debt (%)	(4.8)	(12.0)	(14.6)	(1.4)
Discretionary cash flow/debt (%)	(6.7)	(14.7)	(17.0)	(5.3)
Net cash flow/capex (%)	58.8	42.4	34.9	67.6
Debt/EBITDA (x)	5.1	5.9	5.7	4.5
Total debt/debt plus equity (%)	61.5	65.1	60.6	58.5
Return on capital (%)	8.0	8.3	6.6	6.5
Return on common equity (%)	9.0	15.8	6.7	5.0
Common dividend payout ratio (unadjusted) (%)	32.4	29.2	44.5	107.3

*Fully adjusted (including postretirement obligations). ¶Tranmission company. §Distribution company.

Table 6

Hydro One Inc.--Financial Summary

Industry Sector: Electric Utility

	--Fiscal year ended Dec. 31--				
	2010	2009	2008	2007	2006
Rating history	A+/Stable/A-1	A+/Stable/A-1	A+/Stable/A-1	A/Positive/A-1	A/Stable/A-1
(Mil. C$)					
Revenues	5,124.0	4,744.0	4,597.0	4,655.0	4,545.0
EBITDA	1,720.3	1,497.5	1,486.7	1,505.8	1,597.9
Net income from continuing operations	591.0	470.0	498.0	399.0	455.0
Funds from operations (FFO)	1,087.0	916.2	1,006.7	884.6	908.8

Table 6

Hydro One Inc.--Financial Summary (cont.)					
Capital expenditures	1,516.0	1,512.7	1,284.5	1,071.9	790.9
Free operating cash flow	(352.0)	(634.6)	(149.7)	(52.3)	26.0
Dividends paid (common and preferred)	28.0	188.0	259.0	325.0	350.0
Discretionary cash flow	(380.0)	(822.6)	(408.7)	(377.3)	(324.0)
Cash and short-term investments	172.0	0.0	16.0	0.0	0.0
Debt	8,917.8	8,023.6	6,936.9	6,367.5	6,304.9
Preferred stock	323.0	323.0	323.0	323.0	323.0
Equity	5,351.7	4,847.2	4,766.2	4,530.8	4,226.3
Debt and equity	14,269.5	12,870.7	11,703.1	10,898.3	10,531.1
Adjusted ratios					
FFO interest coverage (x)	3.0	2.8	4.0	3.7	3.5
FFO/debt (%)	12.2	11.4	14.5	13.9	14.4
Free operating cash flow/debt (%)	(3.9)	(7.9)	(2.2)	(0.8)	0.4
Discretionary cash flow/debt (%)	(4.3)	(10.3)	(5.9)	(5.9)	(5.1)
Net cash flow/capex (%)	69.9	48.1	58.2	52.2	70.7
Debt/EBITDA (x)	5.2	5.4	4.7	4.2	3.9
Debt/debt and equity (%)	62.5	62.3	59.3	58.4	59.9
Return on capital (%)	8.1	7.6	8.4	9.2	10.6
Return on common equity (%)	9.7	8.0	9.5	7.9	9.0
Common dividend payout ratio (unadjusted) (%)	1.7	37.6	64.0	87.1	76.0

Related Criteria And Research

- Key Credit Factors: Business And Financial Risks In the Investor-Owned Utility Industry, Nov. 26, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15,2008
- Corporate Criteria: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- General Criteria: Enhanced Methodology And Assumptions For Rating Government-Related Entities, published June 29, 2009
- Criteria I Corporates I General:Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010

Ratings Detail (As Of May 26, 2011)*	
Hydro One Inc.	
Corporate Credit Rating	A+/Stable/A-1
Commercial Paper	
Local Currency	A-1
Canadian National Scale Commercial Paper Rating	A-1(MID)
Senior Unsecured (19 Issues)	A+
Corporate Credit Ratings History	
03-Jun-2008	A+/Stable/A-1
26-Mar-2007	A/Positive/A-1
15-Jul-2005	A/Stable/A-1

Ratings Detail (As Of May 26, 2011)*(cont.)	
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Related Entities	
Ontario Power Generation Inc.	
Issuer Credit Rating	A-/Stable/--
Commercial Paper	
Canadian National Scale Commercial Paper Rating	A-1(LOW)
Ontario (Province of)	
Issuer Credit Rating	AA-/Stable/A-1+
Commercial Paper	A-1+
Canadian National Scale Commercial Paper Rating	A-1(HIGH)
Senior Unsecured (174 Issues)	AA-
UMH Energy Partnership	
Senior Secured (1 Issue)	A/Stable

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

November 25, 2011

Summary:
Hydro One Inc.

Primary Credit Analyst:
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Table Of Contents

Summary:

Hydro One Inc.

Credit Rating: A+/Stable/A-1

Rationale

The ratings on Hydro One Inc., a large, regulated transmission and local electricity distribution company in the Province of Ontario (AA-/Stable/A-1+), reflect Standard & Poor's Ratings Services' opinion of the company's low-risk monopoly electricity transmission and distribution assets; secure and relatively predictable regulated cash flows; and the support of its owner, the province. We believe the utility has an excellent business risk profile and view its financial risk profile as significant on our expanded risk matrix. The company had C$8.2 billion in reported total debt outstanding as of Sept. 30, 2011.

We base our 'A+' rating on Hydro One on our assessment of the company's stand-alone credit risk profile (SACP) of 'a' and our opinion that there is a "high" likelihood that the province would provide timely and sufficient extraordinary support in the event of financial distress. We view the company's role as "important" to the province and the link between it and the province as "very strong."

We believe Hydro One's monopoly position, the business' asset-intensive nature, and regulatory oversight limiting competitive risk, all support an excellent stand-alone business risk profile. The utility owns and operates substantially all of Ontario's electricity transmission system, and its distribution service territory covers about 75% of the province. In our view, the business carries relatively low operating risk and exhibits average operational efficiency and reliability.

The Ontario Energy Board's (OEB) regulatory framework supports Hydro One's cash flow stability, and we view cost recovery as generally predictable. The framework allows for the recovery of prudent transmission and distribution costs and the opportunity to earn a modest-but-predictable return. Furthermore, the company's exposure to commodity risk is limited. Commodity costs flow through to the customer and the utility has no obligation to ensure an adequate supply of electricity in the province. In our view, the OEB has exhibited increased scrutiny of requested cost increases in the distribution and transmission sector and the associated rate pressure (largely associated with commodity costs) on customers. While we expect tempering rate increases will remain an important regulatory consideration, we believe the regulatory compact remains consistent in the province and that the OEB will continue to honor its mandate to balance the needs of customer and the ability of the utilities to earn a modest return.

In our view, Hydro One has a significant financial risk profile. We believe its cash flow strength relative to its debt obligations has weakened since 2008 due to a material capital expenditure program. The company's annual capital expenditures were C$1.5 billion in 2009 and 2010, exceeding its internal cash flow generations (C$916 million and C$1 billion in adjusted funds from operations [AFFO] in 2009 and 2010, respectively). Because Hydro One has budgeted annual capital expenditures of about C$1.8 billion in each of the next two years, we believe that it will continue to face significantly sizable negative free operating cash flows of about C$550 million-C$660 million per year. So despite expected moderate revenue improvements following the most recent rate decision, we believe Hydro One's financial measures are unlikely to return to the levels they were before 2009. The company's financial risk profile remains supported by its strong access to capital markets, adequate liquidity, the stability and predictability of its cash flows, and low merger and acquisition risk. We expect Hydro One to manage this cycle of regulated rate base growth and significantly large negative free operating cash flows such that its leverage would not exceed 65% adjusted total debt-to-capital (compared with 63% at Dec. 31, 2010), or 60% unadjusted, AFFO-to-debt of about 12%, and AFFO interest coverage of about 3x. We understand that the company has some flexibility in its planned capital expenditures and dividend payments. At Sept. 30, 2011, its rolling 12-month (RTM) AFFO interest coverage was stable at 3.0x, compared with 3.1x at Sept. 30, 2010, but lower than the pre-2009 level of 3.5x-4.0x. Its RTM AFFO-to-total debt at Sept. 30, 2011 was stable at 11.8%, compared with 11.9% a year earlier, but lower than the pre-2009 level of 14.0%-15.0%. We consider these financial measures weak for the ratings, and they leave no cushion for deterioration from our expectations. We believe the SACP and consequently the ratings could face stress if financial measures are below our expectations because of weaker-than-expected cash flows or a material increase in debt as the utility proceeds with its heavy capital spending.

Liquidity

The short-term rating on Hydro One is 'A-1'. We believe the company has adequate liquidity to cover its needs in the near term, even in the event of unforeseen earnings declines. Standard & Poor's assessment incorporates the following expectations and assumptions:

- The company's liquidity sources, including liquid short-term investments, FFO, and credit facility availability, will likely exceed its uses 1.2x or more in the next 12 months.
- Liquidity sources include an expectation of about C$1.3 billion of FFO, access to C$1.25 billion of Hydro One's committed revolving credit facility with syndicated of banks, and C$492 million liquid short-term investments as of Sept. 30, 2011. The C$1.25 billion credit facility was fully available as of Sept. 30, and will expire in June 2014. The company remains well within its banking covenant of 75% total debt-to-total capital.
- Liquidity uses include C$600 million of maturing debt in 2012, an estimated dividend payment of C$170 million, and about C$1.8 billion of capital expenditures, of which about C$400 million is considered discretionary.
- The company has what we consider good relationships with its banks and good standing in the debt market, having issued C$1.5 billion and C$600 million under its medium-term note (MTN) shelf program at attractive prices (fixed coupon rates range from 2.95%-5.49%) in 2010 and 2011, respectively. As expected, in August 2011, Hydro One renewed its C$3 billion MTN shelf program (of which C$2.7 billion was available as of Sept. 30) for another 25 months. We understand that the utility also holds a C$250 million note issued by the province that matures in 2014, which it could liquidate if needed. It could also reduce its dividend payment to help satisfy its cash requirements. The company's debt maturities are well-spread, in our view, with annual scheduled repayment in the next six years averaging about C$600 million.
- Hydro One provides the Independent Electricity System Operator (IESO) with C$325 million in parental guarantees in lieu of prudential support. If all the ratings on the utility were to fall, the IESO's prudential requirements would likely increase.

Outlook

The stable outlook reflects what we view as Hydro One's consistent performance and our expectation of continued predictable regulatory support despite, its large capital expenditure program and negative free operating cash flows. In the event of lower-than-expected cash flows and earnings, we expect the company to maintain its leverage within the deemed capital structure of 60% reported debt-to-capital, AFFO-to-debt of about 12%, and AFFO interest coverage of about 3x, by curtailing its capital spending and additional debt financing. In our view, there is no cushion for Hydro One to deteriorate from our expectations on its key credit measures to maintain the ratings. A material adverse regulatory ruling or market restructuring (such as the assumption of the obligation to supply, not just deliver, electricity), or any deterioration of financial measures beyond our expectation, could lead us to lower the existing 'a' SACP and consequently the ratings. An improvement in Hydro One's SACP is unlikely without the assurance of a much stronger balance sheet, and deeper cash flow-interest and debt coverage. All else being equal, a negative outlook or further downgrade on the province could affect the ratings on the utility, but likely not by more than a notch, given the company's underlying stand-alone credit strength. Conversely, all else being equal, a positive outlook or upgrade of up to two notches on the province will not affect the ratings on Hydro One. A change in the relationship with the province that leads us to reconsider the likelihood of the company receiving support from the province could also move the ratings.

Faye Lee contributed research to this report.

Related Criteria And Research

- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Rating Report

Report Date:
September 23, 2011

Previous Report:
August 26, 2010

Insight beyond the rating.

Hydro One Inc.

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The Company

Hydro One Inc., through its wholly owned subsidiaries, owns and operates electric power transmission and distribution assets, as well as a fibre-optic network, across most of Ontario. Hydro One is the largest transmission and distribution operator in Ontario (servicing more than 97% of the province's transmission throughput). It is wholly owned by the Province of Ontario (rated AA (low)).

Commercial Paper

Authorized Limit of $1.0 Billion

Recent Actions

January 14, 2011
$250 Million Issue
Rated A (high)

Rating

Debt Rated	Rating	Rating Action	Trend
Commercial Paper	R-1 (middle)	Confirmed	Stable
Senior Unsecured Debentures	A (high)	Confirmed	Stable

Rating Rationale

DBRS has confirmed the Senior Unsecured Debentures rating of Hydro One Inc. (Hydro One or the Company) at A (high) and its Commercial Paper rating at R-1 (middle), both with Stable trends. The rating confirmations reflect Hydro One's low level of business risk, stemming from its regulated electric power transmission and distribution operations, and its solid financial profile.

Hydro One continues to invest in its significant capital program, which will be the greatest challenge for the Company over the medium term. The capital program is focused on sustaining aging infrastructure, development projects for growth and government-led initiatives. Hydro One anticipates that its capital expenditure for 2011 was budgeted to be approximately $1.8 billion; however, the Company expects capital expenditures to be lower than budget by approximately $200 million, mainly due to lower costs and the timing of investments, as well as lower distributed generation capital expenditures and higher investments by generators. The extensive capital program is projected to result in manageable free cash flow deficits over the medium term. The capital expenditures are expected to be approximately $5.5 billion over the next three years. Based upon these levels of capital expenditures, DBRS expects cash flow deficits of approximately $700 million to $850 million per year, allowing for rate base growth throughout the build-out cycle. (Continued on page 2.)

Rating Considerations

Strengths

(1) Low-risk, regulated electric power transmission and distribution businesses
(2) Solid balance sheet and credit metrics
(3) Strong and extensive transmission and distribution franchise area
(4) Top quartile for transmission reliability

Challenges

(1) Substantial capital expenditure program
(2) Significant external financing required
(3) Approved return on equity sensitive to interest rates
(4) Earnings sensitive to monthly peak demand for electricity and, to a lesser extent, to the volume of electricity sold
(5) Lack of access to equity capital markets

Financial Information

	As at June 30	For year ended December 31			
(CAD millions)	2011	2010	2009	2008	2007*
Cash flow from operations	1,204	1,087	930	927	1,006
EBIT gross interest coverage (1)	2.72	2.43	2.22	2.68	2.83
Fixed charge coverage (1)	2.58	2.31	2.08	2.50	2.59
Total adjusted debt-to-capital (%) (1)	55.8%	56.6%	56.4%	54.7%	53.6%
Cash flow-to-total adjusted debt (1)	15%	14%	13%	15%	18%
Cash flow/capital expenditures (times)	0.80	0.69	0.59	0.72	0.92
Gross free cash flow	(394)	(511)	(824)	(616)	(410)
Return on average equity (before non-recurring items) (%)	11.6%	11.0%	9.5%	10.7%	8.8%
Approved ROE - Distribution	9.66%	9.85%	8.35%	8.57%	9.00%
Approved ROE - Transmission	9.66%	8.39%	8.01%	8.35%	8.35%

(1) DBRS-adjusted for operating lease debt and interest expense equivalents as well as alternate liquidity.
* DBRS adjusted Transmission earnings for non-cash items to normalize impact from OEB rate decision.

Rating Rationale (Continued from page 1.)

The free cash flow deficits are expected to be entirely debt financed, continuing to restrain the Company's balance sheet and coverage ratios during the build-out period as the invested capital is not included in the rate base until projects are completed. Also, given that a material portion of Hydro One's capital expenditures are for large transmission projects that involve lengthy construction times and the potential for delays caused by the intervenor process, timely project completion within budget is important. DBRS views the pressure on the Company's balance sheet and coverage metrics as temporary, with the expectation of a modest improvement over the medium term. Financial metrics are expected to remain within a range supportive of the assigned ratings given the extent of the capital projects in the medium term. DBRS expects Hydro One to continue to manage dividends in order to support its heightened capital program.

While credit metrics have trended modestly downward over recent years, the Company has witnessed a slight improvement in metrics for 2010 and the last 12 months ending June 30, 2011, as a result of favourable rulings by the Ontario Energy Board (OEB), which has allowed for recovery of assets from prior years as well as a higher rate of return for utilities. The increase in rate of return is a result of the OEB changes in methodology for calculating return on equity (ROE).

In August 2011, Hydro One renewed its $3.0 billion Medium Term Note (MTN) Program under the Preliminary Short Form Base Shelf Prospectus dated August 16, 2011. The proceeds from the MTNs issuance are used to finance Hydro One's working capital requirements; repay outstanding bank loans/credit facilities, debentures, notes or other indebtedness; make advances to subsidiaries of the Company; for capital expenditures; acquisitions and for other general corporate purposes. Liquidity remains strong for Hydro One, supported by the $3.0 billion MTN Program, its $1.0 billion commercial paper (CP) program, which is supported by a total of $1,500 million in liquidity consisting of $1,250 million of committed revolving credit facilities with a syndicate of banks, and $250 million of Province of Ontario floating-rate notes.

Rating Considerations Details

Strengths

(1) Hydro One is a regulated electric power transmission and distribution utility. As such, the Company's business risk profile is low for the following reasons: (a) Hydro One can recover all prudently incurred operating costs and approved capital project costs within a reasonable time frame as revenue requirements are predetermined based on forward-looking cost of service; (b) the Company will not undertake large capital expenditures without a reasonable expectation of recovering them in its rates; and (c) the regulatory environment continues to become more transparent with respect to the regulatory treatment of equity thickness and ROE methodology. DBRS believes that the OEB will be supportive in the recovery of capital costs as well as operating expenses that are necessary for a safe and reliable electricity system.

(2) Hydro One's credit metrics remain solid for an A (high)-rated regulated utility in a capital growth phase: the debt-to-capital ratio is 56%, EBIT-to-interest coverage is 2.72 times and cash flow-to-debt is 15%. DBRS expects coverage ratios to continue to be constrained in the near term; however, given higher overall capital expenditures driving sizable free cash flow deficits, the Company's financial metrics are expected to modestly improve as a result of increases in ROEs and revenue requirements and remain within a range that is consistent with its business risk level and the assigned ratings.

(3) Hydro One owns and operates substantially all of Ontario's electric power transmission system. With 26 facilities interconnected to the transmission system, Hydro One can accommodate imports of about 4,600 megawatts (MW) and exports of approximately 6,000 MW of electricity. The Company's distribution system is the largest in Ontario and spans roughly 75% of the province, serving approximately 1.3 million rural and urban customers and 44 large industrial customers. The large geographic area and low population density translates into a higher rate of service for its distribution business relative to other electric power distribution companies.

(4) Hydro One's transmission business continues to achieve top-quartile reliability measures, which should continue to facilitate a healthy relationship with the regulator.

Challenges

(1) Hydro One is currently in the midst of an aggressive build-out program that will continue over the next several years. Capital expenditures are expected to be approximately $5.5 billion over the next three years. The Company announced that capital expenditures are expected to be lower than 2011 budget by approximately $200 million, mainly due to lower costs and the timing of investments, as well as lower distributed generation capital expenditures and higher investments by generators. Therefore, DBRS expects that annual capital expenditures could exceed operating cash flows by approximately $700 million to $850 million per year over the next three years. These sizable free cash flow deficits, combined with lengthy construction times, will continue to put temporary pressure on the balance sheet and coverage ratios during the build-out. DBRS notes that capital projects are spread out over time, which helps to minimize liquidity issues that accompany such large projects. The size and magnitude of Hydro One's upcoming designated projects, combined with the continued increases in material and labour costs and the significant number of intervenors involved, could potentially expose Hydro One to rising project costs beyond the amount forecast in its regulatory applications. There is no assurance that cost overruns beyond the regulatory-approved amounts will be recovered if deemed imprudent by the OEB. However, DBRS notes that Hydro One is experienced in managing projects and is focused on mitigating the risk of cost overruns.

(2) Hydro One will have to go to the debt markets to fund its significant free cash flow deficits and refinance a heavy-but-manageable debt repayment schedule over the medium term. Maintaining adequate access to the public debt market and adequate availability under its liquidity facilities ($1.5 billion) is important during this build-out period. Hydro-One's short-term liquidity is supported by its $1 billion CP program. The Company renewed its $3.0 billion MTN Program in August 2011.

(3) Regulatory-approved ROE levels have risen from historically low levels in the past several years. DBRS notes that in December 2009, the OEB changed its methodology for calculating return on equity. As a result of updated parameters, this has led to an increase in 2011 ROE to 9.66% for both transmission and distribution and 10.09% for 2012 (subject to update in October 2011). For 2011, the OEB issued its decision on the Company's transmission revenue requirement, which resulted in a reduction in revenue requirement for 2011 from $1,446 million to approximately $1,350 million and increased the 2012 revenue requirement to $1,660 million from $1,547 million. The 9.66% ROE for the distribution business produced a revenue requirement of $1,218 million.

(4) Earnings and cash flows for the transmission segment and, to a lesser extent, distribution operations, are sensitive to monthly peak demand and volume of electricity sold given that rates typically include a variable-rate component. Seasonality, economic cyclicality, weather patterns and Conservation Demand Management (CDM) programs directly affect the volume of electricity sold or peak monthly electrical demand and, therefore, revenue earned from electricity sales.

(5) Because Hydro One is owned by the Province of Ontario (the Province, rated AA (low) with a Stable trend), it is unable to access the equity capital markets. This limits the Company's financial flexibility as free cash flow deficits will likely be financed through its $1 billion CP program (fully backstopped by $1.5 billion in liquidity facilities) or debt issuance under its $3.0 billion MTN program. Given the increasing capital expenditures, DBRS expects Hydro One to continue to manage dividends to maintain the deemed regulatory capital structure. Dividends are declared at the sole discretion of Hydro One's board of directors, as recommended by its management based on the Company's financial performance, maintaining its deemed regulatory capital structure and overall capital or financial requirements.

Regulation

Hydro One's electric power distribution operations are regulated by the OEB under the *Ontario Energy Board Act*, 1998 (the OEB Act) and *Electricity Act*, 1998.

The OEB continues to use a capital structure and ROE methodology to establish transmission and distribution rates based on a deemed debt-to-equity structure of 60% to 40%, divided into 56% long-term and 4% short-term, and 40% equity.

In December 2009, the OEB changed its methodology in calculating ROEs. Based on the methodologies set out in the Report and January 2011 data from the Bank of Canada, Consensus Forecasts and Bloomberg LLP, the OEB has determined that the updated cost of capital parameters for 2011 cost of service rate applications for rates effective May 1, 2011, has resulted in an ROE of 9.58% for utilities filing applications. This is slightly lower than the 9.66% granted to Hydro One.

Transmission
Hydro One filed its transmission revenue requirement and rate application for 2011 and 2012. In December 2010, the OEB issued its decision on the Company's 2011 and 2012 transmission revenue requirement, which resulted in a reduction in revenue requirement for 2011 from $1,446 million to approximately $1,350 million and increased the 2012 revenue requirement to $1,660 million from $1,547 million. The 9.66% ROE for the distribution business produced a revenue requirement of $1,218 million. The primary sources of the changes include a lower ROE of 9.66% in 2011 and 10.09% in 2012 (subject to update in October 2011).

Distribution
In June 2010, Hydro One Brampton Networks Inc. submitted its application for 2011 distribution rates. On November 8, 2010, the Company submitted a revised request for a revenue requirement of $62.8 million because it deferred the adoption of International Financial Reporting Standards (IFRS). Subsequent to the revised request for 2011 revenue requirement, the OEB issued its report on cost of capital parameter updates for 2011 cost of service applications for rates effective January 1, 2011 and Hydro One Brampton Networks Inc. agreed to adjust its requested revenue requirement to $62.4 million.

In April 2011, the OEB issued its decision regarding Hydro One Brampton Networks Inc.'s 2011 cost-of-service rate application. The revised rates were approved with an effective date of January 1, 2011 and an implementation date of May 1, 2011. The new rates result in a total bill increase of approximately 0.5% for an average customer.

For Hydro One Networks Inc., the OEB adjusted the 2011 revenue requirement to reflect some OEB decisions to decrease OM&A expenditures and a reduction in the capital program. As a result of the new ROE value for 2011 of 9.66%, the revenue requirement was revised to $1.2 billion.

