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Vice President and Chief Regulatory Officer
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BY COURIER

July 9, 2014

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

Dear Ms. Walli:

EB-2014-0213 – Hydro One Networks Inc. MAAD S86 to Purchase Woodstock Hydro Services Inc. – Application and Evidence

I am attaching two (2) paper copies of Hydro One Networks Inc.'s MAAD Application and Evidence for the acquisition of Woodstock Hydro Services Inc.

An electronic copy of the application and evidence has been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY IAN MALPASS FOR SUSAN FRANK

Susan Frank

attach.

ONTARIO ENERGY BOARD

IN THE MATTER OF an application made by Hydro One Inc. for leave to purchase all of the issued and outstanding shares of Woodstock Hydro Holdings Inc., made pursuant to section 86(2)(b) of the *Ontario Energy Board Act, 1998*.

AND IN THE MATTER OF an application made by Woodstock Hydro Services Inc. seeking to include a rate rider in the 2014 OEB-approved rate schedule of Woodstock Hydro Services Inc. to give effect to a 1% reduction relative to 2014 base electricity delivery rates (exclusive of rate riders), made pursuant to section 78 of the *Ontario Energy Board Act, 1998*.

AND IN THE MATTER OF an application made by Woodstock Hydro Services Inc. for leave to transfer its distribution system to Hydro One Networks Inc., made pursuant to section 86(1)(a) of the *Ontario Energy Board Act, 1998*.

AND IN THE MATTER OF an application made by Woodstock Hydro Services Inc. for leave to transfer Woodstock Hydro Services Inc.'s distribution licence and rate order to Hydro One Networks Inc., made pursuant to section 18 of the *Ontario Energy Board Act, 1998*.

APPLICATION

1.0 INTRODUCTION

Hydro One Inc. (“HOI”), is an Ontario corporation with its head office in the City of Toronto. HOI is wholly-owned by the Province of Ontario and is the parent company of Hydro One Networks Inc. (“Hydro One”), 1908873 Ontario Inc., Hydro One Brampton Networks Inc., Hydro One Remote Communities Inc. and Hydro One Telecom Inc.

Hydro One’s distribution system serves approximately 1.2 million customers in its service territory (see **Exhibit A, Tab 3, Schedule 1, Section 1.3.3** for further customer details).

Woodstock Hydro Services Inc. (“WHSI”) is a wholly-owned subsidiary, at the date of this application, of Woodstock Hydro Holdings Inc. (“WHHI”). WHHI is a holding company, currently wholly-owned by The Corporation of the City of Woodstock (the “City of Woodstock”).

WHSI’s distribution system serves approximately 15,534 Residential and General Service customers in the WHSI service territory (see **Exhibit A, Tab 3, Schedule 1, Section 1.3.3** for further customer details).

2.0 OVERVIEW OF APPLICATION

On May 21, 2014, the City of Woodstock (the “Vendor”) and HOI (the “Purchaser”), through its wholly-owned affiliate 1908873 Ontario Inc.¹, entered into a share purchase agreement (the

¹ The Share Purchase Agreement is structured between The Corporation of the City of Woodstock, 1908873 Ontario Inc. and Hydro One Inc. 1908873 Ontario Inc. was used to allow for tax efficient integration of the two corporate structures. The shares held by 1908873 Ontario Inc. will be transferred to HOI after closing. As such, this OEB application has referenced the transaction as between HOI and the Corporation of the City of Woodstock

1 “Agreement”), the effect of which is that the Vendor has agreed to sell, and the Purchaser has
2 agreed to purchase, all of the issued and outstanding shares of WHHI (the “Purchased Shares”).
3 The purchase price is \$46.2 million, comprising a cash payment of approximately \$29.2 million
4 for the shares and the assumption of WHHI’s short and long-term debt of approximately \$17
5 million. The Agreement contemplates the transaction closing 90 days following the Parties’
6 receipt of all required approvals, including Ontario Energy Board (“the Board” or “OEB”)
7 approval of this Application under sections 86(2) and 86(1) of the *Ontario Energy Board Act*,
8 1998.