Hydro One Inc.

Report Date:
September 23, 2011

Earnings and Outlook

Segmented Information		12 mos ended	For the year ended December 31			
(CAD millions)		Jun-11	2010	2009	2008	2007 *
Net revenues						
Transmission	49.2%	1,369	1,307	1,147	1,212	1,242
Distribution	48.6%	1,354	1,280	1,208	1,153	1,142
Other	2.2%	62	63	63	51	31
Total net revenues		**2,785**	**2,650**	**2,418**	**2,416**	**2,415**
EBIT by segment						
Transmission	60.5%	665	618	469	571	585
Distribution	40.3%	443	378	357	335	320
Other	-0.8%	(9)	(7)	(2)	(3)	(6)
Total EBIT		**1,099**	**989**	**824**	**903**	**899**

Income Statement	12 mos ended	For the year ended December 31			
(CAD millions)	Jun-11	2010	2009	2008	2007 *
Net revenues	2,785	2,650	2,418	2,416	2,415
OM&A expense	1,091	1,078	1,057	965	995
EBITDA	1,694	1,572	1,361	1,451	1,420
EBIT	1,099	989	824	903	899
Interest expense (1)	406	409	369	333	312
Core net income (before non-recurring items and prefs)	671	591	470	498	399
Reported net income (after prefs)	671	591	470	497	402
Operating margin	39%	37%	34%	37%	37%
Return on average equity (before non-recurring items)	11.6%	11.0%	9.5%	10.7%	8.8%

(1) Interest expense on short-term and long-term debt balances, excludes deferred financing charges.

* DBRS adjusted Transmission earnings for non-cash items to normalize the impact from the recent OEB rate decision.

Summary

Earnings, as measured by EBIT, have trended higher since 2009 as a result of favourable rulings by the OEB, which has allowed for recovery of assets from prior years as well as a higher rate of return for utilities and rate base. The increase in the rate of return is a result of changes in the OEB's methodology for calculating return on equity.

The increased ROE is the largest single driver of higher revenues at the Company's Transmission and Distribution segments. Transmission revenues increased during 2010 and the LTM ending June 30, 2011, when compared with the period ending December 31, 2009, due to higher transmission rates and the resulting revenue requirement. The increase in revenue requirement is tied to the change in ROE. Transmission revenues are also based on demand, which is driven by weather patterns and economic conditions. During 2010 and for the LTM ending June 30, 2011, the Company witnessed higher average monthly peak demand. Weather was generally milder over the winter months and unseasonably hot during the summer months of 2010 (compared with conditions in 2009) and during the first quarter of 2011.

The impact of the OEB's decisions in the last couple of years is directly attributable to higher Distribution revenue in 2011 and during the LTM ending June 30, 2011. The tariff rate increases are to support investments in expanding and maintaining the Company's distribution network.

Interest expense has trended upward, largely tracking higher debt levels and partially offset by lower average long-term borrowing rates and higher interest capitalized, which is reflective of higher levels of construction work in progress, consistent with the ongoing capital program.

Outlook

Hydro One should continue to witness stable financial performance as a result of distribution rate increases and the growth in rate base as a result of regulatory approved transmission projects, which will ultimately increase Hydro One's earnings profile. In addition, Hydro One should witness the positive effects of smart meter revenues, as well as higher EBIT and net income over the medium term as the Company has been granted a higher revenue requirement for both 2011 and 2012.

The Company's regulated electricity distribution and transmission operations, together with its strong franchise area and dominant transmission and distribution operations in Ontario, are expected to provide a high degree of certainty to revenues and stability to consolidated earnings and cash flow over the longer term.

Despite the growth in revenues and earnings, key credit metrics are expected to continue to be constrained over the medium term, primarily as a result of increased debt levels and free cash flow deficits as capital expenditures remain steady over the medium term.

The Company notes that the Minister of Energy has requested that the Company plan and begin development work on transmission projects that are geared to adding renewable energy. The amounts have been estimated to be up to approximately $1 billion over a period to the in-service dates of these projects. Therefore, should a portion or all of the projects that are in the planning or development stage proceed, this could further constrain the Company's financial performance.

Financial Profile

Statement of Cash Flow	LTM Sept 30	For the year ended December 31			
(CAD millions)	2011	2010	2009	2008	2007
Core net income, (before non-recurring, after pfd.)	671	591	470	498	399
Depreciation & amortization	532	526	487	502	482
Amortization of debt re-couponing	0	0	0	2	5
Other recurring non-cash items	1	(30)	(27)	(75)	120
Cash Flow from Operations	**1,204**	**1,087**	**930**	**927**	**1,006**
Capital expenditures	(1,505)	(1,570)	(1,566)	(1,284)	(1,091)
Common dividends	(93)	(28)	(188)	(259)	(325)
Free Cash Flow before Working Capital Changes	**(394)**	**(511)**	**(824)**	**(616)**	**(410)**
Change in working capital	(10)	77	(37)	125	135
Net Free Cash Flow	**(404)**	**(434)**	**(861)**	**(491)**	**(275)**
Other investments/acquisitions/disposition	283	37	13	6	8
Other non-recurring, incl. retail settlement variance	0	0	0	0	0
Cash flow before financing	**(121)**	**(397)**	**(848)**	**(485)**	**(267)**
Net debt financing	350	845	805	510	285
Equity financing	0	0	0	0	0
Other financing	(252)	(250)	1	3	(1)
Net change in cash	(23)	198	(42)	28	17

	LTM June 30	For the year ended December 31			
	2011	2010	2009	2008	2007
Total adjusted debt (CAD millions) (1)	7,882	7,796	7,016	6,175	5,645
EBITDA/Interest Covereage	4.20	3.86	3.66	4.31	4.46
Fixed charges coverage (times) (1)	2.58	2.31	2.50	2.59	2.57
Total adjusted debt-to-capital (%) (1)	55.8%	56.6%	56.4%	54.7%	53.6%
Cash flow/total adjusted debt (1)	15%	14%	13%	15%	18%
Cash flow/capital expenditures (times)	0.80	0.69	0.59	0.72	0.92
Dividend payout ratio	13.9%	4.7%	40.0%	52.0%	81.5%

(1) DBRS-adjusted for operating lease debt and interest expense equivalents as well as alternate liquidity.

Summary

Hydro One's financial profile has improved and remains strong, with cash flow from operations increased during the LTM ending June 30, 2011, and fiscal year-end December 31, 2010, largely tracking net income. The improvement in the Company's financials is directly attributable to the changes in regulatory accounts, higher ROE and net income, as well as depreciation.

The Company has witnessed an increase in operating cash flow over the years. However, growth in sustaining and development capital spending, combined with dividends, continues to drive up net free cash flow deficits. The recent upward trend in capital investment reflects investments to expand, refurbish or replace transmission infrastructure. This is consistent with government policy, Ontario Power Authority (OPA) planning information (including the Integrated Power System Plan (IPSP)), local supply requirements and the preventive and corrective maintenance needs to manage aging assets and projects critical to the connection of renewable generation that have been identified by the OPA as part of the Province's green energy agenda.

While the Company continues to generate consistent free cash flow deficits, key credit metrics have improved gradually since 2009, even though debt levels have increased, as cash flow deficits have been entirely debt financed. Hydro One has witnessed a growing equity base and lower interest as a result of higher capitalized interest, which is reflective of higher levels of construction work in progress, consistent with the ongoing capital program. DBRS notes that the Company has a reasonable financial profile, reflecting a solid and stable balance sheet.

Outlook

While Hydro One is in the midst of its aggressive build-out program, capital expenditures are expected to be approximately $5.5 billion over the next three years. The Company announced that capital expenditures are expected to be lower than 2011 budget by approximately $200 million, mainly due to lower costs and the timing of investments, as well as lower distributed generation capital expenditures and higher investments by generators. Therefore, DBRS expects that annual capital expenditures could exceed operating cash flows by approximately $700 million to $850 million per year over the next three years. These sizable free cash flow deficits, combined with lengthy construction times, will continue to put temporary pressure on the balance sheet and coverage ratios during the build-out. DBRS notes that capital projects are spread out over time, which helps to minimize the liquidity issues that often accompany such large projects.

DBRS believes that the Company will finance the resultant free cash flow deficits with incremental debt; therefore, continued access to capital markets is critical for Hydro One. If Hydro One were temporarily delayed in accessing the markets for longer-term debt, the Company should be able to finance its obligations with its $1 billion CP program, which is fully backstopped by a credit facility.

The size and magnitude of Hydro One's upcoming designated projects, combined with the continued increases in material and labour costs and the significant number of intervenors involved, could potentially expose Hydro One to rising project costs beyond the amount forecast in its regulatory applications. There is no assurance that cost overruns beyond the regulatory-approved amounts will be recovered if deemed imprudent by the OEB. However, DBRS notes that Hydro One is experienced in managing projects and is focused on mitigating the risk of cost overruns. Furthermore, the Company could be exposed to an even greater increase in capital expenditures as a result of Green Energy initiatives requested by the provincial Minister of Energy. The amounts have been estimated to be up to approximately $1 billion over the period to the in-service dates of these projects. Therefore, should a portion or all of the projects that are in the planning or development stage proceed, the Company's financial performance could be further constrained.

DBRS does not expect the Company's financial profile to change significantly over the medium term; its credit metrics should remain commensurate with the current rating category.

Long-Term Debt Maturities and Bank Lines

Long-term principal repayments as at June 30, 2011		
Year	**%**	**(CAD millions)**
2011	3.2%	250
2012	7.7%	600
2013	7.7%	600
2014	9.6%	750
2015	7.0%	550
Thereafter	64.9%	5,075
Total		7,825

(CAD millions) As at June 30, 2011	Committed	Outstanding	Available	Maturity
Commercial Paper backup facility*	1,250	0	1,250	6/1/2014

* Multi year revolving standby credit facility with a syndicate of banks.

Long-Term Debt

Hydro One finances its operations and capital programs with long-term debt ($7,825 million senior unsecured debt as at June 30, 2011) and a $1.0 billion CP program (fully backed up by a credit facility and holdings of Province of Ontario floating-rate notes). Hydro One has $2.75 billion maturing in the next five years. Refinancing the debt should be well within its financing capacity given its solid financial profile and good access to the public debt markets.

Hydro One's long-term financing is provided primarily through its $3.0 MTN Program, which was renewed in August 2011 under the Preliminary Short Form Base Shelf Prospectus dated August 16, 2011. The proceeds from future MTN issuances will be used to finance Hydro One's working capital requirements; repay outstanding bank loans/credit facilities, debentures, notes or other indebtedness; make advances to subsidiaries of the Company; for capital expenditures; acquisitions and for other general corporate purposes. There are no amounts outstanding under this program.

During the first six months of 2011, Hydro One issued $300 million in long-term debt under its MTN program, made up of a 2.95% $250 million MTN issuance due September 11, 2015, as well as a $50 million issuance in floating-rate notes under its MTN Program with a maturity date of July 24, 2015.

The CP program is supported by a total of $1,500 million in liquidity comprising $1,250 million of committed revolving credit facilities with a syndicate of banks and $250 million of Province of Ontario floating-rate notes. The short-term liquidity under this program and anticipated levels of funds from operations should be sufficient to fund normal operating requirements. On April 1, 2011, the term of the $1,250 million credit facility was extended from June 2013 to June 2014.

The trust indenture pertaining to all senior unsecured issuance includes the following covenants, subject to customary exceptions:

- Any additional indebtedness is subject to a 75% capitalization ratio test.
- Negative pledge clause.
- Limitations on ability to sell principal properties.

Liquidity

Liquidity requirements will increase over the medium term to accommodate higher capital expenditures and regulatory working capital needs. DBRS notes that Hydro One has sufficient flexibility to accommodate its rising liquidity needs, via its authorized CP program and availability under its MTN program. At June 30, 2011, the Company had no short-term notes outstanding.

Hydro One Inc.

Report Date:
September 23, 2011

Hydro One Inc.

Balance Sheet

(CAD millions)	As at June. 30	As at December 31			As at June. 30	As at December 31	
Assets	2011	2010	2009	**Liabilities & Equity**	2011	2010	2009
Cash + short-term investments	118	172	-	Short-term debt	33	0	81
Accounts receivable	977	911	843	L.t. debt due one year	250	500	600
Material, supplies & other	92	106	130	A/P + accr'ds	971	1,040	974
Current Assets	1,187	1,189	973	**Current Liabilities**	1,254	1,540	1,655
Net fixed assets	14,415	14,053	12,998	Long-term debt	7,581	7,278	6,281
Post-employment benefits	464	460	424	Post-employ. benefits	1,014	980	940
Def'd debt costs + long-term rec.	489	474	249	L.t. pay. + other liab.	1,658	1,543	1,516
Regulatory asset	1,070	1,013	1,033	Preferred shares	323	323	323
Goodwill	133	133	133	Shareholders' equity	5,928	5,658	5,095
Total	17,758	17,322	15,810	**Total**	17,758	17,322	15,810

Ratio Analysis	As at June. 30	For the year ended December 31			
Liquidity Ratios	2011	2010	2009	2008	2007*
Current ratio	0.95	0.77	0.59	0.67	0.62
Cash flow/total debt (1)	15%	14%	13%	15%	18%
Total adjusted debt-to-capital (1)	55.8%	56.6%	56.4%	54.7%	53.6%
Cash flow/capital expenditures	0.80	0.69	0.59	0.72	0.92
Cash flow-dividends/capital expenditures	0.74	0.67	0.47	0.52	0.62
Adj. total debt/EBITDA (1)	4.65	4.96	5.16	4.26	3.98
Hybrids in capital structure	2.3%	2.3%	2.6%	2.9%	3.1%
Deemed common equity	40.0%	40.0%	40.0%	40.0%	40.0%
Common dividend payout (before extras.)	14.2%	4.9%	41.6%	54.0%	85.3%
Coverage Ratios					
EBIT gross interest coverage (1)	2.72	2.43	2.22	2.68	2.83
EBIT net interest coverage (1)	3.24	2.89	2.66	3.08	3.04
EBITDA gross interest coverage (1)	4.20	3.86	3.66	4.31	4.46
EBITDA net interest coverage (1)	4.99	4.59	4.39	4.94	4.79
Fixed-charges coverage (1)	2.58	2.31	2.08	2.50	2.59
Earnings Quality/Operating Efficiencies & Statistics					
Operating margin	39.5%	37.3%	34.1%	37.4%	37.2%
Net margin (before non-recurring, after pfd.)	24.1%	22.3%	19.4%	20.7%	16.4%
Return on avg. equity (before non-recurring items)	11.6%	11.0%	9.5%	10.7%	8.8%
Approved ROE (Distribution)	9.66%	9.85%	8.35%	8.57%	9.00%
Approved ROE (Transmission)	9.66%	8.39%	8.01%	8.35%	8.35%
Rate base - distribution ($ millions)	4,969	4,787	4,247	4,247	3,711
Rate base - transmission ($ millions)	7,853	7,636	7,032	6,657	6,341
Transmission throughputs (TWh)	n/a	142.2	139.2	148.7	152.2
Distribution throughputs (TWh)	n/a	29.1	28.9	29.9	30.2
Average annual 60-minute peak demand (MWh)	n/a	25,075	24,380	24,195	25,737

(1) DBRS-adjusted for operating lease debt and interest expense equivalents as well as alternate liquidity.

* DBRS adjusted Transmission earnings for non-cash items to normalize the impact from the recent OEB rate decision.

Hydro One Inc.

Report Date:
September 23, 2011

Ratings

Debt Rated	Rating	Rating Action	Trend
Commercial Paper	R-1 (middle)	Confirmed	Stable
Senior Unsecured Debentures	A (high)	Confirmed	Stable

Rating History

	Current	2010	2009	2008	2007
Commercial Paper	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)
Senior Unsecured Debentures	A (high)	A (high)	A (high)	A (high)	A (high)

Note:
All figures are in Canadian dollars unless otherwise noted.

Hydro One Inc.

Rating

Debt Rated	Rating	Rating Action	Trend
Commercial Paper	R-1 (middle)	Confirmed	Stable
Senior Unsecured Debentures	A (high)	Confirmed	Stable

Rating Rationale

DBRS has confirmed the Senior Unsecured Debentures and Commercial Paper ratings of Hydro One Inc. (Hydro One or the Company) at A (high) and R-1 (middle), respectively, both with Stable trends. The rating confirmation is based on the Company's low-risk regulated transmission and distribution businesses, a supportive regulatory environment in Ontario and the Company's strong financial profile. Hydro One's regulated transmission and distribution businesses in Ontario accounts for virtually 100% of total earnings.

Regulation in Ontario has remained supportive for Hydro One. The Ontario Energy Board (OEB) is expected to continue to allow the Company to maintain adequate coverage, cash flow and leverage ratios due to the government's commitment to address Hydro One's aging infrastructure while meeting the continued growth of electricity consumption and renewable energy developments in the province without compromising reliability. The confirmation assumes that Hydro One's transmission and distribution revenue base will continue to grow favourably to support a high level of capital expenditure (capex), which is expected to continue to far exceed depreciation. Project execution risk is expected to be manageable; the Company is experienced in managing projects and is focused on mitigating the risk of cost overruns.

Hydro One's credit metrics have remained relatively stable over the past four years. The Company generated a cash flow deficit of approximately $451 million in 2011, which is debt-financed. The deficit was largely driven by the ongoing high capex attributable to smart meter and infrastructure sustainability spending. As a result of the ongoing high investment commitment ($1.8 billion per annum for the 2012-2014 period) and resulting incremental debt issuances, DBRS expects a temporary, modest weakening of Hydro One's key credit metrics over the next several years. However, these ratios are expected to gradually recover when substantial capex plans are completed, and should remain well within the A (high) rating category.

Rating Considerations

Strengths
(1) Low business risk
(2) Strong financial profile
(3) Strong and extensive franchise area

Challenges
(1) High level of planned capital expenditure
(2) Project construction risk
(3) Significant external financing requirements

Financial Information

	For the year ended December 31				
($ millions where applicable)	2011	2010	2009	2008	2007
Net income before extras.	632	579	470	498	399
Cash flow (before working cap. changes)	1,164	1,080	964	921	997
Return on equity	10.2%	10.2%	8.9%	10.0%	8.2%
Net debt in capital structure	55.3%	56.4%	56.1%	54.4%	53.4%
Total debt in capital structure	55.3%	56.5%	56.1%	54.5%	53.4%
Cash flow/net debt	14.6%	13.9%	13.9%	15.1%	17.8%
Cash flow/total debt	14.6%	13.9%	13.9%	15.0%	17.8%
EBIT interest coverage (times)	2.75	2.42	2.23	2.71	2.88

Hydro One Inc.

Report Date:
February 29, 2012

Rating Considerations Details

Strengths

(1) **Low business risk:** Almost all of the Company's EBIT is contributed by its low-risk regulated distribution and transmission business, which operates under a reasonable regulatory framework.

(2) **Strong financial profile:** The Company continues to maintain strong and stable credit metrics and a healthy balance sheet (debt-to-capital ratio at 55.3% as at December 31, 2011, EBIT interest coverage at 2.75 times in 2011 and cash flow-to-debt at 14.6% in 2011).

(3) **Strong and extensive franchise area:** Hydro One owns the largest transmission and distribution businesses in Ontario. The Company serves more than 97% of the province's transmission throughput. The distribution component of the Company spans approximately 75% of the province, serving 1.4 million customers (rural and urban) as well as 435 large-user customers.

Challenges

(1) **High level of planned capital expenditure:** Hydro One is currently in the midst of an aggressive build-out program that will continue over the next several years. Capital expenditures are expected to be approximately $5.5 billion over the next three years. Therefore, DBRS expects that annual capex could exceed operating cash flows by approximately $700 million to $800 million per year over that time frame. These sizable free cash flow deficits, combined with lengthy construction times, will continue to put temporary pressure on the balance sheet and coverage ratios during the build-out.

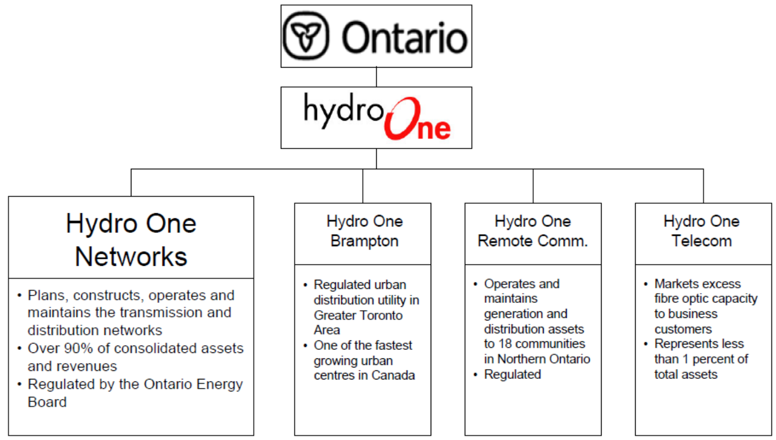
(2) **Project construction risk:** The size and magnitude of Hydro One's upcoming designated projects, combined with the continued increases in material and labour costs and the significant number of interveners involved, could potentially expose Hydro One to rising project costs beyond the amounts forecast in its regulatory applications. There is no assurance that cost overruns beyond the regulatory-approved amounts will be recovered if deemed imprudent by the OEB. However, DBRS notes that Hydro One is experienced in managing projects and is focused on mitigating the risk of cost overruns.

(3) **Significant external funding requirements:** Significant external funding is required to finance the potentially sizable free cash flow deficits expected over the near to medium term. Maintaining adequate access to the public debt markets (term and commercial paper) is critical to the Company during this key build-out phase.

Major Projects (Potential and Under Construction)

- **Bruce to Milton Transmission Project:** Expected to be in construction by December 2012, this project has been fully approved and consists of a 180-kilometre, double 500-kilovolt (kV) transmission line extending from Kincardine to Hydro One's Milton switching station. This is one of the Company's 'green' initiatives, transporting 3,000 megawatts (MW) of power from nuclear and wind generation facilities. Construction is 50% complete, with costs expected to total $755 million, making it the largest transmission project in Ontario over the last twenty years.
- **West of London Transmission Lines:** Projects with the aim of adding between 500 MW and 1,000 MW to the grid. These projects are in the early stages with an expected completion date in 2017, contingent on the necessary regulatory approvals. Estimated costs range from $300 million to $450 million.
- **East-West Tie Project:** Through the East-West Tie LP (an equal partnership between three entities, including Hydro One), Hydro One is looking to construct a 400-kilometre, 230 kV transmission line from Wawa to Thunder Bay with a total capacity of 650 MW.

Organizational Chart



Source: Hydro One investor presentation

Regulation

- Hydro One is a regulated electric utility under the jurisdiction of the Ontario Energy Board (OEB).
- The OEB uses a deemed debt-to-common equity structure of 60% to 40% for both transmission and distribution. Debt is divided into 56% long-term and 4% short-term.
- Approximately 60% of Hydro One's earnings are generated from transmission and the remainder from distribution.

Transmission

- Under the cost-of-service methodology, Hydro One is provided a reasonable opportunity to recover its forecast costs, including operating expenses, depreciation, costs of debt and taxes.
- The Company has no exposure to either commodity price risk or volume risk.
- Hydro One faces the risk of not recovering forecast operating expenses if the actual expenses exceed the forecast expenses, but this risk is considered manageable by DBRS.
- On December 20, 2011, the OEB came to a decision regarding revenue requirements for 2012 of $1,418 million (up from $1,346 million in 2011), translating into an increase of 5% in 2012.
- Return on equity (ROE) is increasing, with 2011 OEB levels set at 9.66%.
- In 2012, Hydro One's allowed ROE is 9.42% and deemed common equity is 40%, both of which are at reasonable levels.

Distribution

- The OEB uses a combination of an annual incentive regulation mechanism (IRM) and periodic cost-of-service (COS) reviews to set distribution rates.
- In DBRS's view, the IRM typically creates higher cost-cutting pressure than the COS does; however, the cost pressure has not resulted in a material reduction in the Company's earnings and cash flows.
- The Company is allowed to fully recover its purchased power costs in a timely fashion, eliminating its exposure to power price risk. DBRS views this as a positive factor in the current regulatory system in Ontario (regardless of whether the Company operates under the IRM or the COS).
- Hydro One is awaiting approval from the OEB to move to U.S. Generally Accepted Accounting Principles (GAAP) for its distribution business (moving to U.S. GAAP for transmission has been already approved).
- In 2011, ROE was .9.66% and deemed common equity was 40%, both of which are reasonable levels.

Hydro One Inc.

Report Date:
February 29, 2012

Earnings and Outlook

($ millions (CAD) where applicable)	2011	2010	2009	2008	2007
	For the year ended December 31				
Operating revenues	5,471	5,124	4,744	4,597	4,655
Operating Expenses	3,720	3,552	3,383	3,146	3,235
EBITDA	1,751	1,572	1,361	1,451	1,420
EBIT	1,135	989	824	903	899
Gross interest expense	412	409	369	333	312
Net income before extraordinary items	632	579	470	498	399
Reported net income	641	591	470	498	399
Return on equity	10.17%	10.16%	8.92%	9.95%	8.22%

Summary

- Hydro One's earnings have continued to increase over the past five years, mainly due to the Company's increased regulatory asset base, driven by high capex.

Segmented Information (CAD millions)		For the year ended December 31 2011	2010	2009	2008	2007 *
Net revenues						
Transmission	48.9%	1,389	1,307	1,147	1,212	1,242
Distribution	48.9%	1,391	1,280	1,208	1,153	1,142
Other	2.2%	63	63	63	51	31
Total net revenues	100%	2,843	2,650	2,418	2,416	2,415
EBIT by segment						
Transmission	58.6%	665	618	469	571	585
Distribution	42.1%	478	378	357	335	320
Other	-0.7%	(8)	(7)	(2)	(3)	(6)
Total EBIT	100%	1,135	989	824	903	899

Outlook

- The Company's earnings for fiscal 2012 are expected improve further due to continued growth in rate base.
- The increase in rate base will be primarily due to Hydro One's growing capital expenditure needs in the near future, as it continues to service its aging infrastucture in the trasmission and distribution businesses.

Financial Profile

Financial Profile Schedule: For the year ended December 31					
($ millions)	2011	2010	2009	2008	2007
Net income before extraordinary items	632	579	470	498	399
Depreciation, depletion & amortization	550	526	487	502	482
Deferred income taxes and other	(18)	(25)	7	(79)	116
Cash flow (before working cap. changes)	1,164	1,080	964	921	997
Dividends paid	(168)	(28)	(188)	(259)	(325)
Capital expenditures	(1,447)	(1,570)	(1,566)	(1,284)	(1,091)
Free Cash Flow (bef. work. cap. changes)	(451)	(518)	(790)	(622)	(419)
Changes in non-cash work. cap. items	196	94	(38)	125	135
Regulatory asset and liability	47	(10)	(34)	6	9
Net Free Cash Flow	(208)	(434)	(862)	(491)	(275)
Acquisitions & Long-term Investments	0	(250)	0	0	0
Short-term Investments	0	(55)	55	0	(60)
Net debt change	200	900	750	510	345
Other	25	37	15	9	7
Change in cash	17	198	(42)	28	17
Total debt	7,999	7,778	6,936	6,133	5,603
Cash and equivalents	0	33	0	16	0
Net debt in capital structure	55.3%	56.4%	56.1%	54.4%	53.4%
Total debt in capital structure	55.3%	56.5%	56.1%	54.5%	53.4%
Adjusted total debt in capital structure*	55.5%	56.6%	56.3%	54.7%	53.6%
Cash flow/net debt	14.6%	13.9%	13.9%	15.1%	17.8%
Cash flow/total debt	14.6%	13.9%	13.9%	15.0%	17.8%
Adj. cash flow/ total debt*	14.5%	13.8%	13.8%	14.9%	17.7%
EBIT interest coverage (times)	2.75	2.42	2.23	2.71	2.88
Adjusted EBIT interest coverage (times)*	2.76	2.42	2.24	2.71	2.88

*Including operating leases.

Summary

- Overall, Hydro One has maintained a strong financial profile, reflecting a stable balance sheet and reasonable credit metrics for the current ratings.
- Cash flow from operations remains strong, improving over time due to an increased rate base.
- Cash flow deficits persist primarily due to increased developmental capital expenditure.
- Sustaining capex represented approximately $575 million or 40% of spending (Transmission: $335 million, Distribution: $240 million).
- Unlike other provincially and municipally owned distributors, Hydro One benefits from a flexible dividend program, unrestricted by an earnings threshold level.
- Key credit metrics including leverage, interest coverage and cash flow ratios have remained within the A (high) rating category.

Outlook

- DBRS expects a temporary modest weakening of Hydro One’s key credit metrics over the next several years. However, these ratios are expected to gradually recover when substantial capex plans are completed, and remain reasonable for the current rating category.
- Cash flow from operations is expected to grow over the medium to long term, predominately driven by growth in the asset base.
- DBRS anticipates that free cash flow will continue to be affected by higher capital spending on the Company’s aging infrastructure. Hydro One has budgeted $1.8 billion per annum over the next three years, with maintenance capital expenditure expected to be $700 million in 2012, $950 million in 2013 and $1,000 million in 2014.

Description of Operations

- Hydro One is the largest electricity transmission and distribution company in Ontario.
- It operates three distinct business segments:

(1) **Transmission**
- One of the largest in North America, as measured by assets.
- Has 29,000 kilometres of high-voltage network serving its own distribution network as well as 50 local distribution companies (LDCs) and 92 transmission connected companies.
- Owns and operates approximately 96% of transmission capacity in Ontario, as measured by revenues.

(2) Distribution
- Largest distribution system in the province, based on assets, covering about 75% of Ontario.
- Distributes electricity over 120,500 kilometres, reaching approximately 1.4 million customers in a number of municipalities and rural areas.

(3) Other Businesses
- Services related to Hydro One Telecom Inc., marketing dark and lit fibre-optic capacity to commercial carriers and telecommunication carriers.

Long-Term Debt Maturities and Bank Lines

- The Company's liquidity profile remains reasonable for the Company's current rating.

($ millions - As at Dec. 31, 2011)	Amount	Draw/LOCs	Available	Maturity
Cash & Cash Equivalents	0	0		-
Committed Revolving Facility	1250	0	1250	1-Jun-14
Ontario Floating Rate Notes	250	0	250	2014
		Total:	**1,500**	

- Hydro One has access to a $1.0 billion commercial credit program supported by an unused revolving facility ($1.25 billion) as well as the holding of Province of Ontario Floating-Rate Notes ($250 million).
- On August 23, 2011, the Company filed a base shelf prospectus to renew its $3.0 billion MTN program for another 25 months. As of December 31, 2011, this program had $2.3 billion of availability.
  - A $300 million, 3.2% MTN was issued on January 13, 2012, maturing January 13, 2022.
- Hydro One's continued access to the capital markets through its MTN and commercial paper programs will be crucial over the next few years, given its infrastructure upgrade mandate. Despite the Company's debt maturities in the medium term, DBRS does not anticipate that Hydro One will have any problem refinancing as needed.

Long-term Debt Maturities						
($ millions - As at Dec. 31, 2011)	**2012**	**2013**	**2014**	**2015**	**2016+***	**Total**
Amount	600	600	750	550	5,775	8,275
% of Total	7.3%	7.3%	9.1%	6.6%	69.8%	100.0%

*Includes a $300 million issuance on Jan 13, 2012

Hydro One

Balance Sheet ($ millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2011**	**2010**	**2009**	**Liabilities & Equity**	**2011**	**2010**	**2009**
Cash & equivalents	0	33	0	S.T. borrowings	0	0	55
Accounts receivable	961	911	843	Accounts payable	1,071	884	800
Inventories	25	21	21	Current portion L.T.D.	600	500	600
Prepaid expenses & other	291	224	109	Deferred tax	0	0	0
Total Current Assets	**1,277**	**1,189**	**973**	Other current liab.	149	156	200
				Total Current Liab.	**1,820**	**1,540**	**1,655**
Net fixed assets	14,903	14,061	12,998	Long-term debt	7,399	7,278	6,281
Future income tax assets	17	19	18	Deferred income taxes	758	693	533
Goodwill & intangibles	357	322	351	Other L.T. liab.	1,937	1,830	1,748
Investments & others	1,814	1,731	1,295	Shareholders equity	6,454	5,981	5,418
Total Assets	**18,368**	**17,322**	**15,635**	**Total Liab. & SE**	**18,368**	**17,322**	**15,635**

Balance Sheet &	**For the year ended December 31**				
Liquidity & Capital Ratios (1)	**2011**	**2010**	**2009**	**2008**	**2007**
Current ratio	0.70	0.77	0.59	0.67	0.62
Net debt in capital structure	55.3%	56.4%	56.1%	54.4%	53.4%
Total debt in capital structure	55.3%	56.5%	56.1%	54.5%	53.4%
Adj. total debt in capital structure*	55.5%	56.6%	56.3%	54.7%	53.6%
Cash flow/net debt	14.6%	13.9%	13.9%	15.1%	17.8%
Cash flow/total debt	14.6%	13.9%	13.9%	15.0%	17.8%
Adj. cash flow/ total debt*	14.5%	13.8%	13.8%	14.9%	17.7%
(Cash flow - dividends)/capex (2)	0.69	0.67	0.50	0.52	0.62
Dividend payout ratio	26.6%	4.8%	40.0%	52.0%	81.5%
Coverage Ratios (times) (3)					
EBIT interest coverage	2.75	2.42	2.23	2.71	2.88
EBITDA interest coverage	4.25	3.84	3.69	4.36	4.55
Fixed-charge coverage	2.75	2.41	2.24	2.73	2.86
Adjusted EBIT interest coverage*	2.76	2.42	2.24	2.71	2.88
Profitability Ratios					
EBITDA margin	32.0%	30.7%	28.7%	31.6%	30.5%
EBIT margin	20.7%	19.3%	17.4%	19.6%	19.3%
Profit margin	11.6%	11.3%	9.9%	10.8%	8.6%
Return on equity	10.2%	10.2%	8.9%	10.0%	8.2%
Return on capital	6.3%	6.3%	5.7%	6.4%	5.6%

(1) Minority interests treated as equity equivalents. (2) Capital expenditures excluding acquisitions and equity investments.

(3) Before capitalized interest is deducted.

*Including operating leases.

Hydro One Inc.

Report Date:
February 29, 2012

Ratings

Debt Rated	Rating	Rating Action	Trend
Commercial Paper	R-1 (middle)	Confirmed	Stable
Senior Unsecured Debentures	A (high)	Confirmed	Stable

Rating History

	Current	2011	2010	2009	2008
Commercial Paper	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)
Senior Unsecured Debentures	A (high)	A (high)	A (high)	A (high)	A (high)

Note:
All figures are in Canadian dollars unless otherwise noted.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Hydro One Inc.

Global Credit Research - 08 Sep 2011

Toronto, Ontario, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	Aa3
Commercial Paper	P-1

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Key Indicators

[1]**Hydro One Inc.**

	[2]**LTM**	**2010**	**2009**	**2008**	**2007**
(CFO Pre-W/C + Interest) / Interest Expense	**4.0x**	**3.7x**	**3.4x**	**3.7x**	**4.0x**
(CFO Pre-W/C) / Debt	**15.3%**	**14.1%**	**12.8%**	**14.3%**	**17.7%**
(CFO Pre-W/C - Dividends) / Debt	**14.3%**	**13.9%**	**10.4%**	**10.5%**	**12.2%**
Debt / Book Capitalization	**58.1%**	**59.2%**	**59.3%**	**59.5%**	**55.2%**

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items [2] Last twelve months ended June 30, 2011

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Large, low-risk regulated electric transmission and distribution (T&D) utility with no commodity price risk

Relatively supportive regulatory environment

Continued high capex could constrain improvement of financial metrics

Liquidity is adequate

High default dependence and high probability of extraordinary support from the Province of Ontario (Aa1)

Corporate Profile

Headquartered in Toronto, Ontario, Hydro One Inc. (HOI) is a commercial corporation, 100% owned by the Province of Ontario. Virtually all of HOI's revenues and cash flows are derived from its electricity T&D businesses, both of which are regulated by the Ontario Energy Board (OEB). HOI owns and operates virtually all of Ontario's electricity transmission system and a substantial portion of the province's electricity distribution assets.

SUMMARY RATING RATIONALE

HOI's Aa3, stable senior unsecured rating reflects its baseline credit assessment (BCA) of 8, high default dependence and high probability of extraordinary support from the Province of Ontario (Aa1). HOI's BCA of 8 reflects the company's low-risk business model. HOI is a cost of service-regulated electric T&D utility operating in a relatively supportive regulatory environment and it has no commodity price risk exposure. Rate increases and strong transmission demand in 2010 and 2011 have helped financial metrics improve but financial metrics remain somewhat weaker than other Baa1-rated T&D utilities. Continued high capital spending and rising debt levels could constrain further strengthening of financial metrics. HOI is not eligible to earn a cash return on construction work in progress so cash generation lags the increases in debt associated with capital spending. In recent years, HOI's actual capital spending has been below its budgeted levels as some spending in support of government energy policy initiatives has been delayed. Accordingly, we believe that HOI's actual future capital spending could exceed budgeted levels to the extent that some catch up occurs. HOI's BCA of 8 is consistent with the BCA indicated by our Regulated Electric and Gas Utility rating methodology.

DETAILED RATING CONSIDERATIONS

RATING METHODOLOGY FOR GOVERNMENT RELATED ISSUERS

In accordance with Moody's Government Related Issuer (GRI) rating methodology, HOI's Aa3 rating reflects the combination of the following inputs:

Baseline Credit Assessment (BCA) of 8 (on a scale of 1 to 21, where 1 represents the equivalent risk of a Aaa, 2 a Aa1, 3 a Aa2 and so on).

Aa1 local currency rating of the Province of Ontario.

High default dependence.

High probability of extraordinary support.

HOI's high default dependence reflects HOI's exposure to virtually all facets of the provincial economy and its operational and financial proximity to the government. HOI's high probability of extraordinary support reflects the strategic importance of HOI to the Provincial economy, the Province's history of providing support through dividend deferrals as well as the Province's role as the architect of electricity policy and regulation and its history of intervention in the electricity sector. As a 100%-owned subsidiary of the Province, HOI can be utilized as an instrument of public policy.

HOI's BCA reflects the following:

IMPROVED FINANCIAL METRICS REMAIN SOMEWHAT WEAKER THAN Baa1 PEERS

HOI's financial ratios improved in 2010 and the first half of 2011 primarily due to rate increases in both the transmission and distribution segments but also due to higher transmission revenues driven by favourable weather conditions and economic growth that resulted in improved demand in the transmission segment. The rate increases reflect a combination of a higher allowed ROE (effective May 1, 2010 in the distribution segment and January 1, 2011 in the transmission segment) and increased rate base as capital expenditures made in prior periods entered rate base. The improved metrics also reflect the reduction in dividends to $28 million in 2010 (down from $188 million in 2009) which moderately reduced the amount of debt that HOI incurred to finance its capital spending.

Despite the improvement of HOI's financial metrics in 2010 and the first half of 2011, the company's metrics, particularly CFO pre-WC to debt and CFO pre-WC less dividends to debt, remain somewhat weaker than those of other Baa1-rated T&D peers including FortisAlberta Inc., Newfoundland Power Inc., Public Service Electric and Gas Company and Connecticut Light and Power. We believe that the incremental debt burden associated with continued high capital spending could constrain further strengthening of HOI's financial metrics. HOI is not eligible to earn a cash return on construction work in progress so cash flow increases lag the increases in debt associated with capital spending.

HOI's actual capital spending for 2008, 2009 and 2010 was modestly below the company's budgeted levels due to a variety of factors. Some spending in support of government energy policy initiatives has been delayed while regulatory decisions regarding the allocation of the costs of connecting new generation to the HOI grid resulted in a greater share of those costs being borne by generators than HOI had assumed. Additionally, the OEB plans to introduce competition for the development of certain transmission expansion projects so HOI has removed any contestable transmission projects from its current capital spending forecasts. Consequently, HOI's current forecast of future capital expenditures is lower than management had forecast in prior years. However, depending on the outcome of the fall 2011 election and any changes to provincial energy policy that might follow, we believe that HOI's actual future capital spending could actually exceed the currently forecasted levels to the extent that some catch up occurs and/or that HOI wins some portion of contestable transmission projects. If this were to occur, we believe that further improvement in HOI's metrics would be constrained by the typical cash flow lag to capital spending. That said, a significant portion of HOI's future capital expenditures relate to Provincial policy priorities; therefore, we believe that these expenditures carry somewhat lower regulatory risk.

LOW-RISK, REGULATED ELECTRIC UTILITY OPERATING IN A RELATIVELY SUPPORTIVE REGULATORY ENVIRONMENT

HOI is considered to be a low-risk utility given that its operations are almost exclusively T&D and its T&D assets are wholly regulated and not exposed to commodity price risk. Furthermore, all of HOI's operations are located in Canada, a jurisdiction that we generally view as being one of the more supportive regulatory environments for utilities on a global basis. We consider the T&D segment to be a relatively lower risk segment of the electric utility industry since it is typically not exposed to commodity price and volume risks or the operational, financial and environmental risks that can be associated with electricity generation.

The OEB regulates both the T&D segments of HOI's business. The legislative environment in Ontario has been relatively stable since 2005 but the regulatory framework continues to evolve and HOI consistently experiences varying degrees of regulatory lag. In December 2009, the OEB amended its ROE formula and increased HOI's base ROE. HOI's 2011 transmission and distribution rates reflect an ROE of 9.66%, up from 8.39% for 2010 transmission rates although somewhat lower than the 9.75% allowed in 2010 distribution rates.

HOI's cash flow tends to be stable and predictable given its lack of commodity price exposure, nominal foreign exchange exposure and manageable exposure to floating interest rates. While HOI purchases power in its distribution segment, these commodity costs are a full pass-through to customers. In the transmission segment, HOI has no exposure to electricity prices. Like many cost of service utilities whose rates are established on a forward test year basis, HOI is exposed to a degree of forecast risk. Also, HOI has a degree of exposure to weather and the level of economic activity, primarily in the transmission segment, due to the fact that its transmission tariff is based on monthly peak transmission demand.

Liquidity Profile

We believe that HOI's liquidity is adequate. Our liquidity stress scenario indicates a liquidity surplus of approximately $400 million for the twelve months ending June 30, 2012.

We expect HOI to have negative free cash flow of approximately $700 million for the twelve months ending June 30, 2012. HOI has scheduled debt maturities of $250 million in this period, resulting in a net funding requirement of approximately $950 million. Given HOI's undrawn committed credit facility availability of over $1.1 billion and the $250 million Province of Ontario floating rate note (FRN) held by HOI, which we believe can be liquidated at face value on short notice, HOI had liquidity resources of about $1.35 billion at June 30, 2011. Our standard liquidity stress scenario assumes that an issuer loses access to new capital, other than credit available under its committed credit facilities, for a period of 12 months. On this basis, HOI has an estimated liquidity surplus of approximately $400 million.

In addition to the $250 million Province of Ontario FRN, HOI has a committed syndicated credit facility in the amount of $1.25 billion. On April 1, 2011, the expiry date of this facility was extended to June 2014. The facility contains a covenant that requires HOI's to maintain a debt to capitalization ratio of not more than 75%. Given HOI's debt to capitalization of approximately 58% at June 30, 2011, the company had sufficient headroom under this covenant. The credit agreement does not contain material adverse change or other clauses that would inhibit access to funding in a financial stress scenario.

Rating Outlook

HOI's rating outlook is stable. During 2010 and the first half of 2011, HOI's financial metrics improved modestly but we believe that further improvement could be constrained by the inherent cash flow lag associated with continued high levels of capital investment.

What Could Change the Rating - Up

Moody's considers an upward revision in HOI's Aa3 rating to be unlikely in the near term. However, the company's senior unsecured rating could be positively impacted by a two notch improvement in its BCA to 6 or by a change in facts and circumstances that causes us to believe that the probability of extraordinary support should be higher than we currently believe it is. An improvement in HOI's BCA to 6 would require both a sustainable improvement in financial ratios (such as CFO pre-WC to Interest exceeding 4.5x, CFO pre-WC to Debt exceeding 22% and CFO pre-WC less Dividends to Debt exceeding 17%) and a more favourable assessment of HOI's regulatory and cost recovery environment.

What Could Change the Rating - Down

HOI's Aa3 senior unsecured rating could be negatively impacted by one or more of the following:

A reduction in both the Province's rating and HOI's BCA, or

A material reduction in the perceived probability of extraordinary support due to changes in the ownership, governance or management structures or other factors.

A one notch reduction in HOI's BCA to 9 could follow a sustained weakening of cash flow metrics such as CFO pre-WC to Interest coverage below 3.3x, CFO pre-WC to Debt below 13% and/or CFO pre-WC less Dividends to Debt below 9% combined with a deterioration in HOI's regulatory framework or its ability to recover its costs and earn its allowed return.

Rating Factors

Hydro One Inc.

Regulated Electric and Gas Utilities Industry [1]	[2]**Current**		[3]**Moody's 12-18 month Forward View As of 09/02/2011**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		A		
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		
Factor 3: Diversification (10%)				
a) Market Position (10%)		Baa		
b) Generation and Fuel Diversity (0%)				
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	3.6x	Baa2	3.9-4.1x	Baa1
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	13.0%	Baa3	13%-16%	Baa3
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	11.1%	Baa3	11%-13%	Baa2
e) Debt/Capitalization (3 Year Avg) (7.5%)	58.9%	Ba2	0.6	Ba2
Rating:				
a) Indicated Baseline Credit Assessment from Methodology Grid		8 (Baa1)		8 (Baa1)
b) Actual Baseline Credit Assessment Assigned		8 (Baa1)		

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items [2] Financial ratios reflect three year averages for 2008, 2009 and 2010. [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and

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MOODY'S
INVESTORS SERVICE

Announcement: Moody's Affirms outlook for Hydro One, lowers outlook for OPA and OEFC

Global Credit Research - 16 Dec 2011

Toronto, December 16, 2011 -- Moody's Affirms outlook for Hydro One, lowers outlook for OPA and OEFC

RATINGS RATIONALE

Moody's Investors Service affirmed its Aa3 Senior Unsecured and P-1 short-term ratings for Hydro One Inc. The outlook for the long-term rating remains stable. The Baseline Credit Assessment (BCA) was also affirmed at 8 (Baa1), together with High Default Dependence and High Probability of Support from the Province of Ontario, which is rated Aa1, but with its long-term rating outlook lowered to Negative from Stable yesterday. Moody's notes that Hydro One shows continuing improvement in key financial metrics that warrant this affirmation of its rating and stable outlook despite a lowering of the Province's own rating outlook. Hydro One's ratings outlook would likely be lowered to Negative should the Province's rating be downgraded to Aa2.

Moody's also affirmed the Aa1 Senior Unsecured rating of Ontario Electricity Financial Corporation ("OEFC"), but lowered its rating outlook to Negative from Stable in conjunction with the lowering of the Province of Ontario's rating outlook. All of OEFC's debt is either held by or guaranteed by the Province of Ontario. The rating would be lowered should the Province's long-term rating be lowered.

Finally, Moody's also affirmed the Aa1 Issuer rating of Ontario Power Authority ("OPA"), but lowered its rating outlook to Negative from Stable, in conjunction with the change in the Province's outlook. The BCA of OPA was affirmed at 4 (Aa3), while Default Dependence and Probability of Support from the Province both remain High. OPA's debt is not guaranteed by the Province. OPA's rating would likely be lowered should the Province be downgraded.

The methodologies used in this rating were Unregulated Utilities and Power Companies published in August 2009, and Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Hydro One Inc. is an electricity transmission and distribution company based in Ontario, Canada and wholly-owned by the Province of Ontario. Ontario Electricity Financial Corporation is a non-share capital corporation and the legal successor to the former Ontario Hydro. It is a Crown agency that is 100% controlled by the Province of Ontario. OEFC's mandate is to manage and retire the debt and certain other liabilities of the former Ontario Hydro including the power purchase agreements between the former Ontario Hydro and non-utility generators. Ontario Power Authority is a not-for-profit, non-share capital corporation established in 2004 by the Province of Ontario pursuant to the Electricity Restructuring Act and is regulated by the Ontario Energy Board (OEB). The OPA's broad mandate (ensuring a reliable, sustainable supply of electricity for Ontario) and specific objectives are set by the Province through legislation and regulation.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 31 January 2012. ESMA may extend the use of credit ratings for regulatory purposes in the European Community for three additional months, until 30 April 2012, if ESMA decides that exceptional circumstances arise that may imply potential market disruption or financial instability. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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STANDARD &POOR'S

Standard & Poor's Research

April 25, 2012

Research Update:

Hydro One Inc. Outlook To Negative From Stable Following Outlook Revision On Ontario

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Research Update:

Hydro One Inc. Outlook To Negative From Stable Following Outlook Revision On Ontario

Overview

- We are revising our outlook on Hydro One Inc. to negative from stable.
- We are also affirming our ratings, including our 'A+' long-term corporate credit rating, on Hydro One.
- The outlook revision reflects that on the Province of Ontario.
- Despite the revision, our view that there is a "high" likelihood that the province would provide timely and sufficient extraordinary support in the event of financial distress has not changed.

Rating Action

On April 25, 2012, Standard & Poor's Ratings Services revised its outlook on electricity transmitter and distributor Hydro One Inc. to negative from stable. At the same time, Standard & Poor's affirmed its ratings, including its 'A+' long-term corporate credit rating on Hydro One.

The outlook revision reflects the outlook revision on the utility's owner, the Province of Ontario (AA-/Negative/A-1+), to negative from stable April 25, 2012. (For more information, see "Province of Ontario Outlook Revised To Negative From Stable On Risks To Fiscal Plan," published April 25, 2012, on RatingsDirect on the Global Credit Portal.) However, despite the outlook revision, our view that there is "high" likelihood the province would provide timely and sufficient extraordinary support in the event of financial distress has not changed.

Rationale

The ratings on Hydro One reflect Standard & Poor's opinion of the company's low-risk monopoly electricity transmission and distribution assets; secure and relatively predictable regulated cash flows; and the support of its owner, the province. We believe the utility has an excellent business risk profile and view its financial risk profile as significant on our expanded risk matrix. The company had C$8.0 billion in reported total debt outstanding as of Dec. 31, 2011.

We base our 'A+' rating on Hydro One on our assessment of the company's stand-alone credit risk profile (SACP) of 'a' and our opinion that there is a "high" likelihood that the province would provide timely and sufficient extraordinary support in the event of financial distress. We view the company's role as "important" to the province and the link between it and the province as "very strong."

In our view, Hydro One has a significant financial risk profile. We believe its cash flow strength relative to its debt obligations has weakened in the past few years due to a material capital expenditure program. The company's annual capital expenditures were C$1.5 billion in 2010 and 2011, exceeding its internal cash flow generation (C$1.1 billion in adjusted funds from operations [AFFO] in both 2010 and 2011). Because Hydro One has budgeted annual capital expenditures of about C$1.8 billion in each of the next two years, we believe that it will continue to face significantly sizable negative free operating cash flow in the next few years.

Liquidity

The short-term rating on Hydro One is 'A-1'. We believe the company has adequate liquidity to cover its needs in the near term, even in the event of unforeseen earnings declines. Standard & Poor's assessment incorporates the following expectations and assumptions:

- Hydro One's liquidity sources, including liquid short-term investments, FFO, and credit facility availability, will likely exceed its uses 1.2x or more in the next 12 months.
- Liquidity sources include an expectation of about C$1.3 billion of FFO, access to C$1.25 billion of the company's committed revolving credit facility with a syndicate of banks, and C$228 million liquid short-term investments as of Dec. 31, 2011. The C$1.25 billion credit facility was fully available as of Dec. 31, and will expire in June 2014. Hydro One remains well within its banking covenant of 75% total debt-to-total capital.
- Liquidity uses include C$600 million of maturing debt in 2012, an estimated dividend payment of approximately C$300 million, and about C$1.8 billion of capital expenditures, of which about C$400 million is discretionary.
- The company has what we consider good relationships with its banks and good standing in the debt market. We understand that the utility also holds a C$250 million note issued by the province that matures in 2014, which it could liquidate if needed. It could also reduce its dividend payment to help satisfy its cash requirements. The company's debt maturities are well spread, in our view, with annual scheduled repayment in the next six years averaging about C$600 million.

Hydro One provides the Independent Electricity System Operator (IESO) with C$325 million in parental guarantees in lieu of prudential support. If all the ratings on the utility were to fall, the IESO's prudential requirements would likely increase.

Outlook

The negative outlook reflects the outlook revision on Ontario. Based on our criteria for government-related entities, given a high likelihood of extraordinary support, an 'a' SACP for Hydro One and our 'AA-' rating on the province, a one- or two-notch downgrade on the province would affect the ratings on Hydro One, but likely not more than one notch given the company's underlying credit strength. We still consider Hydro One's performance to be consistent and expect continued predictable regulatory support despite its large capital expenditure program and negative free operating cash flows. In the event of lower-than-expected cash flows and earnings, we expect the company to maintain its leverage within the deemed capital structure of 60% reported debt-to-capital, AFFO-to-debt of about 12%, and AFFO interest coverage of about 3x, by curtailing its capital spending and additional debt financing. In our view, there is no cushion for Hydro One to deteriorate from our expectations on its key credit measures to maintain the ratings. A material adverse regulatory ruling or market restructuring (such as the assumption of the obligation to supply, not just deliver, electricity), or any deterioration of financial measures beyond our expectation, could lead us to lower the existing 'a' SACP and consequently the ratings, regardless of any changes to Ontario. An improvement in the company's SACP is unlikely without the assurance of a much stronger balance sheet, and deeper cash flow-interest and debt coverage. A change in the relationship with the province that leads us to reconsider the likelihood of Hydro One receiving support could also move the ratings.

Related Criteria And Research

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009

Ratings List

Outlook Revised To Negative

	To	From
Hydro One Inc.		
Corporate credit rating	A+/Negative/A-1	A+/Stable/A-1

Ratings Affirmed

Hydro One Inc.	
Senior unsecured debt	A+
Commercial paper	
Global scale	A-1
Canada scale	A-1(Mid)

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Hydro One to A1, outlook stable

Global Credit Research - 27 Apr 2012

Toronto, April 27, 2012 – Moody's Investors Service has downgraded Hydro One Inc.'s senior unsecured rating to A1 from Aa3, and affirmed its P-1 short term rating. The Baseline Credit Assessment (BCA) was also affirmed at 8 (Baa1), together with high default dependence and high probability of support from the Province of Ontario ("Province"). The outlook for the long term rating is stable. Moody's notes that this rating action is being taken in conjunction with the downgrade of the Province's senior unsecured rating to Aa2, outlook stable, from Aa1, outlook negative. At the same time, this rating action reflects Moody's assessment that the improving financial metrics for Hydro One, cited as the basis for maintaining a stable outlook in December, 2011 when the outlook for the Province was changed to negative, are now likely to level off below measures Moody's anticipated.

RATINGS RATIONALE

Hydro One's A1 senior unsecured rating is a reflection of a Baseline Credit Assessment (BCA) of 8 (Baa1on a scale of 1-21, where 1 represents the equivalent risk of an Aaa, 2 an Aa1, 3 an Aa2 and so on) together with Moody's expectation of high default dependence and high probability of support from the Province of Ontario (Aa2). Hydro One's BCA of 8 is primarily driven by Moody's view that Hydro One is a well managed business with a deliverable business strategy that should not be unduly affected by the economic challenges facing the Province. However, slow growth expectations for the provincial economy and the Province's energy policy implications for Hydro One's capital expenditures do have an impact on financial performance and have stalled the improving metrics although the overall result remains a BCA of 8. At the same time, Moody's remains cognizant of the close linkage Hydro One has to the Province, as reflected in the uplift to Hydro One's rating, and the possibility that the Province's actions to address budget challenges may impact Hydro One's capital expenditures or dividend policy, either of which could have a negative effect on the financial performance of Hydro One.

WHAT COULD CHANGE THE RATING UP/DOWN

A change in the rating or outlook for the Province would put pressure, either up or down, on Hydro One's rating. Likewise, changes in government policy that would materially affect dividends, capital expenditures or revenue for Hydro One would affect the financial metrics although we would not expect there to be sufficient movement to move the overall rating in either direction.

The methodologies used in this rating were Regulated Electric and Gas Utilities published in August 2009, and Government-Related Issuers: Methodology Update published in July 2010.Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Toronto, Ontario, Hydro One is a commercial corporation, 100% owned by the Province of Ontario. Virtually all of Hydro One's revenues and cash flows are derived from its electricity transmission and distribution businesses, both of which are regulated by the Ontario Energy Board (OEB). Hydro One owns and operates virtually all of Ontario's electricity transmission system and a substantial portion of the province's electricity distribution assets.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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Information sources used to prepare the rating are the following : parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

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DBRS
Insight beyond the rating.

Rating Report

Report Date:
June 20, 2012

Previous Report:
February 29, 2012

Hydro One Inc.

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The Company
Hydro One Inc. is the largest regulated electric transmission and distribution utility in Ontario, serving more than 97% of the province's transmission throughput. The Company also owns a fibre-optic network across most of Ontario. Hydro One is wholly owned by the Province of Ontario (rated AA (low)).

Commercial Paper
Authorized Limit of $1.0 Billion

Recent Actions
February 29, 2012
Confirmed

January 11, 2012
$300 Million Issue Rated A (high)

Rating

Debt Rated	Rating	Trend
Commercial Paper	R-1 (middle)	Stable
Senior Unsecured Debentures	A (high)	Stable

Rating Rationale

The credit quality of Hydro One Inc. (Hydro One or the Company) is based on the Company's low-risk regulated transmission and distribution businesses, a supportive regulatory environment in Ontario and the Company's strong financial profile. Hydro One's regulated transmission and distribution businesses in Ontario account for virtually 100% of total earnings.

Regulation in Ontario has remained supportive for Hydro One. The Ontario Energy Board (OEB) is expected to continue to allow the Company to maintain adequate coverage, cash flow and leverage ratios due to the government's commitment to address Hydro One's aging infrastructure while meeting the continued growth of electricity consumption and renewable energy developments in the province without compromising reliability. The confirmation assumes that Hydro One's transmission and distribution revenue base will continue to grow favourably to support a high level of capital expenditure (capex), which is expected to continue to far exceed depreciation. Project execution risk is expected to be manageable; the Company is experienced in managing projects and is focused on mitigating the risk of cost overruns. On June 19, 2012, Hydro One's Bruce to Milton Transmission line came in-service, which transports 3,000 megawatts (MW) of power from nuclear and wind facilities.

Hydro One's credit metrics have remained relatively stable over the past four years. The Company generated a cash flow deficit of approximately $225 million for the three months ended March 31, 2012 (Q1 2012), which is debt-financed. The deficit was largely driven by ongoing high capex attributable to the Advanced Distribution System project and infrastructure sustainability spending. As a result of the ongoing high investment commitment ($1.8 billion per annum for the 2012–2014 period) and resulting incremental debt issuances, DBRS expects a temporary modest weakening of Hydro One's key credit metrics over the next several years. However, these ratios are expected to gradually recover when substantial capex plans are completed, and should remain well within the A (high) rating category.

Rating Considerations

Strengths
(1) Low business risk
(2) Strong financial profile
(3) Strong and extensive franchise area

Challenges
(1) High level of planned capital expenditure
(2) Project construction risk
(3) Significant external financing requirements

Financial Information

	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Hydro One	**3 mos. Mar. 31**		**12 mos. Mar. 31**	**For the year ended December 31**				
(CA$ millions where applicable)	**2012**	**2011**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
EBIT gross interest coverage (times)	3.13	3.28	2.72	2.75	2.42	2.23	2.71	2.88
Total debt in capital structure	56.6%	56.1%	56.6%	55.5%	56.5%	56.2%	54.5%	53.5%
Cash flow/Total debt	16.9%	18.5%	14.4%	15.1%	13.8%	13.4%	15.1%	17.9%
Cash flow/Capital expenditure (times)	1.19	1.31	0.86	0.88	0.69	0.63	0.78	0.92
Net income before extraordinary items	208	209	632	632	579	470	498	399
Cash flow from operations	352	362	1,201	1,211	1,070	930	927	1,006

Rating Considerations

Strengths

(1) **Low business risk.** Almost all of the Company's EBIT is contributed by its low-risk regulated distribution and transmission business, which operates under a reasonable regulatory framework.

(2) **Strong financial profile.** The Company continues to maintain strong and stable credit metrics and a healthy balance sheet (debt-to-capital ratio at 56.6%, EBIT interest coverage at 2.72 times and cash flow-to-debt at 14.4%, for the twelve months ended March 31, 2012).

(3) **Strong and extensive franchise area.** Hydro One owns the largest transmission and distribution businesses in Ontario. The Company serves more than 97% of the province's transmission throughput. The distribution component of the Company spans approximately 75% of the province, serving 1.4 million customers (rural and urban) as well as 435 large-user customers.

Challenges

(1) **High level of planned capital expenditure.** Hydro One is currently in the midst of an aggressive build-out program that will continue over the next several years. Capex is expected to be approximately $5.5 billion over the next three years. Therefore, DBRS expects that annual capex could exceed operating cash flows by approximately $700 million to $800 million per year over that time frame. These sizable free cash flow deficits, combined with lengthy construction times, will continue to put temporary pressure on the balance sheet and coverage ratios during the build-out.

(2) **Project construction risk.** The size and magnitude of Hydro One's upcoming designated projects, combined with the continued increases in material and labour costs and the significant number of interveners involved, could potentially expose Hydro One to rising project costs beyond the amounts forecast in its regulatory applications. There is no assurance that cost overruns beyond the regulatory-approved amounts will be recovered if deemed imprudent by the OEB. However, DBRS notes that Hydro One is experienced in managing projects and is focused on mitigating the risk of cost overruns.

(3) **Significant external funding requirements.** Significant external funding is required to finance the potentially sizable free cash flow deficits expected over the near to medium term. Maintaining adequate access to the public debt markets (term and commercial paper) is critical to the Company during this key build-out phase.

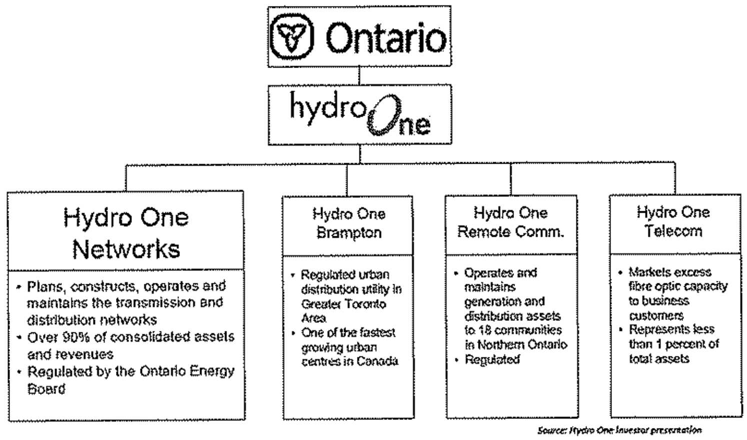
Major Projects (Potential and Under Construction)

- **West of London Transmission Lines.** Projects with the aim of adding between 500 MW and 1,000 MW to the grid. These projects are in the early stages with an expected completion date in 2017, contingent on the necessary regulatory approvals. Estimated costs range from $300 million to $450 million.
- **East-West Tie Project.** Through the East-West Tie LP (an equal partnership between three entities, including Hydro One), Hydro One is looking to construct a 400-kilometre, 230 kV transmission line from Wawa to Thunder Bay with a total capacity of 650 MW.

Hydro One Inc.

Report Date:
June 20, 2012

Organization Chart



Regulation

- Hydro One is a regulated electric utility under the jurisdiction of the OEB.
- The OEB uses a deemed debt-to-common equity structure of 60% to 40% for both transmission and distribution. Debt is divided into 56% long term and 4% short term.
- Approximately 54% of Hydro One's earnings are generated from transmission and the remainder from distribution.

Transmission
- Under the cost-of-service methodology, Hydro One is provided a reasonable opportunity to recover its forecast costs, including operating expenses, depreciation, costs of debt and taxes.
- The Company has no exposure to either commodity price risk or volume risk.
- Hydro One faces the risk of not recovering forecast operating expenses if the actual expenses exceed the forecast expenses, but this risk is considered manageable by DBRS.
- On December 20, 2011, the OEB came to a decision regarding revenue requirements for 2012 of $1,418 million (up from $1,346 million in 2011), translating into an increase of 5% in 2012.
- In 2012, Hydro One's allowed return on equity (ROE) is 9.42%, a decrease from 9.66% in 2011, and deemed common equity is 40%, both of which are at reasonable levels.
- On May 28, 2012, Hydro One filed a rate application with OEB for its 2013/2014 revenue requirement.

Distribution
- The OEB uses a combination of an annual incentive regulation mechanism (IRM) and periodic cost-of-service (COS) reviews to set distribution rates.
- In DBRS's view, the IRM typically creates higher cost-cutting pressure than the COS does; however, the cost pressure has not resulted in a material reduction in the Company's earnings and cash flows.
- The Company is allowed to fully recover its purchased power costs in a timely fashion, eliminating its exposure to power price risk. DBRS views this as a positive factor in the current regulatory system in Ontario (regardless of whether the Company operates under the IRM or the COS).
- In 2012, Hydro One's allowed ROE is 9.42%, a decrease from 9.66% in 2011, and deemed common equity was 40%, both of which are at reasonable levels.
- On May 28, 2012 Hydro One filed an IRM rate application with the OEB for 2013.

Hydro One Inc.

Report Date:
June 20, 2012

Earnings and Outlook

(CA$ millions)	USGAAP 3 mos. Mar. 31 2012	USGAAP 3 mos. Mar. 31 2011	USGAAP 12 mos. Mar. 31 2012	CGAAP For the year ended December 31 2011	CGAAP 2010	CGAAP 2009	CGAAP 2008	CGAAP 2007
Net revenues	1,468	1,460	5,479	5,471	5,124	4,744	4,597	4,655
EBITDA	477	479	1,749	1,751	1,572	1,361	1,451	1,420
EBIT	325	335	1,125	1,135	989	824	903	899
Gross interest expense	(104)	(102)	(414)	(412)	(409)	(369)	(333)	(312)
Earning before taxes	239	247	771	779	630	516	611	604
Net income before non-recurring items	208	209	632	632	579	470	498	399
Reported net income	210	212	639	641	591	470	498	399
Return on equity	13.5%	14.5%	10.1%	10.2%	10.2%	8.9%	10.0%	8.2%

2011 Summary

- Hydro One's earnings have continued to increase over the past five years, mainly due to the Company's increased regulatory asset base, driven by high capex.

Segmented Information (CA$ millions)	3 mos. Mar. 31 %	2012	For the year ended December 31 2011	2010	2009	2008	2007 *
Net revenues							
Transmission	48.8%	361	1,389	1,307	1,147	1,212	1,242
Distribution	49.0%	362	1,391	1,280	1,208	1,153	1,142
Other	2.2%	16	63	63	63	51	31
Total net revenues	100.0%	739	2,843	2,650	2,418	2,416	2,415
EBIT by segment							
Transmission	53.5%	174	665	618	469	571	585
Distribution	45.2%	147	478	378	357	335	320
Other	1.2%	4	(8)	(7)	(2)	(3)	(6)
Total EBIT	100.0%	325	1,135	989	824	903	899

* DBRS adjusted Transmission earnings for non-cash items to normalize impact from OEB rate decision.

2012 Outlook

- The Company's earnings for fiscal 2012 are expected improve further due to continued growth in rate base.
- The increase in rate base will be primarily due to Hydro One's growing capex needs in the near future, as it continues to service its aging infrastucture in the trasmission and distribution businesses.

Hydro One Inc.

Report Date:
June 20, 2012

Financial Profile

	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
	3 mos. Mar. 31		12 mos. Mar. 31	For the year ended December 31				
(CA$ millions)	2012	2011	2012	2011	2010	2009	2008	2007
Net income before non-recurring items	208	209	632	632	579	470	498	399
Depreciation & amortization	139	131	558	550	526	487	502	482
Deferred income taxes and other	5	22	12	29	(35)	(27)	(73)	125
Cash flow (bef. working cap. changes)	352	362	1,201	1,211	1,070	930	927	1,006
Dividends paid	(281)	(42)	(407)	(168)	(28)	(188)	(259)	(325)
Capital expenditures	(296)	(277)	(1,390)	(1,371)	(1,557)	(1,473)	(1,185)	(1,091)
Free cash flow (bef. working cap. changes)	(225)	43	(596)	(328)	(515)	(731)	(517)	(410)
Changes in non-cash work. cap. items	(115)	(122)	203	196	94	(38)	125	135
Net Free Cash Flow	(340)	(79)	(393)	(132)	(421)	(769)	(392)	(275)
Acquisitions & long-term investments	(21)	(18)	(79)	(76)	(263)	(93)	(99)	0
Short-term investments	0	0	0	0	0	0	0	0
Proceeds on asset sales	0	0	0	0	0	0	0	0
Net equity change	0	0	0	0	0	0	0	0
Net debt change	300	50	450	200	845	805	510	285
Other	1	3	23	25	37	15	9	7
Change in cash	(60)	(44)	1	17	198	(42)	28	17
Total debt	8,330	7,846	8,330	8,038	7,778	6,962	6,133	5,615
Cash and equivalents	0	0	0	0	33	0	16	0
Total debt in capital structure	56.6%	56.1%	56.6%	55.5%	56.5%	56.2%	54.5%	53.5%
Cash flow/Total debt	16.9%	18.5%	14.4%	15.1%	13.8%	13.4%	15.1%	17.9%
EBIT gross interest coverage (times)	3.13	3.28	2.72	2.75	2.42	2.23	2.71	2.88
Dividend payout ratio	135.1%	20.1%	64.4%	26.6%	4.8%	40.0%	52.0%	81.5%

2011 Summary

- Overall, Hydro One has maintained a strong financial profile, reflecting a stable balance sheet and reasonable credit metrics for the current ratings.
- Cash flow from operations remains strong, improving over time due to an increased rate base.
- Cash flow deficits persist primarily due to increased developmental capex.
- Unlike other provincially and municipally owned distributors, Hydro One benefits from a flexible dividend program, unrestricted by an earnings threshold level.
- Key credit metrics including leverage, interest coverage and cash flow ratios have remained within the A (high) rating category.

2012 Outlook

- DBRS expects a temporary modest weakening of Hydro One's key credit metrics over the next several years. However, these ratios are expected to gradually recover when substantial capex plans are completed, and remain reasonable for the current rating category.
- Cash flow from operations is expected to grow over the medium to long term, predominately driven by growth in the asset base.
- DBRS anticipates that free cash flow will continue to be affected by higher capital spending on the Company's aging infrastructure. Hydro One has budgeted $1.8 billion per annum over the next three years, with maintenance capex expected to be $700 million in 2012, $950 million in 2013 and $1,000 million in 2014.

Description of Operations

- Hydro One is the largest electricity transmission and distribution company in Ontario.
- It operates three distinct business segments:

(1) **Transmission**
- One of the largest in North America, as measured by assets.
- Has 29,000 kilometres of high-voltage network serving its own distribution network, as well as 48 local distribution companies and 93 transmission connected companies.
- Owns and operates approximately 96% of transmission capacity in Ontario, as measured by revenues.

(2) **Distribution**
- Largest distribution system in the province, based on assets, covering about 75% of Ontario.
- Distributes electricity over 120,500 kilometres, reaching approximately 1.4 million customers in a number of municipalities and rural areas.

(3) **Other Businesses**
- Services related to Hydro One Telecom Inc., marketing dark and lit fibre-optic capacity to commercial carriers and telecommunication carriers.

Long-Term Debt Maturities and Bank Lines

- The Company's liquidity profile remains reasonable for the Company's current rating.

(CA$ millions - As at Mar. 31, 2012)	Amount	Draw/LOCs	Available	Maturity
Cash & Cash Equivalents	-	-	-	-
Committed Revolving Facility	1,250	-	1,250	1-Jun-17
Ontario Floating Rate Notes	250	-	250	2014
		Total	**1,500**	

- Hydro One has access to a $1.0 billion commercial paper program supported by an unused revolving facility ($1.25 billion), as well as the holding of Province of Ontario Floating-Rate Notes ($250 million).
- Hydro One has a $3 billion base shelf prospectus, of which approximately $1.9 billion still available for issuance, that expires in September 2013.
- On January 12, 2012, Hydro One issued $300 million in 3.20% notes under its Medium Term Notes (MTN) Program with a maturity date of January 12, 2022.
- On May 22, 2012, Hydro One issued $125 million in 4.0% MTN maturing December 22, 2051 and $300 million in 3.20% MTN maturing January 13, 2022.
- Hydro One's continued access to the capital markets through its MTN and commercial paper programs will be crucial over the next few years, given its infrastructure upgrade mandate. Despite the Company's debt maturities in the medium term, DBRS does not anticipate that Hydro One will have any problem refinancing as needed.

Long-term Debt Maturities

(CA$ millions - As at March 31, 2012)	2012	2013	2014	2015	2016+	Total
Amount	600	600	750	550	5,775	8,275
% of Total	7.3%	7.3%	9.1%	6.6%	69.8%	100.0%

Hydro One Inc.

Report Date:
June 20, 2012

Balance Sheet (CA$ millions)	USGAAP Mar. 31 2012	CGAAP Dec. 31 2011	CGAAP Dec. 31 2010	Liabilities & Equity	USGAAP Mar. 31 2012	CGAAP Dec. 31 2011	CGAAP Dec. 31 2010
Assets							
Cash & equivalents	0	0	33	S.T. borrowings	32	39	0
Accounts receivable	994	961	911	Accounts payable	146	1,071	884
Inventories	24	25	21	Current portion L.T.D.	600	600	500
Prepaid expenses & other	218	291	224	Deferred tax	0	0	0
				Other current liab.	935	110	156
Total Current Assets	1,236	1,277	1,189	**Total Current Liab.**	1,713	1,820	1,540
Net fixed assets	15,072	14,903	14,061	Long-term debt	7,698	7,399	7,278
Future income tax assets	16	17	19	Deferred income taxes	798	758	693
Goodwill & intangibles	366	357	322	Other L.T. liab.	2,411	1,937	1,830
Investments & others	2,313	1,814	1,731	Shareholders' equity	6,383	6,454	5,981
Total Assets	19,003	18,368	17,322	**Total Liab. & SE**	19,003	18,368	17,322

Balance Sheet & Liquidity & Capital Ratios	USGAAP 3 mos. Mar. 31 2012	USGAAP 3 mos. Mar. 31 2011	USGAAP 12 mos. Mar. 31 2012	CGAAP 2011	CGAAP For the year ended December 31 2010	CGAAP 2009	CGAAP 2008	CGAAP 2007
Current ratio	0.72	1.00	0.72	0.70	0.77	0.59	0.67	0.62
Total debt in capital structure	56.6%	56.1%	56.6%	55.5%	56.5%	56.2%	54.5%	53.5%
Cash flow/Total debt	16.9%	18.5%	14.4%	15.1%	13.8%	13.4%	15.1%	17.9%
Cash flow/Adjusted total debt	16.8%	18.4%	14.3%	15.0%	13.7%	13.3%	15.0%	17.8%
(Cash flow-dividends)/Capex	0.24	1.16	0.57	0.76	0.67	0.50	0.56	0.62
Dividend payout ratio	135.1%	20.1%	64.4%	26.6%	4.8%	40.0%	52.0%	81.5%
Coverage Ratios (times)								
EBIT gross interest coverage	3.13	3.28	2.72	2.75	2.42	2.23	2.71	2.88
EBITDA gross interest coverage	4.59	4.70	4.22	4.25	3.84	3.69	4.36	4.55
Fixed-charge coverage	3.13	3.28	2.71	2.75	2.41	2.24	2.73	2.86
Profitability Ratios								
EBITDA margin	32.5%	32.8%	31.9%	32.0%	30.7%	28.7%	31.6%	30.5%
EBIT margin	22.1%	23.0%	20.5%	20.8%	19.3%	17.4%	19.6%	19.3%
Profit margin	14.2%	14.3%	11.5%	11.6%	11.3%	9.9%	10.8%	8.6%
Return on equity	13.5%	14.5%	10.1%	10.2%	10.2%	8.9%	10.0%	8.2%
Return on capital	7.4%	8.2%	6.0%	6.3%	6.3%	5.7%	6.4%	5.6%

Hydro One Inc.

Report Date:
June 20, 2012

Ratings

Debt Rated	Rating	Trend
Commercial Paper	R-1 (middle)	Stable
Senior Unsecured Debentures	A (high)	Stable

Rating History

	Current	2011	2010	2009	2008
Commercial Paper	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)
Senior Unsecured Debentures	A (high)	A (high)	A (high)	A (high)	A (high)

Note:
All figures are in Canadian dollars unless otherwise noted.

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Standard & Poor's Research

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Hydro One Inc.

Major Rating Factors

Corporate Credit Rating
A+/Negative/A-1

Strengths:

- Low-risk electricity transmission and distribution network businesses
- Natural monopoly position
- Regulated cash flows
- Supportive shareholder

Weaknesses:

- Large capital expenditure program
- Weak financial measures that leave no cushion for the current ratings

Rationale

The ratings on Hydro One Inc., a large, regulated transmission and electricity distribution company in the Province of Ontario (AA-/Negative/A-1), reflect Standard & Poor's Ratings Services' opinion of the company's low-risk monopoly electricity transmission and distribution assets; secure and relatively predictable regulated cash flows; and the support of its owner, the province. We believe the utility has an excellent business risk profile and view its financial risk profile as significant.

We base our 'A+' rating on Hydro One on what we assess as the company's stand-alone credit risk profile (SACP) of 'a' and our opinion that there is a "high" likelihood that the province would provide timely and sufficient extraordinary support in the event of financial distress. We view the company's role as "important" to the province and the link between it and the province as "very strong."

We believe the company's monopoly position, the business' asset-intensive nature, and regulatory oversight limiting competitive risk all support an excellent business risk profile. Hydro One owns and operates substantially all of Ontario's electricity transmission system, and its distribution service territory covers about 75% of the province. In our view, the business carries relatively low operating risk and exhibits average operational efficiency and reliability.

The Ontario Energy Board's (OEB) regulatory framework supports Hydro One's cash flow stability, and we view cost recovery as generally predictable. We do not expect any near-term shift in energy policy that would affect the credit quality, although we expect the OEB to be mindful of overall electricity costs to consumers in the current economic environment and stagnant load growth in approving proposed prudent spending by utilities. The framework allows for the recovery of prudent transmission and distribution costs and the opportunity to earn a modest-but-predictable return. Furthermore, the company's exposure to commodity risk is limited. Commodity costs flow through to the customer and the utility has no obligation to ensure an adequate supply of electricity in the province.

In our view, Hydro One has a significant financial risk profile. Its cash flow strength relative to its debt obligations has weakened since 2009 due to a material capital expenditure program. Adjusted funds from operations (AFFO)-to-debt declined to 11%-12% in 2009-2011, compared with 14%-15% in 2006-2008. Based on our forecast, we expect that Hydro One will generate annual FFO of about C$1.2 billion-C$1.3 billion in 2012 and 2013, which should be adequate to cover dividend payments and part of the company's capital expenditure program. Our forecast assumes that there will be no material disallowance from the OEB on the company's recent filed transmission cost-of-service application for the next two years. We also assume that it will maintain its reported capital structure within the deemed capital structure of 60% debt layer and keep its capital expenditure level consistent with the OEB approval. Hydro One has budgeted C$1.8 billion of annual capital expenditure for both 2012 and 2013, which we expect it will spend. About 60% of the company's total annual capital expenditure is for its transmission business and the balance is for the distribution business. Although we expect FFO to increase with increasing rate base and cost recovery, we forecast that the utility will still need to increase its total borrowing to support its large negative operating cash flow of about C$500 million per year. As a result, we do not expect to see any meaningful improvement in our key financial measures during our two-year outlook horizon. We forecast that Hydro One's AFFO-to-debt will remain similar to its past three years' levels of about 12%, leaving no cushion at the rating. Still supporting the company's financial risk profile are strong access to capital markets, adequate liquidity, the stability and predictability of its cash flows, and low merger and acquisition risk.

Liquidity

The short-term rating on Hydro One is 'A-1'. We believe the company has adequate liquidity to cover its needs in the near term, even in the event of unforeseen earnings declines. Standard & Poor's assessment incorporates the following expectations and assumptions:

- Hydro One's liquidity sources, including liquid short-term investments, FFO, and credit facility availability, will likely exceed its uses 1.2x or more in the next six months.
- Liquidity sources include a forecast of about C$1.2 billion of annual FFO, access to C$1.25 billion of the company's committed revolving credit facility with a syndicate of banks, and C$161 million liquid short-term investments as of March 31, 2012. The C$1.25 billion credit facility was fully available as of March 31, and will expire in June 2017. Hydro One remains well within its banking covenant of 75% total debt-to-total capital.
- Liquidity uses include C$600 million of maturing debt in Nov. 2012, and about C$1.8 billion of total annual capital expenditures. We did not include the dividend in our calculation because we believe that if the company were under temporary financial duress, it would have the flexibility to temporarily curb dividends to the shareholder.

Hydro One has what we consider good relationships with its banks and good standing in the debt market. We understand that the utility also holds a C$250 million note issued by the province that matures in 2014, which it could liquidate if needed. The company's debt maturities are well spread, in our view, with annual scheduled repayment in the next six years averaging about C$600 million.

Outlook

The negative outlook reflects the outlook on Ontario. Based on our criteria for government-related entities, given a high likelihood of extraordinary support, a SACP of 'a' for Hydro One and our 'AA-' rating on the province, a one- or two-notch downgrade on the province would affect the ratings on Hydro One, but likely not more than one notch given the company's underlying credit strength. We still expect continued predictable regulatory support despite its large capital expenditure program and negative free operating cash flows. In the event of lower-than-expected cash flows and earnings, we expect the utility to maintain its leverage within the deemed capital structure of 60% reported debt-to-capital, AFFO-to-debt of about 12%, and AFFO interest coverage of about 3x, by curtailing its capital spending and additional debt financing. In our view, there is no cushion for Hydro One to deteriorate from our expectations on its key credit measures to maintain the ratings.

Any sustained deterioration of financial measures beyond our expectations, a material adverse regulatory ruling, or market restructuring (such as the assumption of the obligation to supply, not just deliver, electricity) could lead us to lower the existing 'a' SACP and consequently the ratings, regardless of any changes to the province. An improvement in the company's SACP is unlikely without the assurance of a much stronger balance sheet, and stronger cash flow-interest and debt coverage ratios (such as higher than 30% AFFO-to debt).

Business Description

Hydro One owns and operates a low-risk, regulated transmission system that represents about 57% of its total assets as of Dec. 31, 2011. The utility owns and operates substantially all of Ontario's electricity transmission system, which has contributed to it becoming one of the largest transmission companies in North America.

The company also owns and operates a low-risk, regulated distribution system that represents about 40% of its total assets as of Dec. 31. It is one of the country's largest LDCs. Apart from the system operated under Hydro One Brampton, its regulated LDC subsidiary serving customers in the City of Brampton, Ont. (AAA/Stable/--), the system covers mainly rural areas and remote communities in the province. It has a low customer density, covering 75% of Ontario but delivering about 30% of consumed electricity. The marketing of surplus fiber optic capacity through subsidiary Hydro One Telecom is not material to our credit analysis, given the operation's small size (consisting of about 3% of total assets).

Rating Methodology

We base our 'A+' rating on Hydro One on the company's SACP and our view that there is a "high" likelihood that the province would provide timely and sufficient extraordinary support to Hydro One in the event of financial distress. We assess Hydro One's stand-alone credit quality at 'a'.

In accordance with our criteria for government-related entities (GREs), we base our view of a "high" likelihood of extraordinary government support on the following assessment:

- Within the context of our GRE methodology and scale for assessing the importance of a GRE's role to its government owner, we view Hydro One's role as "important" to the province. The utility operates as a profit-seeking enterprise and its credit standing is important to the government because it provides an essential infrastructure service, particularly in the distribution of electricity to remote communities in Ontario. In addition, part of its activities relate to its public policy role for the current government. Through its Green Energy Act, the province is relying on Hydro One to facilitate a smart grid, and the quick connection of small renewable generation assets to the grid. Furthermore, although we do not believe that default or credit stress would lead to a disruption of Hydro

One's physical operations, it would affect the credibility of the entire electricity sector in Ontario, which we believe would have an overall negative economic impact.

- Within the context of our GRE methodology and scale for assessing strength and durability, we view the link between Hydro One and the province as "very strong." The government is a strong and stable shareholder, and it has a policy and track record of providing support to the utility. Government policy has a strong influence on the company's strategic and business plans. Financial support is available to the company from the province through the Ontario Electricity Finance Corp., an established provincial agency with a legislated mandate "to provide financial assistance to the successor corporations of Ontario Hydro," of which Hydro One is one. Ontario's track record is consistent with our view. In the past, the province has offered the utility access to government treasury resources when unforeseen changes in government policy exposed the company's distribution operations to liquidity pressures. We expect that liquidity support would be available again under similar circumstances. Furthermore, the province appoints Hydro One's board of directors, and the government reviews the company's business plan and dividend policy before implementation. Management updates government staff on the company's monthly financial and operational performance.

After the government had considered selling Crown assets, which include Hydro One, since December 2009, the province's finance minister indicated in July 2010 that there would be no short-term consideration of doing so. While we maintain our view that the company's privatization could weaken its link with the province and the likelihood of extraordinary support in times of need, we don't consider such an event imminent. Should the idea of privatization resurface, we would treat this as an event risk and reevaluate the likelihood of extraordinary support at that time.

Excellent Business Risk Profile

The stable regulatory regime supports credit quality

The OEB provides regulatory oversight of Hydro One's operations. Prudent costs incurred are generally recovered through tariffs, but rate base adjustments can lag capital requirements up to three years unless the company returns to the regulator with a resource consuming, full cost-of-service application each year. We understand that the company's strategy is to file a full cost-of-service application more frequent than a usual four-year cycle in view of rapid fixed assets growth, which mitigate the potential time lag between its capital expenditure spending and cost recovery through rate-base adjustments. To date, the OEB has been supportive to this approach. The utility filed its transmission cost-of-service rate application recently for 2013 and 2014 and its distribution rate application (under the incentive regulated mechanism) for 2013.

The OEB sets rates by estimating Hydro One's revenue requirement, given forecast consumption. The company submits separate transmission and distribution applications to the OEB, which determines revenue requirements on a forward test-year basis. The regulated revenue requirement includes the cost of capital based on a deemed capital structure of 60% debt and a modest return on equity (ROE). The allowed return on equity is based on a formula linked to long-term Government of Canada (GOC; AAA/Stable/A-1+) bonds, long-term utility bond spreads, plus a modest risk premium.

There is a long history of regulated entities in Ontario being allowed to recoup unforeseen, previously incurred costs (regulatory assets) and having to refund the customer (regulatory liabilities) after-the-fact through rates. Cash recovery (or repayment) is subject to a prudency review and regulatory approval. Depending on the magnitude, the OEB may spread the recovery across several years to avoid rate shock. To date, mandated refunds to customers have not caused undue financial duress for most utilities. For Hydro One, total unrecovered regulatory assets and liabilities on the balance sheet as of Dec. 31, 2011, were C$325 million (net of regulatory future income tax asset) and C$660 million, respectively, representing about 2% of total assets and 5.5% of total liabilities, respectively. From a credit perspective, we do not view these as a concern.

Temperate regulatory relationship, but spending budget could be under tighter scrutiny

Large differences between rate applications and final regulatory decisions could cause a rating concern as it might indicate increased regulatory risk. The OEB acknowledges the company's higher cost of operations due to low density franchise and has generally accepted its forward cost estimates without significant haircuts (see table 1). With much lower customer density than that of its municipal peers, the system is by nature more expensive on a capital- and operating-cost per customer basis.

Although we do not expect allowing recovery of prudent operating and capital spending to change, we expect that the OEB would, in its approval of prudent spending, be mindful of overall electricity costs to consumers in the current weak economy, stagnant load growth, as well as the province's priority to green energy, smart grid, and conservation and demand management (CDM). Nevertheless, there have been no material differences between the company's requested revenue requirement and the OEB approved amount.

Table 1

Hydro One Inc.--Requested vs. Approved Revenue Requirement

(Mil. C$)	Year*	Requested revenue requirement	Approved revenue requirement	Approved revenue requirement
Distribution	2010	1,150	1,146	0.3% lower than requested
	2011	1,264	1,218	3.6% lower than requested
Transmission	2011	1,446	1,346	6.9% lower than requested
	2012	1,547	1,418	8.3% lower than requested

*2012 U.S. generally accepted accounting principles used for rate-setting purposes.

Asset-intensive nature of monopoly business reduces competitive risk

Although some competitive pressures exist, Hydro One's existing transmission system is largely shielded from direct competition due to its natural monopoly position. However, the company does not hold a legal monopoly on its service territory. There is no restriction on other transmission businesses' building and operating transmission networks in Ontario. However, the capital cost that would be involved in large-scale duplication of the network reduces the risk of bypass. Should bypass strand an individual asset, it is likely that tariffs would be rebalanced across remaining customers with minimal financial impact, given the territory's size.

Low-risk operations

Hydro One's regulated retail obligation is also a relatively low-risk operation. The LDC is not engaged in commodity price or volume risk management and does not engage in contractual commitments to ensure adequate supply. Energy costs are a pass-through to consumers with no markup. Any variance is recouped or rebated through the OEB-regulated retail price in the following fiscal quarter.

The operational performance of Hydro One's transmission assets remains good; the system has achieved top quartile transmission reliability compared with that of other large Canadian peers (as reported to the Canadian Electricity Association). The electricity market rules and transmission license governing Hydro One's transmission operations required the transmitter to comply with reliability standards established by the North American Reliability Corp. and Northeast Power Coordinating Council Inc. Those standards include penalties for noncompliance. At the time of publication, Hydro One complied with the standards and had never paid any penalties.

The company's distribution reliability, although consistently weaker than that of other rated municipal peers largely because of its expansive rural service territory, does not pose a material credit risk. The regulator tracks performance metrics but has not yet imposed generic industry standards or penalties for substandard service.

Well-diversified economy in the company's service territory

Hydro One owns and operates substantially all of Ontario's electricity transmission system, accounting for about 96% of the province's transmission capacity by revenue. Its distribution system is the largest in Ontario and spans about 75% of the province, serving the more rural areas and remote communities of Ontario except for the company's Brampton network business.

The province has a large and well-diversified economy, and Hydro One delivers an essential service. The government estimates that real GDP slowed to 1.8% in 2011 from a 3% gain in 2010. According to the government's estimates, real GDP growth should advance a further 1.7% in 2012. The recession's impact was felt chiefly in the construction and manufacturing sectors (vehicle assembly and part production). Nevertheless, Ontario has a large and well-diversified economy with depth and scale in many sectors, and the provincial economy has a number of key strengths, including a large, well-educated workforce; and proximity to important northeastern U.S. markets. While recognizing that uncertainty about the tenuous recovery in Europe and the U.S. is a risk to the economic outlook, our province analyst believes that the government's forecast real GDP growth of 1.7% for 2012 is achievable.

The company estimates about 1% of load growth associated with economy growth in Ontario economy. However, Hydro One expects the overall load to decline 1.5% mainly due to the impact of CDM and embedded generation. This does not cause us a significant concern on the company's future financial performances as long as there is no large discrepancy between its estimated and actual load growth.

Customer profile supports stable revenues

We believe the diversity of Hydro One's customer base supports the overall stability of its revenues and severely limits exposure to any particular customer or customer class. In the transmission business, municipally owned investment-grade LDCs and the utility's own distribution business collect transmission revenues and forward them to Hydro One through the IESO. The company's distribution operation also collects distribution revenues from a relatively stable customer base that is about 58% residential, about 28% commercial, 7% large industrial, and 7% embedded LDCs (on a distribution revenues basis in 2011).

Renewal of an aging labor force remains a challenge

An aging workforce remains an issue that could affect Hydro One's operations. It expects about 21% of its workforce to be eligible for retirement by 2013. The company is making an effort to address the issue by employing a larger number of apprentices, investing in co-op power engineering programs with universities, and outsourcing some capital programs. During this period of workforce renewal, we expect staff levels to be higher than normal as new employees are trained, and to enable the execution of the large capital program. The utility's cost-of-service determination includes the related labor costs. The company had about 5,781 permanent employees at end of 2011, up 6.5% from 2009. The majority of its employees are represented by either the Power Workers' Union (PWU) or the Society of Energy Professionals. The collective agreement with Society and PWU will expire March 31, 2013.

Significant Financial Risk Profile

Consistent financial policies

Hydro One's financial policies have historically been consistent. While total leverage increased in the past three years to support the company's large capital program, Hydro One intends to maintain its capital structure within the regulatory deemed structure (reported debt to capital of 60%). Debt maturities are well-spread, in our view, with annual scheduled repayment in the next six years averaging about C$600 million. Derivative instruments manage interest rate exposure nonspeculatively. The utility is not exposed to foreign currency risk other than through the purchase of some materials. The company discloses its target to maintain an 'A' long-term rating in its annual report.

The board of directors declares common dividends after considering management's recommendation based on its operating results. Also the shareholder agreement requires the company to consult with its owner, the province, regarding dividend payments. It is my understanding that the company could reduce dividend payments to help satisfy its cash requirement and to maintain its capital structure within the regulatory deemed capital structure of 60% debt layer.

Management advocates an enterprise-wide approach to risk management directed at balancing regulatory, strategic, operational and financial risk exposure, and the returns allowed within the Ontario regulatory framework

Accounting

Hydro One prepared consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) until Dec.31, 2011. Effective Jan 1, 2012, the company adopted U.S. GAAP. Similar to Canadian GAAP, U.S. GAAP allows utilities to defer costs or revenues that they expect the regulator to allow them to recover to the balance sheet. Assets and liabilities are recouped from or rebated to customers in periods, typically varying from one-to-four years. To date, regulatory disallowances for assets and liabilities that Hydro One and other Ontario-based utilities have declared have been minor. The change in accounting practice itself should not affect our credit analysis in absence of changes in the company's economic substance.

Material adjustment Standard & Poor's made to the balance sheet (see table 2) includes postretirement benefit obligations (about 15% of total adjusted debt). Other adjustments are not material. Hydro One treats its C$323 million 5.5% cumulative preferred shares as equity. The province holds the shares, which are entitled to an annual cumulative dividend of 5.5% (or C$18 million). To date, the preferred dividends have not been deferred. The shares are redeemable at the province's option; however, Hydro One, at its own discretion, can pay all or part of the redemption price by issuing additional common shares to the province. We do not expect them to do so in the near term. The shares carry voting rights under limited circumstances and rank in priority above the common shares upon liquidation. The company can issue an unlimited number of preferred and common shares.

Hydro One has C$133 million of goodwill on its balance sheet that arose when it acquired LDCs for totals exceeding their fair value. The OEB does not recognize goodwill in the regulated rate base used to determine electricity tariffs. The amount is not material to our analysis but indicates the risk to the balance sheet and Hydro One's returns that acquisitions could pose.

Table 2

Reconciliation Of Hydro One Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)

	--Fiscal year ended Dec. 31, 2011--									
Hydro One Inc. reported amounts	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	8,038.0	6,454.0	5,471.0	1,751.0	1,135.0	359.0	1,360.0	1,360.0	168.0	1,447.0
Standard & Poor's adjustments										
Operating leases	43.7	N/A	N/A	2.3	2.3	2.3	4.2	4.2	N/A	9.9
Postretirement benefit obligations	1,424.2	(981.5)	N/A	140.0	140.0	64.0	14.4	14.4	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	58.0	(58.0)	(58.0)	N/A	(58.0)
Non-operating income (expense)	N/A	N/A	N/A	N/A	15.0	N/A	N/A	N/A	N/A	N/A
Reverse changes in working-capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(196.0)	N/A	N/A
Debt--accrued interest not included in reported debt	85.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	1,553.0	(981.5)	0.0	142.3	157.3	124.3	(39.4)	(235.4)	0.0	(48.1)
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	9,591.0	5,472.5	5,471.0	1,893.3	1,292.3	483.3	1,320.6	1,124.6	168.0	1,398.9

N/A--Not applicable.

Profitability is constrained by the regulatory compact but is predictable

Largely dictating Hydro One's profitability is the regulatory compact that generally allows the company to earn a modest return. The OEB announced in December 2009 a change in cost of capital computation formula, originally put in place since 1998. The new formula is now linked to both utility bond spreads and the long-term GOC bond rate; the often inverse relationship between the two rates could reduce volatility of the future ROE adjustments. The revised formula resulted in favorable ROE adjustments on Hydro One's 2011-2012 transmission rates and 2010-2011 distribution rates (see table 3). The company estimated that a 1% decrease in the forecast long-term GOC bond yield or utility bond spread used in setting rates could reduce net income in transmission about C$18 million and that in distribution about C$10 million.

Weather-induced changes in energy delivered subject Hydro One's cash flows to modest fluctuations that we factor into our rating opinion. The transmission tariff is levied on monthly peak load. The distribution tariff is levied on a mix of fixed- and variable-charges for each of 12 customer classes (formerly 80) the OEB approved in late 2008.

Table 3

Hydro One Inc.--Historical Parameters Used To Set Regulated Rates

Fiscal year ended Dec. 31	Ratesetting year	Approved transmission rate base (used to determine revenue requirement)	Approved distribution rate base (used to determine revenue requirement)	OEB-deemed capital structure (used to set rates)	OEB-allowed ROE in rates (%)§
2004	May 1, 2004	C$5.7 billion	Rate base was not adjusted	60% debt; 4% preferred equity; 36% common equity	9.88
2005	May 1, 2005	C$5.7 billion	Rate base was not adjusted	60% debt; 4% preferred equity; 36% common equity	9.88
2006	May 1, 2006	Rate base was not adjusted	C$3.7 billion	60% debt; 40% equity	9.00 (distribution); 9.88 (transmission)
2007*	May 1, 2007	C$ 6.3 billion	Rate base was not adjusted	56% long-term debt; 4% short-term debt; 40% equity	9.00 (distribution); 8.35 (transmission)
2008	May 1, 2008	Rate base was not adjusted	C$4.3 billion	56% long-term debt4% short-term debt 40% equity	8.57 (distribution); 8.35 (transmission)
2009	May 1, 2009	C$7.0 billion	Rate base was not adjusted	56% long-term debt; 4% short-term debt; 40% equity	8.35 (distribution); 8.01 (transmission)
2010	May 1, 2010	C$7.6 billion	C$4.8 billion	56% long-term debt; 4% short-term debt; 40% equity	9.85 (distribution); 8.39 (transmission)
2011	Jan. 1, 2011	C$7.9 billion	C$5.1 billion	56% long-term debt; 4% short-term debt; 40% equity	9.66 (distribution); 9.66 (transmission)
2012	Jan. 1, 2012	C$8.8 billion	Rate base was not adjusted	56% long-term debt; 4% short-term debt; 40% equity	N.A. (distribution); 10.41 (transmission)

*The OEB's second generation incentive rate mechanism resulted in increased distribution rates for Hydro One without a full cost of service application. §After 2005, allowed ROEs were determined based on a formula linked to long-term Government of Canada rates. ROE--Return on equity. N.A.--Not available.

Manageable debt profile and financial flexibility

Although the company has about C$600 million maturing in 2012 and 2013, we believe Hydro One's debt profile is manageable, in view of its good access to debt capital market and regulated cash flow. The company's financing strategy limits debt maturities in any single year from exceeding C$600 million (about 8% of current debt load). Furthermore, about 50% of Hydro One's C$8 billion reported debt outstanding as of Dec. 31, 2011, had a maturity date of more than 10 years and the company targets a weighted-average term of 12-18 years for its debt portfolio.

As a fully government-owned company, Hydro One has effectively no access to the equity market, although we do not consider this a rating concern. The company could derive additional financial flexibility from its ability to reduce dividends as demonstrated in 2009 and 2010, when it reduced dividend payments C$137 million and C$160 million, respectively (see table 4). Furthermore, about 50% of its total capital expenditures in 2013 represent the sustainment requirements of its aging infrastructure. Under extraordinary conditions, the government shareholder is also a potential source of financing and backup liquidity. Although access to new equity in the form of cash injections from the shareholder is unlikely, partial or full reduction of dividend payments is a credible option for Hydro One.

Table 4

Hydro One Inc.--Dividend Payments History

(Mil. C$)	2011	2010	2009	2008	2007
Common dividend	150	10	170	307	332
Preferred dividend	18	18	18	18	18
Common dividend payout ratio (%)	24.1	1.7	37.6	64	87.1

Pension shortfall is likely to rise

We believe Hydro One's pension fund shortfall is manageable. The OEB recognizes pension contribution costs as a prudent component of the cost-of-service and so they are largely recovered through rates. The company estimates that it would need to make a pension contribution of C$154 million in 2013 (subject to an actuarial valuation effective Dec. 31, 2012). While we expect pension obligations to increase as the utility's workforce ages, the size of pension deficits would also depend on future discount rates and asset value.

Hydro One uses derivatives to manage interest-rate exposure

Management uses derivative financial instruments and interest rate swap contracts primarily to manage exposure to interest rate fluctuations. Hydro One manages related credit risk by dealing primarily with highly-rated counterparties. Employing master agreements that allow for net settlements reduces exposure to large collateral calls. Using derivatives, the company generally maintains less than 20% of debt (including debt maturing within the year) at floating rates. Hydro One carries no debt-related foreign exchange exposure, with all debt in Canadian dollars.

Table 5

Hydro One Inc.--Peer Comparison

Industry Sector: Electric Utility

	Hydro One Inc.*§	Statnett SF§	AltaLink L.P.§	Toronto Hydro Corp.*
Rating as of June 27, 2012	A+/Negative/A-1	A+/Stable/A-1	A-/Stable/--	A/Stable/--
	--Average of past three fiscal years--			
Currency (mil.)	C$	NOK	C$	C$
Revenues	5,113.0	5,202.0	314.0	2,627.5
EBITDA	1,703.7	2,220.7	210.3	323.6
Net income from continuing operations	567.3	906.0	69.8	68.3
Funds from operations (FFO)	1,042.6	1,717.0	148.1	241.4
Capital expenditures	1,475.9	1,946.7	436.6	345.3
Free operating cash flow	(354.9)	(346.7)	(297.6)	(83.6)
Dividends paid	128.0	315.3	27.3	27.7
Discretionary cash flow	(482.9)	(662.0)	(324.9)	(111.3)
Cash and short-term investments	133.3	0.0	12.2	231.9
Debt	8,844.1	11,667.6	1,130.5	1,546.3
Preferred stock	323.0	0.0	0.0	0.0
Equity	5,223.8	6,823.6	833.1	1,020.7

Table 5

Hydro One Inc.--Peer Comparison (cont.)				
Debt and equity	14,067.9	18,491.2	1,963.6	2,567.0
Adjusted ratios				
FFO interest coverage (x)	3.0	5.4	3.4	3.5
FFO/debt (%)	11.8	14.7	13.1	15.6
Free operating cash flow/debt (%)	(4.0)	(3.0)	(26.3)	(5.4)
Discretionary cash flow/debt (%)	(5.5)	(5.7)	(28.7)	(7.2)
Net cash flow/capex (%)	62.0	72.0	27.7	61.9
Debt/EBITDA (x)	5.2	5.3	5.4	4.8
Total debt/debt plus equity (%)	62.9	63.1	57.6	60.2
Return on common equity (%)	9.1	12.7	8.4	6.4
Common dividend payout ratio (unadjusted; %)	20.0	16.4	39.1	40.6

*Distribution company. §Tranmission company.

Table 6

Hydro One Inc.--Financial Summary

Industry Sector: Electric Utility

	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2011**	**2010**	**2009**	**2008**	**2007**
Rating history	A+/Stable/A-1	A+/Stable/A-1	A+/Stable/A-1	A+/Stable/A-1	A/Positive/A-1
Revenues	5,471.0	5,124.0	4,744.0	4,597.0	4,655.0
EBITDA	1,893.3	1,720.3	1,497.5	1,486.7	1,505.8
Net income from continuing operations	641.0	591.0	470.0	498.0	399.0
Funds from operations (FFO)	1,124.6	1,087.0	916.2	1,006.7	884.6
Capital expenditures	1,398.9	1,516.0	1,512.7	1,284.5	1,071.9
Free operating cash flow	(78.3)	(352.0)	(634.6)	(149.7)	(52.3)
Dividends paid	168.0	28.0	188.0	259.0	325.0
Discretionary cash flow	(246.3)	(380.0)	(822.6)	(408.7)	(377.3)
Cash and short-term investments	228.0	172.0	0.0	16.0	0.0
Debt	9,591.0	8,917.8	8,023.6	6,936.9	6,367.5
Preferred stock	323.0	323.0	323.0	323.0	323.0
Equity	5,472.5	5,351.7	4,847.2	4,766.2	4,530.8
Debt and equity	15,063.4	14,269.5	12,870.7	11,703.1	10,898.3
Adjusted ratios					
EBITDA interest coverage (x)	3.9	3.5	3.3	4.4	4.6
FFO interest coverage (x)	3.2	3.0	2.8	4.0	3.7
FFO/debt (%)	11.7	12.2	11.4	14.5	13.9
Discretionary cash flow/debt (%)	(2.6)	(4.3)	(10.3)	(5.9)	(5.9)
Debt/debt and equity (%)	63.7	62.5	62.3	59.3	58.4
Return on common equity (%)	9.6	9.7	8.0	9.5	7.9
Common dividend payout ratio (unadjusted; %)	24.1	1.7	37.6	64.0	87.1

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Ratings Detail (As Of June 27, 2012)		
Hydro One Inc.		
Corporate Credit Rating		A+/Negative/A-1
Commercial Paper		
Local Currency		A-1
Canadian CP Rating Scale		A-1(MID)
Senior Unsecured		A+
Corporate Credit Ratings History		
25-Apr-2012	*Foreign Currency*	A+/Negative/A-1
03-Jun-2008		A+/Stable/A-1
26-Mar-2007		A/Positive/A-1
25-Apr-2012	*Local Currency*	A+/Negative/A-1
03-Jun-2008		A+/Stable/A-1
26-Mar-2007		A/Positive/A-1
Business Risk Profile		Excellent
Financial Risk Profile		Significant
Related Entities		
Ontario Power Generation Inc.		
Issuer Credit Rating		A-/Stable/--
Ontario (Province of)		
Issuer Credit Rating		AA-/Negative/A-1+
Commercial Paper		
Foreign Currency		A-1+
Senior Unsecured		AA-
UMH Energy Partnership		
Senior Secured		A/Stable

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

PROSPECTUS FOR
MOST RECENT FINANCING

Included in this Exhibit is a copy of the $3.0 billion Preliminary Medium Term Note Short Form Base Shelf Prospectus dated August 23, 2011.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus has been filed under legislation in each of the provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities. All shelf information omitted from this shelf prospectus will be contained in one or more shelf prospectus supplements that will be delivered to purchasers together with the base shelf prospectus.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities to be issued hereunder have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and may not be offered, sold or delivered within the United States of America and its territories and possessions except in certain transactions exempt from the registration requirements of such Act. See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada*. Each shelf prospectus supplement will be incorporated by reference into this shelf prospectus for the purposes of securities legislation as of the date of the shelf prospectus supplement and only for the purposes of the distribution of the securities to which the shelf prospectus supplement pertains. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Hydro One Inc., 483 Bay Street, North Tower, 15th Floor, Toronto, Ontario, M5G 2P5, (416) 345-6044 and are also available electronically at www.sedar.com.*

SHORT FORM BASE SHELF PROSPECTUS

<u>*New Issue*</u> August 23, 2011

hydroOne

HYDRO ONE INC.
$3,000,000,000
Medium Term Notes
(unsecured)

Hydro One Inc. may offer and issue from time to time medium term notes (the "Notes") in an aggregate principal amount of up to $3.0 billion in Canadian currency (or the equivalent thereof in other currencies or currency units at the time of issue) during the twenty-five months from the date of issuance of the receipt for this short form prospectus.

The Notes will have a term to maturity of not less than one year and will be issuable in Canadian currency (or in other currencies or currency units) in fully registered definitive or global form, in which case the Notes will be exchangeable only under certain conditions for definitive Notes.

Notes issued hereunder will be direct unsecured obligations of our company, will be issued under a trust indenture in any number of series or separate issues thereof, and will at their respective dates of issue rank *pari passu* with all other unsecured and unsubordinated Indebtedness (as defined below) of our company then outstanding, except as to any sinking fund which pertains exclusively to any particular Indebtedness of our company.

The specific variable terms of an offering of Notes (including the aggregate principal amount of the Notes being offered, the currency or currencies, the issue and delivery date, the form, the maturity date, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof), the issue price, the interest payment date(s), any redemption or repayment provisions, any provisions entitling our company to extend the maturity date of the Notes, whether the Notes are exchangeable or convertible into other securities issued by our company or, subject to appropriate regulatory approval, by another corporation, partnership, unincorporated syndicate or organization, trust or other entity, the name(s) of the dealer(s) offering the Notes, the commission payable to such dealer(s), the method of distribution and the net proceeds to our company) will be set forth in a prospectus supplement or pricing supplement which will accompany this short form prospectus. Unless otherwise indicated in a prospectus supplement or pricing supplement, the Notes will not be listed on any securities exchange.

This short form prospectus does not qualify the issuance of Notes: (i) entitling the holder to exchange or convert the Notes into securities issued by another entity (other than our company); or (ii) in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, however, this short form prospectus does qualify for issuance Notes in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or a bankers' acceptance rate, or to recognized market benchmark interest rates, such as CDOR, LIBOR or EURIBOR.

Unless otherwise indicated in a prospectus supplement or pricing supplement, there is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".

RATES ON APPLICATION

The Notes may be offered severally by one or more of BMO Nesbitt Burns Inc., Casgrain & Company Limited, CIBC World Markets Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc., Laurentian Bank Securities Inc., Merrill Lynch Canada Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. pursuant to the dealer agreement referred to under the heading "Plan of Distribution" or such other dealers as may be selected from time to time by our company (the "Dealers"), in each case acting as agent of our company or as principal. Where the Notes are offered by the Dealer(s) as agent, the commissions payable in connection with sales of such Notes shall be agreed from time to time between our company and any such Dealers. Where the Notes are purchased by the Dealer(s) as principal, the Notes shall be purchased at such prices and with such commissions as may be agreed from time to time between our company and any such Dealer(s) for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. In each case, the commissions payable, if any, will be set forth in a prospectus supplement or pricing supplement that will accompany and be incorporated by reference in this short form prospectus. Each Dealer's compensation will increase or decrease by the amount by which the aggregate price paid for Notes by purchasers exceeds or is less than the price paid by the Dealer, acting as principal, to our company. We may also offer the Notes directly to potential purchasers pursuant to applicable statutory exemptions at prices and upon terms negotiated between the purchaser and our company.

BMO Nesbitt Burns Inc., CIBC World Markets Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc., Laurentian Bank Securities Inc., Merrill Lynch Canada Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. are subsidiaries or affiliates of lenders (the "Lenders") that have made a revolving credit facility available to our company (the "Credit Facility"). As of August 23, 2011, there is no outstanding indebtedness under the Credit Facility. However, if and when there is outstanding indebtedness to any of the Lenders under the Credit Facility or under any future credit facility with one or more of the Lenders, our company may be considered a connected issuer of those Dealers who are affiliates of such Lenders for purposes of securities laws in certain Canadian provinces. See "Plan of Distribution".

The offering of Notes is subject to the approval of certain legal matters on behalf of our company by Osler, Hoskin & Harcourt LLP and on behalf of the Dealers by Blake, Cassels & Graydon LLP.

Our company's head and registered office is located at 483 Bay Street, North Tower, 15th Floor, Toronto, Ontario, M5G 2P5.

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Unless the context otherwise requires, all references herein to currency are references to Canadian dollars.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have been filed with the securities commission or similar authority in each of the provinces of Canada, are specifically incorporated by reference in this short form prospectus:

(a) the annual information form of our company dated March 31, 2011;

(b) the comparative audited consolidated financial statements of our company, and the notes thereto, as at and for the fiscal years ended December 31, 2010 and 2009, together with the report of the auditors thereon dated February 10, 2011;

(c) management's discussion and analysis of financial results ("MD&A") for the year ended December 31, 2010; and

(d) the comparative unaudited consolidated financial statements of our company, and the notes thereto, as at June 30, 2011 and for the three and six month periods ended June 30, 2011 and June 30, 2010 together with MD&A for those periods.

Updated earnings coverage ratios, as required, will be filed quarterly with the appropriate securities regulatory authorities either as prospectus supplements or as part of our company's unaudited interim and audited annual consolidated financial statements and will be deemed to be incorporated by reference into this short form prospectus for the purposes of the offering of Notes hereunder.

Any documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including documents of the types referred to in paragraphs (a) through (d) above, and any material change reports (except confidential material change reports) and business acquisition reports filed by our company with the securities regulatory authorities in Canada since the end of the financial year in respect of which our then current annual information form is filed, shall be deemed to be incorporated by reference into this short form prospectus. Upon a new annual information form and new annual financial statements and related MD&A being filed by our company with, and where required, accepted by, the applicable securities regulatory authorities during the currency of this short form prospectus, the previous annual information form, previous annual financial statements and related MD&A, and all previous interim financial statements and related MD&A filed prior to the commencement of our company's financial year in which the new annual information form, new annual financial statements and related MD&A are filed shall be deemed no longer to be incorporated into this short form prospectus for purposes of future offers and sales of Notes hereunder.

A pricing supplement or prospectus supplement containing the specific variable terms for an issue of Notes will be delivered to purchasers of such Notes together with this short form prospectus and will be deemed to be incorporated by reference into this short form prospectus as of the date of the pricing supplement or prospectus supplement, solely for the purposes of the Notes issued under that pricing supplement or prospectus supplement.

Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded and not incorporated by reference, for purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such prior statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded.

FORWARD-LOOKING INFORMATION

This short form prospectus, including the documents incorporated by reference herein, contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about the business of our company and the industry in which we operate and includes beliefs and assumptions made by the management of our company. Such statements include, but are not limited to, statements about the general development of our business, our strategy, future capital expenditures, and expectations regarding developments in the statutory and operating framework for electricity distribution and transmission in Ontario. Additional forward-looking statements are identified in the various documents incorporated by reference in this short form prospectus, including the section entitled “Forward-Looking Information” in our annual information form and the section entitled “Forward Looking Statements and Information” in our MD&A. Words such as “expect”, “anticipate”, “intend”, “attempt”, “may”, “plan”, “will”, “believe”, “seek”, “estimate”, and variations of such words and similar expressions are intended to identify such forward-looking statements. The forward-looking statements contained in this short form prospectus, including the documents incorporated by reference herein, are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. In particular, these forward looking statements are based on a variety of factors and assumptions including, but not limited to: no unforeseen changes in the legislative and operating framework for Ontario’s electricity market; favourable decisions from the Ontario Energy Board and other regulatory bodies concerning outstanding rate and other applications; no delays in obtaining required approvals; no unforeseen changes in rate orders or rate structures for our distribution and transmission businesses; no unfavourable changes in environmental regulation; a stable regulatory environment; the current application of Canadian GAAP for rate-regulated activities will generally be consistent with US GAAP; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to our company including information obtained by our company from third-party sources. Actual outcomes and results may differ materially from what is expressed, implied or forecasted in these forward-looking statements. While we do not know what impact any of these differences may have, our business, results of operations, financial condition and credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements are discussed in more detail under “Risk Factors” in this short form prospectus and in the sections entitled “Forward-Looking Information” and “Risk Factors” in our annual information form and the sections entitled “Risk Management and Risk Factors” and “Forward Looking Statements and Information” in our MD&A. You should carefully consider these and other factors and not place undue reliance on forward-looking statements.

We do not intend, and we disclaim any obligation, to update any forward-looking statements, except as required by law.

CREDIT RATINGS

The Notes have been rated A+ by Standard & Poor's Ratings Services ("S&P"), A (high) by DBRS Limited ("DBRS") and Aa3 by Moody's Investors Services, Inc. ("Moody's"). The following information relating to credit ratings is based on information made available to the public by the rating agencies.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The rating agencies rate long-term debt instruments by rating categories ranging from a high of AAA to a low of D (C in the case of Moody's). Long-term debt instruments which are rated in the A category by S&P are considered somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligations is still strong. S&P utilizes a plus or a minus modifier to indicate the relative standing within the rating category. Long-term debt instruments which are rated in the A category by DBRS are considered to be of a satisfactory credit quality, with substantial protection of interest and principal. Entities in the A category, however, are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated securities. The "high" modifier indicates relative standing within this rating category by DBRS. Long-term debt instruments which are rated in the Aa category by Moody's are judged to be of high quality and are subject to very low credit risk. Moody's applies numerical modifiers to each generic rating classification from Aa to Caa. The modifier 3 indicates a ranking in the lower end of that generic rating category.

The ratings mentioned above are not a recommendation to purchase, sell or hold our company's debt securities including the Notes and do not comment as to market price or suitability for a particular investor. There can be no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be revised or withdrawn entirely by any or all of S&P, DBRS and Moody's at any time in the future if in their judgment circumstances so warrant.

ELIGIBILITY FOR INVESTMENT

In the opinion of Osler, Hoskin & Harcourt LLP, counsel to our company, and Blake, Cassels & Graydon LLP, counsel to the Dealers, unless otherwise specified in the applicable prospectus supplement or pricing supplement, the Notes, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") and the regulations thereunder for a trust governed by a registered retirement savings plan, registered retirement income fund, registered education savings plan, registered disability savings plan, deferred profit sharing plan (other than a trust governed by a deferred profit sharing plan for which any employer is our company or an employer who does not deal with our company at arm's length, within the meaning of the Tax Act) or a tax-free savings account ("TFSA"). Notes will not be a "prohibited investment" for a TFSA provided the holder of the TFSA deals at arm's length with our company for purposes of the Tax Act and does not have a significant interest (within the meaning of the Tax Act) in our company or in a corporation, partnership or trust with which our company does not deal at arm's length for purposes of the Tax Act. Proposed amendments to the Tax Act would extend the rules regarding "prohibited investments" to an annuitant of a registered retirement savings plan or a registered retirement income fund.

OUR COMPANY

We are the leading electricity transmission and distribution company in Ontario. We own and operate substantially all of Ontario's electricity transmission system, accounting for approximately 96% of Ontario's transmission capacity as measured by revenues for the year ended December 31, 2010. Our transmission system is one of the largest in North America based on assets. Our distribution system is the largest in Ontario based on assets as at December 31, 2010 and spans approximately 75% of Ontario, serving approximately 1.3 million customers. We have three reportable segments: (1) our transmission business; (2) our distribution business; and (3) our other business.

Our transmission business, which represented approximately $9.805 billion of our total assets of $17.322 billion as at December 31, 2010, transmits electricity through an approximately 29,000 circuit-kilometre high-voltage network. We transmit electricity from generators to our own distribution network, 50 local distribution companies and to 92 transmission connected companies. We also own and operate 26 facilities that interconnect our transmission system with systems in neighbouring provinces and states.

Our distribution business, which represented approximately $6.908 billion of our total assets of $17.322 billion as at December 31, 2010, distributes electricity through our approximately 123,500 circuit-kilometre low-voltage distribution system to municipalities and to rural areas. Customers of our distribution business include 25 local distribution companies that are not directly connected to our transmission system, 30 customers with loads exceeding 5MW and approximately 1.3 million rural and urban customers. Hydro One Brampton Networks Inc. is our urban distribution company, serving approximately 134,000 customers in the Greater Toronto Area with approximately 2,800 circuit-kilometres of lines. We also operate through our subsidiary, Hydro One Remote Communities Inc., 19 small, regulated generation and distribution systems in 21 remote communities across Northern Ontario that are not connected to Ontario's electricity grid.

Our other business segment is primarily represented by the operations of Hydro One Telecom Inc. This subsidiary markets dark and lit fibre-optic capacity to telecommunications carriers and commercial customers with broadband network requirements. The assets of this segment constituted approximately $609 million of our total assets of $17.322 billion as at December 31, 2010.

The Ontario Energy Board regulates our transmission and distribution businesses and issues rate orders to establish the revenue requirements required to cover the approved cost of these businesses plus a specified rate of return.

The address of the head and registered office and principal place of business of our company is 483 Bay Street, North Tower, 15th Floor, Toronto, Ontario, M5G 2P5.

RECENT DEVELOPMENTS

On August 11, 2011, we announced that we would be adopting accounting principles which are recognized as being generally accepted in the United States ("US GAAP") in the preparation of our financial statements for fiscal years beginning on or after January 1, 2012, in lieu of adopting International Financial Reporting Standards ("IFRS"). This change in accounting principles was precipitated, in part, by the fact that IFRS does not currently recognize rate regulated accounting, while US GAAP does.

In connection with our adoption of US GAAP, on July 21, 2011, we obtained an exemptive relief order from the securities regulatory authorities in each of the provinces of Canada from the requirement under section 3.2 of National Instrument 52-107 - *Acceptable Accounting Principles and Auditing Standards* ("NI 52-107") that our financial statements be prepared in accordance with accounting principles which are recognized as being generally accepted in Canada (being IFRS for fiscal years beginning on or after January 1, 2012) ("Canadian GAAP") to permit us to prepare our financial statements in accordance with US GAAP. This exemptive relief order is for financial years that begin on or after January 1, 2012 but end before January 1, 2015.

On July 29, 2011, we entered into amendments (the "Indenture Amendments") to the Trust Indenture (as defined below) to permit us to use either US GAAP or Canadian GAAP in respect of calculations to be made under the Trust Indenture, depending on which accounting principles we are using at the relevant time to prepare our financial statements.

EARNINGS COVERAGE RATIOS

For the twelve months ended December 31, 2010 and the twelve months ended June 30, 2011, our company's consolidated income before provision for payment in lieu of corporate income taxes and interest expenses was $989 million and $1,099 million, respectively. Interest expense for these periods was $342 million and $339 million, respectively. Preferred share dividends declared for these periods were $18 million and $18 million, respectively.

The following table sets forth the earnings coverage ratio for our company for the twelve month period ended December 31, 2010, based on audited information, and for the twelve month period ended June 30, 2011, based on unaudited information, in each case without giving effect to any Notes to be issued under this short form prospectus:

	December 31, 2010	June 30, 2011
Earnings coverage on long-term debt obligations(1)(2)	2.40	2.68

(1) The earnings coverage ratio has been calculated as the sum of net income, interest expense (which is net of capitalized interest) and provision for payments in lieu of corporate income taxes divided by the sum of interest plus preferred dividends declared.

(2) The earnings coverage ratio has been adjusted to give effect to the issuance on January 19, 2011 of $250 million of 2.95% medium term notes due September 11, 2015 and the issuance on January 24, 2011 of $50 million floating rate medium term notes due July 24, 2015, as if such notes had been issued at the beginning of each respective twelve month period noted above. For the purpose of calculating the earnings coverage ratio for the periods noted above, it has also been assumed that the proceeds of such notes were used to repay the medium term notes maturing in March 2011.

DESCRIPTION OF THE NOTES

The following is a summary of the material attributes and characteristics of the Notes, and does not purport to be complete and is qualified in its entirety by reference to the Notes and the Trust Indenture (as defined below).

The terms and conditions set forth in this section “Description of the Notes” will apply to each Note unless otherwise specified in the applicable prospectus supplement or pricing supplement. We reserve the right to set forth in a prospectus supplement or pricing supplement specific variable terms of or amendments to the Notes which are not within the options and parameters set forth in this short form prospectus. References in this section “Description of the Notes” refer to all medium term notes of our company which have previously been or are to be issued under the Trust Indenture.

This short form prospectus qualifies the distribution of $3.0 billion aggregate principal amount of Notes in Canadian currency (or the equivalent thereof in other currencies or currency units at the time of issue) which have been authorized for issue under the Trust Indenture. This amount is subject to amendment from time to time as determined by our company. Our company has previously issued $2.05 billion aggregate principal amount of medium term notes under our short form prospectus dated July 27, 2009, as amended. Upon the issuance of a final receipt for this short form prospectus, we will not qualify for distribution any additional Notes under the July 27, 2009 prospectus, as amended.

Notes issued hereunder will have a term to maturity of not less than one year and will be issuable in Canadian currency (or in other currencies or currency units at the time of issue) in fully registered definitive or global form, in which case the Notes will be exchangeable only under certain conditions for definitive Notes (as described under the subheading “Global Notes” below). Each interest-bearing Note will bear interest at either a fixed rate (a “Fixed Rate Note”) or a floating rate (a “Floating Rate Note”). Notes will be issued from time to time at such rates of interest and at par, at a premium or at a discount, may be subject to redemption or repayment prior to maturity, and may include terms entitling the holder to exchange or convert the Notes into other securities issued by our company, or to extend the maturity dates of the Notes, which terms shall be determined by our company based on a number of factors, including advice from the Dealers. The Notes will be unsecured and will, at their respective dates of issue, rank *pari passu* with all other unsecured and unsubordinated Indebtedness and obligations of our company then outstanding, except as to any sinking fund which pertains exclusively to any particular Indebtedness of our company.

Neither the aggregate principal amount of Notes which will be issued and sold nor the issue price to the public of the Notes has been established as the Notes will be issued at such times, in such amounts and at such prices as our company determines from time to time. Notes issued hereunder will be offered and sold during the twenty-five months from the date of issuance of the receipt for this short form prospectus at prices negotiated with the purchasers, and the prices at which the Notes will be offered and sold may vary as between purchasers and during the distribution period. The Notes will be issued from time to time at the discretion of our company in an aggregate principal amount not to exceed $3.0 billion in Canadian currency, or the equivalent thereof calculated at the applicable rates of exchange prevailing at the time of issue of Notes issued in currencies other than Canadian currency.

The specific variable terms of any offering of Notes, including, in the case of Floating Rate Notes, the information necessary for the calculation of interest thereon, will be set forth in a prospectus supplement or pricing supplement to this short form prospectus. Where Notes are offered and sold in currencies other than Canadian dollars, the Canadian dollar equivalent of the offering price and the rate of exchange at the last feasible date will be included in the applicable prospectus supplement or pricing supplement.

Trust Indenture

The Notes will be issued under a trust indenture dated as of June 4, 2001, as supplemented or modified from time to time, including as modified as a result of the Indenture Amendments noted above (collectively, the "Trust Indenture") between our company and Computershare Trust Company of Canada, as trustee (the "Trustee", which term shall include, unless the context requires, its successors and assigns). The following is a brief summary of the material attributes and characteristics of the Trust Indenture. This summary does not purport to be complete and reference should be made to the Trust Indenture for more detailed information.

The Trust Indenture permits the issuance from time to time of additional unsecured medium term notes without limitation as to aggregate principal amount, subject to compliance with the covenants contained therein.

The Notes will be direct obligations of our company and will rank *pari passu* with all other medium term notes from time to time issued and outstanding under the Trust Indenture and with other present and future unsubordinated and unsecured Indebtedness of our company, except as to any sinking fund which pertains exclusively to any particular Indebtedness of our company. The Notes will not be secured by any mortgage, pledge or charge, except in the circumstances referred to under the heading "Negative Pledge".

Negative Pledge

The Trust Indenture contains provisions to the effect that our company will not, nor will it permit any Designated Subsidiary (as defined below) to, create, assume or suffer to exist any Security Interest (as defined below) on any of our or the Designated Subsidiary's assets to secure any Obligation (as defined below) unless at the same time it shall secure all the Notes then outstanding on an equal basis. This covenant is, however, subject to the following exceptions:

- any Security Interest that secures the Obligations of a Designated Subsidiary which exists prior to the date on which it becomes a Designated Subsidiary and which (a) was not incurred in contemplation of that person becoming a Designated Subsidiary and (b) was not applicable to our company or any other Designated Subsidiary or the properties or assets of our company or any other Designated Subsidiary;

- any Security Interest granted by our company or a Designated Subsidiary to secure the Notes;

- any Purchase Money Mortgage (as defined below) or Capital Lease Obligation (as defined below) of our company or any Designated Subsidiary;

- any Security Interest on a property or asset acquired by our company or a Designated Subsidiary that secures the Obligations of a person, whether or not that Obligation is assumed by the acquiring person, which Security Interest exists at the time that property or asset is acquired and which (a) was not incurred in contemplation of that property or asset being acquired and (b) was not applicable to our company or any other Designated Subsidiary or the properties or assets of our company or any other Designated Subsidiary;

- any Security Interest given in the ordinary course of business by our company or a Designated Subsidiary to any bank or banks or other lenders to secure any Indebtedness payable on demand or maturing within 18 months of the date that Indebtedness is incurred or of the date of any renewal or extension of that Indebtedness;

- any Security Interest granted by any Designated Subsidiary in favour of our company or any Wholly-Owned Designated Subsidiary (as defined below);

- any Security Interest on or against cash or marketable debt securities pledged to secure any non-speculative Financial Instrument Obligation (as defined below) which hedges Indebtedness of our company or of a Designated Subsidiary;

- any Security Interest for taxes, assessments, government charges or claims that are being contested in good faith and in respect of which appropriate provision is made in our consolidated financial statements in accordance with GAAP;

- Security Interests securing appeal bonds or other similar Security Interests arising in connection with contracts, bids, tenders or court proceedings, including, without limitation, surety bonds, security for costs of litigation where required by law and letters of credit, or any other instruments serving a similar purpose;

- a Security Interest in cash or marketable debt securities in a sinking fund account established by our company in support of a series of Notes;

- a lien or deposit under workers' compensation, social security or similar legislation or good faith deposits in connection with bids, tenders, leases, contracts or expropriation proceedings, or deposits to secure public or statutory obligations or deposits of cash or obligations to secure surety and appeal bonds;

- any lien or privilege imposed by law, such as builders', carriers', warehousemen's, landlords', mechanics' and material men's liens and privileges, and any lien or privilege arising out of judgments or awards with respect to which our company or a Designated Subsidiary at the time is prosecuting an appeal or proceedings for review and with respect to which it has secured a stay of execution pending that appeal or proceedings for review; or any liens for taxes, assessments or governmental charges or levies not at the time due and delinquent or the validity of which is being contested at the time by our company or a Designated Subsidiary in good faith; or undetermined or inchoate lien privileges and charges incidental to current operations which have not at such time been filed pursuant to law against our company or a Designated Subsidiary or which relate to obligations not due or delinquent; or the deposit of cash or securities in connection with any lien or privilege referred to in this clause;

- any minor encumbrance, such as easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other persons, rights-of-way for sewers, electric lines, telegraph and telephone lines, oil and natural gas pipelines and other similar purposes, or zoning or other restrictions as to our company's use of real property, which do not in the aggregate materially detract from the value of that property or materially impair its use in the operation of the business of our company or a Designated Subsidiary;

- any right reserved to or vested in, whether by statutory provision or otherwise, any municipality or governmental or other public authority to terminate, purchase assets used in connection with or require annual or other periodic payments as a condition to the continuance of, any lease, license, franchise, grant or permit acquired by our company or a Designated Subsidiary;

- any lien or right of distress reserved in or exercisable under any lease for rent and for compliance with the terms of that lease;

- any Security Interest granted by our company or a Designated Subsidiary to a public utility or any municipality or governmental or other public authority when required by that utility, municipality or other authority in connection with the operations of our company or a Designated Subsidiary;

- any reservation, limitation, proviso or condition, if any, expressed in any original grants to our company or a Designated Subsidiary from the Crown; and

- any extension, renewal, alteration, substitution or replacement, in whole or in part, of any Security Interest referred to in the foregoing clauses, provided that the Security Interest is limited to all or part of the same property that secured the Security Interest, the principal amount of the secured Obligations is not increased by that action, the term of the secured Indebtedness is not shortened and the terms and conditions are no more restrictive in any material respect than the Security Interest so extended.

In addition to the Security Interests permitted above, our company or any Designated Subsidiary may create, assume or suffer to exist any Security Interest on any of its assets if, after giving effect to that Security Interest, the aggregate amount of Indebtedness secured by the Security Interests permitted only by this paragraph does not at that time exceed 5% of the Consolidated Net Worth (as defined below) of our company.

Limitation on Funded Obligations

So long as any of the Notes issued under the Trust Indenture remain outstanding, neither our company nor any of its Designated Subsidiaries will, directly or indirectly, guarantee, incur, issue or become liable for or in respect of any Funded Obligations (as defined below) unless after giving pro forma effect to that guarantee, incurrence, issuance or liability, including the application or use of the resulting net proceeds, the aggregate principal amount of Consolidated Funded Obligations (as defined below) does not exceed 75% of the Total Consolidated Capitalization (as defined below). This covenant, however, will not prevent the incurrence of Capital Lease Obligations, Purchase Money Obligations and non-speculative Financial Instrument Obligations.

Ceasing to be a Designated Subsidiary

The Board of Directors of our company may elect that any Designated Subsidiary cease to be a Designated Subsidiary, except that an election may not be made in respect of any Designated Subsidiary:

- if the Designated Subsidiary owns any Funded Obligations of our company or any shares, voting interests or Funded Obligations of any other Designated Subsidiary;
- if the Designated Subsidiary owns or has any ownership interest in any Principal Property (as defined below); or
- if, after giving effect to the election, our company would not be entitled to issue Funded Obligations in the principal amount of at least $1.00.

Mergers, Consolidations and Sales of Assets

Our company will not enter into any transaction in which all or substantially all of our property and assets would become the property of any other person, whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless:

- our company shall be the surviving person, or the person, if other than our company, formed by the amalgamation, consolidation or into which our company is merged or that acquires by disposition all or substantially all of the property or assets of our company shall be a company organized and validly existing under the federal laws of Canada or any of its provinces or territories and shall expressly assume, by a supplemental indenture executed and delivered to the trustee in form satisfactory to the Trustee, all of our company's obligations under the Trust Indenture;
- immediately before and after giving effect to the transaction, no Event of Default or event that with the passing of time or the giving of notice, or both, would constitute an Event of Default shall have occurred and be continuing; and
- neither our company nor any successor, either at the time of or immediately after the consummation of any such transaction, will be insolvent or generally fail to meet, or admit in writing its inability or unwillingness to meet, its obligations as they generally become due.

Events of Default

The following are Events of Default under the Trust Indenture with respect to Notes of any series:

(1) failure to pay any principal or premium, if any, on any Notes when due, at maturity, upon redemption or otherwise and the continuance of such default for a period of five days;

(2) failure to pay any interest on any Notes when due and the continuance of that default for a period of 45 days;

(3) the sale, transfer or other disposition of all or substantially all of our undertaking or assets other than in accordance with the covenant described above under “Mergers, Consolidations and Sales of Assets”;

(4) default in the performance or breach of any other covenant or agreement of our company under the Trust Indenture, any supplemental indenture or the Notes and the continuance of that default for a period of 60 days after written notice to our company by the Trustee or by holders of at least 25% of all Notes issued under the Trust Indenture;

(5) default by our company or any Material Subsidiary (as defined below), whether as primary obligor, guarantor or surety, on any payment of principal, premium, if any, or interest on any Indebtedness, the outstanding principal amount of which Indebtedness exceeds $100 million in the aggregate, beyond any applicable grace period or failure to perform or observe any other agreement, term or condition contained in any agreement under which that Indebtedness is created, or if any default, failure or other event under that agreement shall occur and be continuing, and the effect of that default, failure or other event is to cause $100 million or more of that Indebtedness to become due or to be required to be repurchased prior to any stated maturity;

(6) the rendering of a judgment or judgments, not subject to appeal, against our company or any Material Subsidiary in an aggregate amount in excess of $100 million by a court or courts of competent jurisdiction, which judgment or judgments remain undischarged and unstayed for a period of 60 days; and

(7) specified events of bankruptcy, insolvency or reorganization affecting our company or any Material Subsidiary.

If an Event of Default applicable only to the issued and outstanding Notes of a series occurs and is continuing, either the Trustee or the holders of not less than 25% in principal amount of Notes of that series then outstanding may declare the principal of, and interest and premium, if any, on all Notes of that series to be due and payable immediately.

If, however, an Event of Default applicable to all Notes issued and outstanding under the Trust Indenture, or an Event of Default described in clause (5), (6), or (7) above occurs and is continuing, either the Trustee or the holders of not less than 25% in principal amount of all issued and outstanding Notes, treated as one class, may declare the principal amount of all the Notes then outstanding to be due and payable immediately.

Subject to the provisions of the Trust Indenture relating to the duties of the Trustee, in case an Event of Default applicable to any Notes shall occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Trust Indenture at the request or direction of any of the holders of those Notes, unless those holders shall have offered to the Trustee reasonable indemnity. Subject to such provisions for the indemnification of the Trustee, the holders of a majority in principal amount of Notes of all series affected by an Event of Default will have the right to direct the time, method and place of conducting any proceedings for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee in respect of the Notes of all series affected by that Event of Default.

Defeasance

The Trust Indenture requires the Trustee to release our company from its obligations under the Trust Indenture relating to a particular series of Notes if specified conditions are satisfied. Among other things, our company must deposit money or securities for the payment of all principal of and interest and any other amounts on that series of Notes as well as for the payment of the expenses of the Trustee. The deposited money or securities must be denominated in the currency in which principal of these Notes is payable and, in the case of deposited securities, must constitute direct obligations of Canada or specified provinces of Canada or an agency or instrumentality of Canada.

Amendments and Waivers

The Trust Indenture provides that our company and the Trustee may enter into supplemental indentures ("Supplemental Indentures") without the consent of the holders of the Notes of any or all series to:

- add limitations or restrictions to be observed upon the amount or issue of Notes, provided that such limitations or restrictions shall not be materially adverse to the interests of the holders of the Notes;
- add covenants for the protection of the holders of the Notes of any series;
- provide for any additional Events of Default;
- make such provisions not inconsistent with the Trust Indenture as may be necessary or desirable with respect to matters or questions arising thereunder, including the making of any modifications in the form of the Notes which do not affect the substance thereof and which it may be expedient to make, provided that such provisions and modifications will not adversely affect the holders of Notes;
- provide for the issue of Notes of any one or more series and establish the form and terms of any series of Notes;
- evidence the succession, or successive successions, of successors to our company and the covenants and obligations assumed by any such successor, in accordance with the provisions of the Trust Indenture; and
- giving effect to any extraordinary resolution or ordinary resolution of the holders of Notes in accordance with the Trust Indenture.

Other amendments and modifications of the Trust Indenture, Supplemental Indentures and Notes may be made by our company and the Trustee with the consent of the holders of not less than 66⅔% (and in certain circumstances, a majority) in principal amount of Notes of all series voting on such amendment or modification and, if the rights of holders of Notes of a particular series of Notes would be affected differently than rights of holders of Notes of other series, not less than 66⅔% (and, in certain circumstances, a majority) in principal amount of Notes of the series so affected by that modification or amendment voting on such amendment or modification, in each case, voting as one class. However, no modification or amendment may, without the consent of the holder of each outstanding Note of the affected series,

- reduce the principal amount at maturity of, extend the fixed maturity of, or alter the redemption provisions of, those Notes;
- change the currency in which those Notes or any premium or accrued interest is payable;
- reduce the percentage in principal amount at maturity outstanding of those Notes that must consent to an amendment, supplement or waiver or consent to take any action under the Trust Indenture, Supplemental Indenture or those Notes;

- impair the right to institute suit for the enforcement of any payment on or with respect to those Notes;
- waive a default in payment with respect to those Notes;
- reduce the rate or extend the time for payment of interest on those Notes;
- affect the ranking of those Notes in a manner adverse to the holders; or
- make any changes to the Trust Indenture, Supplemental Indentures or those Notes that would result in our company being required to make any withholding or deduction from payments made under or with respect to those Notes.

The holders of 66⅔% in principal amount of the Notes of all series with respect to which an Event of Default shall have occurred and be continuing, voting as one class, may waive any Event of Default, except in the case of a default in payment of principal with respect to the Notes or except, further, in respect of a covenant or provision which cannot be modified or amended without the consent of the holder of each outstanding Note affected.

<u>Definitions</u>

In addition to the definitions set out above, the Trust Indenture contains definitions substantially to the following effect:

"Capital Lease Obligation" means any monetary obligation of our company or a Designated Subsidiary under any leasing or similar arrangement which, in accordance with GAAP, would be classified as a capital lease and for the purposes of the Trust Indenture, the amount of Capital Lease Obligations will be the capitalized amount thereof, determined in accordance with GAAP;

"Consolidated Funded Obligations" means the aggregate amount of all Funded Obligations of our company and its Designated Subsidiaries determined on a consolidated basis in accordance with GAAP;

"Consolidated Net Worth" means, as at any date, the consolidated shareholders' equity of our company and its Designated Subsidiaries as at that date determined in accordance with GAAP;

"Contingent Liability" means any agreement, undertaking or arrangement by which any person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the Obligation of any other person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other person. The amount of any person's obligation under any Contingent Liability will, subject to any limitation contained in that Contingent Liability, be deemed to be the outstanding principal amount (or maximum principal amount, if larger) of the debt, obligation or other liability guaranteed thereby;

"Designated Subsidiary" means any subsidiary which is designated as such by the directors of our company, provided that any such subsidiary may only be so designated if, after giving effect thereto, our company would be entitled under the Supplemental Indenture to issue Funded Obligations in the principal amount of at least $1.00 and further provided that a subsidiary cannot be so designated if any of its shares are owned by a subsidiary which is not itself a Designated Subsidiary;

"Financial Instrument Obligations" means, with respect to any person at any time, the obligations of that person under any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, commodity future, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other similar transaction, including any option to enter into any of the foregoing, or any combination of the foregoing to the extent of the net amount due to or accruing due by the person under that obligation, determined by marking that obligation to market at that time in accordance with its terms;

"Funded Obligations" means all Indebtedness created, assumed or guaranteed, which matures by its terms on, or is renewable at the option of the obligor to, a date more than 18 months after the date of the original creation, assumption or guarantee thereof;

"GAAP" means as at any date of determination:

(1) accounting principles which are recognized as being generally accepted in Canada, if our company is then preparing its financial statements in accordance with such principles; or

(2) accounting principles which are recognized as being generally accepted in the United States, if our company is then preparing its financial statements in accordance with such principles;

"Indebtedness" means, without duplication, with respect to any person,

(1) all obligations of that person for borrowed money, including obligations with respect to bankers' acceptances and contingent reimbursement obligations, excluding Preferred Securities issued by that person;

(2) all obligations issued or assumed by that person in connection with its acquisition of property in respect of the deferred purchase price of that property;

(3) all Capital Lease Obligations and Purchase Money Obligations of that person; and

(4) all Contingent Liabilities of that person in respect of any of the foregoing;

"Material Subsidiary" means, as at any date, a Designated Subsidiary,

(1) the total assets of which represent more than 10% of the total assets of our company determined on a consolidated basis as shown in the most recently publicly released consolidated financial statements of our company; or

(2) the total revenues of which represent more than 10% of the total revenues of our company determined on a consolidated basis as shown in the most recently publicly released consolidated financial statements of our company;

"Obligations" means, without duplication, with respect to any person, all items which, in accordance with GAAP, would be included as liabilities on the liability side of the balance sheet of that person as of the date at which Obligations are to be determined, other than Preferred Securities issued by that person; and all Contingent Liabilities of that person in respect of any of the foregoing;

"Preferred Securities" means:

(1) securities which on the date of issue by a person (a) have a term to maturity of more than 30 years, (b) are unsecured and rank subordinate to the unsecured and unsubordinated Indebtedness of that person outstanding on that date, (c) entitle that person to satisfy the obligation to pay the principal or face amount by issuing common shares, (d) entitle that person to defer the payment of interest for more than four years without causing an event of default to occur, and (e) entitle that person to satisfy the obligation to make payments of interest by issuing common shares; and

(2) shares of any class in the capital of a corporation or securities representing ownership interests in any person other than a corporation which, in either case, are not common shares;

"Principal Property" means any of our company's and our subsidiaries' fixed assets used for the transmission, transformation and distribution of electricity in Ontario as of June 4, 2001 (the date of the Trust Indenture);

"Purchase Money Mortgage" means any security interest, mortgage, pledge, charge or other encumbrance created, issued or assumed by our company or a Designated Subsidiary to secure a Purchase Money Obligation; provided that the security interest, mortgage, pledge, charge or other encumbrance is limited to the property (including associated rights) acquired, constructed, installed or improved using the funds advanced to our company or a Designated Subsidiary in connection with that Purchase Money Obligation;

"Purchase Money Obligation" means Indebtedness of our company or a Designated Subsidiary incurred or assumed to finance the purchase price, in whole or in part, of any property (except any Indebtedness which constitutes a Funded Obligation and which was incurred or assumed to finance the purchase price, in whole or in part, of any shares, bonds or other securities) or incurred to finance the cost, in whole or in part, of construction or installation of or improvements to any real property or fixtures provided that such Indebtedness is incurred or assumed within 24 months after the purchase of such real property or fixtures or the completion of such construction, installation or improvements, as the case may be, and includes any extension, renewal or refunding of any such Indebtedness, so long as the principal amount thereof outstanding on the date of such extension, renewal or refunding is not increased;

"Security Interest" means any assignment, mortgage, charge (whether fixed or floating), hypothec, pledge, lien, or other encumbrance on or interest in property or assets that secures payment of Indebtedness or Obligation;

"Total Consolidated Capitalization" means, at any time and from time to time, without duplication, the sum of (1) the principal amount of all Consolidated Funded Obligations at the time outstanding, and (2) the total share capital of our company at the time outstanding, based upon the stated capital on the books of our company, and (3) the principal amount of all outstanding Preferred Securities referred to in clause (1) of the definition of "Preferred Securities" plus the total amount of (or less the amount of any net deficits in) the contributed or capital surplus of our company and the retained earnings of our company and all Designated Subsidiaries in accordance with GAAP after adding back the amount shown on the consolidated balance sheet of our company and its Designated Subsidiaries for minority interests applicable to Designated Subsidiaries and eliminating all intercorporate items, plus the amount of any premium on capital of our company not included in its surplus, and less the amount, if any, by which the capital account of our company or the consolidated capital surplus account of our company and all Designated Subsidiaries (determined in the manner described above) has at any time been increased as a result of any write-up in the value of the shares of a subsidiary which is not a Designated Subsidiary to reflect the equity of our company in its retained earnings or otherwise, or as a result of a restatement of the amount at which any other assets of our company or any Designated Subsidiary are recorded on its books. The amount of Total Consolidated Capitalization of our company and all Designated Subsidiaries at any time shall be ascertained in Canadian dollars; and

"Wholly-Owned Designated Subsidiary" means a Designated Subsidiary, all of the outstanding shares in the capital of which are owned, directly or indirectly, by or for our company and/or by or for one or more other Wholly-Owned Designated Subsidiaries.

Global Notes

Notes denominated in Canadian or United States dollars may be issued in the form of fully registered global notes ("Global Notes") held by, or on behalf of, CDS Clearing and Depository Services Inc. or another corporation performing similar services that is acceptable to the Trustee (the "Depository") as custodian of the Global Notes and, in such event, Notes will be registered in the name of the Depository or its nominee (a "Nominee"). Purchasers of Notes represented by Global Notes will not receive Notes in definitive form ("Definitive Notes"). Instead, ownership of such Notes will be constituted through beneficial interests in the Global Notes, and will be represented through book-entry accounts of institutions (including the Dealers), as direct and indirect participants of the Depository ("participants"), acting on behalf of the beneficial owners of such Notes. Each purchaser of a Note represented by a Global Note will receive a customer confirmation of purchase from the Dealer from or through whom the Note is purchased in accordance with the practices and procedures of such Dealer. The Depository will be responsible for establishing and maintaining book-entry accounts for its participants having interests in Global Notes.

Currently, CDS Clearing and Depository Services Inc. only allows depository eligibility for securities denominated in Canadian or United States dollars. Any Notes denominated in a currency other than Canadian or

United States dollars will be represented by Definitive Notes until such time as the Depository allows depository eligibility for issues of securities denominated in such currencies.

If Global Note(s) are issued and the Depository notifies our company that it is unwilling or unable to continue as depository in connection with the Global Notes, or if at any time the Depository ceases to be a clearing agency or otherwise ceases to be depository and our company and the Trustee are unable to locate a qualified replacement, or if our company elects to terminate the book-entry system, beneficial owners of Notes represented by Global Notes will receive Definitive Notes.

Fixed Rate Notes

Each Fixed Rate Note will bear interest from its original issue date at the rate per annum on the face thereof until the principal amount thereof is paid or made available for payment. Interest on a Fixed Rate Note will be calculated and payable monthly, quarterly, semi-annually or annually in arrears on the dates specified in such Fixed Rate Note, or other such dates as may be agreed to between the purchaser of the Note and our company (each, an "Interest Payment Date") and at maturity or upon earlier redemption or repayment. Interest Payment Dates will be set forth in the applicable prospectus supplement or pricing supplement for the Fixed Rate Note. Each payment of interest in respect of an Interest Payment Date will include interest accrued to but excluding such Interest Payment Date.

Floating Rate Notes

Each Floating Rate Note will bear interest from its original issue date at rates described in the Floating Rate Note and specified in the applicable prospectus supplement or pricing supplement.

The rate of interest on each Floating Rate Note will be reset monthly, quarterly, or as otherwise specified in the Floating Rate Note and applicable prospectus supplement or pricing supplement. Interest on each Floating Rate Note will be payable monthly, quarterly or as otherwise specified in the Floating Rate Note and applicable prospectus supplement or pricing supplement. Unless otherwise specified in the Floating Rate Note and applicable prospectus supplement or pricing supplement, our company will be the calculation agent with respect to the Floating Rate Notes. Upon request of the holder of any Floating Rate Note, our company will provide the interest rate then in effect.

Payment of Interest and Principal

Interest on each interest bearing Note will be payable on such periodic basis or at maturity and on such date or dates as may be agreed upon by our company and the purchaser of the Note. Payments of interest on each interest bearing Definitive Note will be made by cheque payable on the interest payment date and mailed to the address of, or if so directed by the holder, funds representing the interest payable will be forwarded by electronic funds transfer on the interest payment date to the account of, the holder appearing on the registers maintained by Computershare Trust Company of Canada, as registrar and transfer agent (the "Transfer Agent", which term shall include such other registrar or transfer agent as may from time to time be appointed by our company) at the close of business in the City of Toronto on the tenth business day (being a day other than Saturday, Sunday, or a day on which financial institutions at the place of payment are authorized or obligated by law or regulation to close) prior to the interest payment date or such other day specified to the Trustee by our company and reflected in a Supplemental Indenture for a particular series of Notes. Payment of principal will be made at any branch in Canada of the bank designated in a Definitive Note against surrender of the Note.

Payment of interest and principal on each Global Note will be made to the Depository or the Nominee, as the case may be, as the registered holder of the Global Note. Interest payments on Global Notes will be made by wire transfer on the date interest is payable and delivered to the Depository or the Nominee, as the case may be, two business days before the date interest is payable. Principal payments on Global Notes will be made by wire transfer on the maturity date delivered to the Depository or the Nominee, as the case may be, at maturity against receipt of the Global Note. As long as the Depository or the Nominee is the registered owner of a Global Note, the Depository or the Nominee, as the case may be, will be considered the sole owner of the Global Note for the purposes of receiving payment on the Note and for all other purposes under the Trust Indenture and the Note.

Our company expects that the Depository or Nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts, on the date principal or interest is payable, with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of the Depository or the Nominee. Our company also expects that such payments of principal and interest by participants to the owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such participants. The responsibility and liability of our company and the Trustee in respect of Notes represented by Global Notes is limited to making payment of any principal and interest due on such Global Notes to the Depository or the Nominee.

Payments of interest and principal will be made in the currency in which the Note is denominated unless otherwise specified in the applicable prospectus supplement or pricing supplement.

If the payment date for any amount of principal or interest on any Note is not, at the place of payment, a business day such payment will be made on the next business day and the holder of such Note shall not be entitled to any further interest or other payment in respect of such delay.

Transfers

The registered holder of a Definitive Note may transfer such Note upon payment of taxes incidental thereto, if any, by executing the form of transfer provided on the reverse side of the Note and surrendering the Note to the Transfer Agent at its principal office in the City of Toronto, upon which one or more new Definitive Notes will be issued in authorized denominations in the same aggregate principal amount as the Note so transferred, registered in the name or names of the transferee or transferees.

Transfers of beneficial ownership in Notes represented by Global Notes will be effected through records maintained by the Depository for such Global Notes or the Nominee (with respect to the interest of participants) and on the records of participants (with respect to the interest of beneficial owners other than participants). Beneficial owners of an interest in a Note represented by a Global Note who are not participants in the Depository's book-entry system, but who desire to purchase, sell or otherwise transfer ownership of or other interests in Global Notes, may do so only through participants in the Depository's book-entry system. A purchaser's interest in a Note represented by a Global Note will only be exchangeable for Definitive Notes in the limited circumstances set forth under the subheading "Global Notes" above and in accordance with the procedures established by the Depository or the Nominee.

The ability of a beneficial owner of an interest in a Note represented by a Global Note to pledge the Note or otherwise take action with respect to such owner's interest therein other than through a participant may be limited due to the lack of a physical certificate.

No transfer of a Note will be registered during the 10 business days immediately preceding any date fixed for payment of interest on such Note or payment of the principal amount thereof.

PLAN OF DISTRIBUTION

The Notes may be offered for sale severally and on a continuous basis by one or more of BMO Nesbitt Burns Inc., Casgrain & Company Limited, CIBC World Markets Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc., Laurentian Bank Securities Inc., Merrill Lynch Canada Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. pursuant to an agreement dated August 23, 2011, among such dealers and our company (the "Dealer Agreement") or such other dealers as may be selected from time to time by our company, in each case acting as agent of our company or as principal. Where the Notes are offered by the Dealer(s) as agent(s), the commission payable by our company shall be agreed from time to time between our company and any such Dealer(s). Where the Notes are purchased by the Dealer(s) as principal, the Notes shall be purchased at such prices and with such commissions as may be agreed from time to time between our company and any such Dealer(s) for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period as between purchasers. Each Dealer's compensation will increase or decrease by the amount by which the aggregate price paid for Notes by purchasers exceeds or is less than the price paid by the Dealer, acting as principal, to our company. The commission payable in connection with sales of Notes shall be no higher than 1.5% and shall be set forth in a prospectus supplement or pricing supplement that shall accompany this short form prospectus. Our company has agreed to reimburse the Dealers for certain expenses and to indemnify each Dealer against certain liabilities.

Our company may also offer the Notes directly to potential purchasers pursuant to applicable statutory exemptions at prices and upon terms negotiated between the purchaser and our company.

Our company and, if applicable, the Dealers, reserve the right to reject any offer to purchase the Notes in whole or in part. Our company also reserves the right to withdraw, cancel or modify the offering of the Notes under this short form prospectus without notice. In addition, the obligations of the Dealers to purchase any particular issue of Notes may be terminated at the discretion of the Dealers upon the occurrence of certain stated events as set out in detail in the Dealer Agreement. However, the Dealers are obligated to take up and pay for all Notes of a particular issue if any of the Notes of that issue are purchased under the Dealer Agreement.

In connection with any offering of Notes, the Dealers may, when acting as an agent or purchasing as principal, over-allot or effect transactions which stabilize or maintain the market price of the Notes offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Dealers may from time to time purchase and sell the Notes in the secondary market but are not obliged to do so. Unless otherwise indicated in a prospectus supplement or pricing supplement, there is no market through which Notes may be resold and purchasers may not be able to resell Notes purchased under this short form prospectus. The offering price and other selling terms for any sales in the secondary market may, from time to time, be varied by the Dealers.

The offering of Notes hereunder is directed only to residents of the provinces of Canada and in the United States in certain transactions exempt from the provisions of the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act, including transactions under Rule 144A under the Securities Act. The Dealers have agreed that offers and sales by them of Notes in the United States of America, its territories or possessions will only be made to "qualified institutional buyers" pursuant to the exemption in Rule 144A under the Securities Act. In addition, until 40 days after the commencement of the offering of an issue of Notes, an offer or sale of that issue within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption under the Securities Act.

BMO Nesbitt Burns Inc., CIBC World Markets Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc., Laurentian Bank Securities Inc., Merrill Lynch Canada Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. are subsidiaries or affiliates of lenders (the "Lenders") which are lenders to our company under a revolving credit facility of up to $1,250 million (as amended and restated from time to time, the "Credit Facility"). As of August 23, 2011, there is no outstanding indebtedness under the Credit Facility. Proceeds from the sale of particular series or issues of Notes in which such Dealers are acting as principals or agents may be used to repay indebtedness under the Credit Facility or any future credit facility to which our company may be a party with one or more of the Lenders. Consequently, if and when there is outstanding indebtedness to any of the Lenders under such facilities, our company may be considered a connected issuer of those Dealers who are affiliates of such Lenders for purposes of the securities laws of certain Canadian provinces. The decision to distribute the Notes will be made by our company and the terms and conditions of distribution will be determined through negotiations between our company and the Dealers. The Lenders will not have any involvement in such decision or determination. As of the date hereof, our company is in compliance with the terms of the Credit Facility. Other than payment of their portion of the commissions, if applicable, or as set forth above in respect of the Credit Facility, none of the proceeds of such offerings of Notes will be applied, directly or indirectly, for the benefit of BMO Nesbitt Burns Inc., CIBC World Markets Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc., Laurentian Bank Securities Inc., Merrill Lynch Canada Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. or their affiliates. See "Use of Proceeds".

USE OF PROCEEDS

The net proceeds from the sale of Notes will be added to the general funds of our company and, together with funding from other sources, including internally generated funds and other external financings, will be used to finance our company's working capital requirements, to repay outstanding bank loans (which may include indebtedness under the Credit Facility), debentures, notes or other Indebtedness, to make advances to subsidiaries of our company, to finance our company's capital expenditure program, to make acquisitions and for other general corporate purposes. Where appropriate, a prospectus supplement or pricing supplement will contain more specific information about the use of proceeds from each sale of Notes. All expenses relating to an offering of Notes, including any compensation paid to the Dealers, will be paid out of our company's general funds. Our company may from time to time issue debt instruments and incur additional Indebtedness otherwise than through the issue of Notes pursuant to this short form prospectus.

PRIOR SALES

In the 12-month period prior to the date hereof, our company issued the following tranches of medium term notes under our short form prospectus dated July 27, 2009, as amended:

Note	Date of Issuance	Principal Amount	Sale Price (per $100 principal amount)	Gross Proceeds
Series 11 (5.00%) due 2046	September 13, 2010	$250,000,000	$100.765	$251,912,500
Series 21 (2.95%) due 2015	September 13, 2010	$250,000,000	$99.991	$249,977,500
Series 21 (2.95%) due 2015	January 19, 2011	$250,000,000	$99.581	$248,952,500
Series 22 (Floating Rate Note) due 2015	January 24, 2011	$50,000,000	$100.00	$50,000,000

RISK FACTORS

In addition to the other information contained and incorporated by reference in this short form prospectus, a purchaser should consult its own financial and legal advisors and should carefully consider the following risk factors before investing in the Notes. Notes will not be an appropriate investment for a purchaser if the purchaser does not understand the terms of the Notes or financial matters in general. A purchaser should not purchase Notes unless the purchaser understands, and can bear, all of the investment risks involving the Notes. For a discussion of the risks to which our business and industry are subject, please see the section entitled "Risk Factors" in our company's renewal annual information form and the section entitled "Risk Management and Risk Factors" in our annual MD&A. In addition to those risks, an investment in the Notes is subject to the following additional risks:

We Must Receive Dividends and Other Payments from Our Subsidiaries in Order to Make Payments to Holders of Notes

We are a holding company that has no significant assets or operations other than the debt and equity of our subsidiaries. Our most significant subsidiary is Hydro One Networks Inc., a regulated wholly-owned subsidiary which owns and operates our transmission and distribution assets. We are dependent on dividends, interest, loans and other payments from this and other subsidiaries to meet our debt service and other obligations.

Our subsidiaries are separate legal entities and have no obligation to pay any amounts due under the Notes and, except for their respective obligations under existing intercompany debt obligations owing to us, have no obligation to make funds available to us, whether by dividends, interest, loans or other payments. In addition, these subsidiaries have not guaranteed the Notes. In the event of bankruptcy, liquidation or reorganization of any of our subsidiaries, the creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to us, except to the extent that we are recognized as a creditor of those subsidiaries.

Our subsidiaries currently are not restricted in terms of their ability to pay dividends or make other payments to us, other than by solvency provisions under generally applicable Ontario corporate law. However, they could become so restricted in the future by, among other things, other laws as well as agreements to which they may become parties in the future.

The Notes Have No Existing Trading Market and May Be Subject to Trading Price Fluctuations

The Notes are new issues of securities for which, unless otherwise indicated in a prospectus supplement or pricing supplement, there is no existing trading market. We do not intend to list the Notes on any Canadian, U.S. or other securities exchange, although we may choose to do so in the future. We cannot predict whether any trading market will develop for the Notes.

Even if a trading market develops for the Notes, the Notes could trade at prices that may be higher or lower than their initial offering prices, depending on many factors, including prevailing interest rates, our results of operations and financial position, the ratings assigned to the Notes and our other debt securities, and the markets for similar debt securities.

Foreign Currency Risks

An investment in Notes that are denominated or payable in other than Canadian dollars entails significant risks that are not associated with a similar investment in a security denominated in Canadian dollars. Such risks include, without limitation, the possibility of significant changes in rates of exchange between the Canadian dollar and the applicable foreign currency unit, the possibility of the imposition or modification of foreign exchange controls by either the Canadian or foreign governments, and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and, where appropriate, will be more fully described in a prospectus supplement or pricing supplement.

The Notes will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. A judgment by a Canadian court relating to any Note may be awarded only in Canadian currency and such judgment may be based on a rate of exchange in existence on a day other than the day of payment.

This short form prospectus does not describe all the risks of an investment in the Notes denominated or payable other than in Canadian dollars, and prospective investors should consult their own financial and legal advisor as to the risks entailed with respect thereto. Notes denominated in other than Canadian dollars are not appropriate investments for investors who are unfamiliar with foreign currency transactions.

Interest Rate Risks

Prevailing interest rates will affect the market price or value of the Notes. Generally, the market price or value of the Notes will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline. Fluctuations in interest rates may also impact borrowing costs of our company which may adversely affect its creditworthiness.

Changes in Creditworthiness or Credit Ratings

The perceived creditworthiness of our company and changes in credit ratings of the Notes may affect the market price or value and the liquidity of the Notes. In addition, negative changes in our company's credit rating may affect the credit ratings of the Notes.

Risks Associated with Floating Rate Notes

Investments in Floating Rate Notes entail risks not associated with investments in Fixed Rate Notes. The resetting of the applicable rate on a Floating Rate Note may result in a lower interest rate as compared to a Fixed

Rate Note issued at the same time. The applicable rate on a Floating Rate Note will fluctuate in accordance with fluctuations in the instrument or obligation or other measure on which the applicable rate is based, which in turn may fluctuate and be affected by a number of interrelated factors, including economic, financial and political events over which our company has no control.

LEGAL MATTERS

Certain legal matters in connection with any offering hereunder will be passed upon by Osler, Hoskin & Harcourt LLP for our company and by Blake, Cassels & Graydon LLP for the Dealers. The partners and associates of the foregoing law firms beneficially own, directly or indirectly, less than one percent of the securities of our company or any associate or affiliate of our company.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of our company are KPMG LLP, Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario M5H 2S5. KPMG LLP is independent in Ontario in accordance with its rules of professional conduct.

Registers for the registration and transfer of the Notes issued in registered form are kept at the principal offices of the Transfer Agent in the City of Toronto.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revision of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

AUDITORS' CONSENT

We have read the short form base shelf prospectus of Hydro One Inc. (the "Company") dated August 23, 2011 relating to the issue of up to $3,000,000,000 aggregate principal amount of medium term notes (unsecured) of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use through incorporation by reference in the above-mentioned prospectus of our report to the shareholder of the Company on the consolidated financial statements of the Company, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of operations and comprehensive income, retained earnings, accumulated other comprehensive income and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. Our report is dated February 10, 2011.

KPMG LLP (signed)
Chartered Accountants
Licensed Public Accountants
August 23, 2011
Toronto, Canada

CERTIFICATE OF HYDRO ONE INC.

Dated: August 23, 2011

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all of the provinces of Canada.

(Signed) Laura Formusa
President and
Chief Executive Officer

(Signed) Sandy Struthers
Executive Vice President and
Chief Financial Officer

On behalf of the Board of Directors:

(Signed) James Arnett
Chairman of the Board of Directors

(Signed) Michael Mueller
Director

CERTIFICATE OF DEALERS

Dated: August 23, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated in this prospectus by reference will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all the provinces of Canada.

BMO NESBITT BURNS INC.	CASGRAIN & COMPANY LIMITED	CIBC WORLD MARKETS INC.
By: (Signed) Andrew Hainsworth	By: (Signed) Stephen McHarg	By: (Signed) David H. Williams
DESJARDINS SECURITIES INC.	HSBC SECURITIES (CANADA) INC.	LAURENTIAN BANK SECURITIES INC.
By: (Signed) Ryan Godfrey	By: (Signed) Nicole Caty	By: (Signed) Thomas Berky
MERRILL LYNCH CANADA INC.	NATIONAL BANK FINANCIAL INC.	RBC DOMINION SECURITIES INC.
By: (Signed) Jamie Hancock	By: (Signed) James K. Stewart	By: (Signed) Tushar Kittur

SCOTIA CAPITAL INC.	TD SECURITIES INC.
By: (Signed) Murray Neal	By: (Signed) Harold Holloway