9
10 The Agreement (see **Exhibit A, Tab 3, Schedule 1, Attachment 6**) contemplates the following
11 items in addition to the sale of the shares:

- 12
- 13 (a) WHSI will apply to the OEB for approval to include a negative rate rider to WHSI’s
14 electricity rates (effective May 1, 2014) to reduce base delivery distribution rates by one per
15 cent across all Rate Classes, and to have such reduced rates apply for the next five years (see
16 **Exhibit A, Tab 2, Schedule 1, Section 1.2** for further detail);
 - 17 (b) During the period in which the negative rate rider is in effect, Hydro One and WHSI intend
18 to transfer the WHSI’s regulated distribution system assets so that they are owned by,
19 integrated with, and form part of Hydro One’s existing distribution system. The Parties
20 therefore seek to have WHSI’s existing Electricity Distribution License (ED-2003-0011) and
21 Rate Orders transferred and assigned to Hydro One. Asset transfer and integration steps are
22 expected to occur within 18 months after the close of the Agreement;
 - 23 (c) Following the effective period for the negative rate rider, Hydro One expects to apply to
24 harmonize these rates with Hydro One’s revenue requirement. The rebasing and rate
25 harmonization application is expected to take effect in 2020 and will be based on then-
26 prevailing forecast costs as discussed **Exhibit A, Tab 2, Schedule 1, Section 2**;
 - 27 (d) The Purchaser or its affiliates shall offer all active employees of WHSI and/or WHHI
28 continued employment in the City of Woodstock for a period of at least one year;

- 1 (e) The Purchaser and the Vendor shall establish an advisory committee (the “Advisory
2 Committee”) to provide a forum for communication between the Purchaser and the Vendor.
3 In establishing the Advisory Committee, the Purchaser shall select, in consultation with
4 officials of the Vendor, one senior official and one local official as its Representatives. The
5 Vendor has the right to appoint at least three Representatives to the Advisory Committee;
- 6 (f) If, three years after Closing, the three-year average for service reliability and customer
7 service standard levels of WHSI is lower than the three-year average reported immediately
8 prior to the Closing, the Purchaser shall make a single payment to the Vendor in the amount
9 of \$200,000, to be used for community purposes, including charities;
- 10 (g) The purchase price is subject to adjustment, within 90 days following closing, for Working
11 Capital, Net Fixed Assets and Long Term Debt, as defined in the Agreement.
- 12

13 **3.0 OEB APPROVAL REQUESTS**

14

- 15 • HOI is applying to the Board pursuant to section 86(2)(b) of the *Ontario Energy Board Act,*
16 *1998* (“the Act”), seeking leave to acquire all the issued and outstanding shares of the WHHI
17 from the Vendor.
- 18 • WHSI is applying pursuant to section 86(1)(a) of the *Ontario Energy Board Act, 1998*, for
19 leave to transfer its distribution system to Hydro One.
- 20 • WHSI is applying pursuant to section 18 of the *Ontario Energy Board Act, 1998* for leave to
21 transfer WHSI’s distribution licence and rate order to Hydro One.
- 22 • The net book value of WHSI’s assets is approximately \$26.0 million and will be transferred
23 to Hydro One Distribution’s rate base.
- 24 • WHSI is applying for approval to include a rate rider in the 2014 OEB-approved rate
25 schedule of WHSI to give effect to reducing the approved 2014 base delivery distribution
26 rates (EB-2013-0182) by one per cent. See **Exhibit A, Tab 2, Schedule 1, Section 1.2** for
27 further information.

- 1 • WHSI is applying for approval to extend the rate rider for the Recovery of Incremental
2 Capital to be in effect until the effective date of the next cost of service application.
- 3 • Hydro One is applying for approval to defer the rate rebasing of the Hydro One Woodstock
4 business unit for five years from the date of closing the proposed transaction, consistent with
5 the Report of the Board titled “Rate-making Associated with Distributor Consolidation”
6 issued July 23, 2007. At the end of the five-year period, Hydro One expects to file a rate
7 application at the earliest opportunity to rebase rates, currently expected in 2020.
8 Accordingly, while WHSI is on the Board’s February 20, 2014 list of electricity distributors
9 scheduled to apply for rebasing for 2015 rates, WHSI confirms that it does not intend to file a
10 forward test year cost of service distribution rate application this year for rates effective in
11 2015. See **Exhibit A, Tab 2, Schedule 1, Section 2** for further information.
- 12 • Hydro One is applying for approval to continue to track costs to the regulatory asset accounts
13 currently approved by the OEB for WHSI and to seek disposition of their balances at a future
14 date. See **Exhibit A, Tab 2, Schedule 1, Section 1.2.2** for further details.
- 15 • Hydro One is applying for approval to utilize USGAAP for WHSI financial reporting.
- 16 • Hydro One is concurrently filing a Notice of Proposal under section 80 of the *Ontario*
17 *Energy Board Act, 1998* for acquiring an interest in a generation facility.

18
19 Hydro One respectfully requests a written hearing for this Application and submits that the
20 evidence supports approval of the application for the following reasons:

- 21 • The application has no adverse impact on the price, adequacy, reliability and quality of
22 electricity service of WHSI or Hydro One. In addition, it promotes electricity conservation
23 and demand management, the use and generation of electricity from renewable energy
24 sources and facilitates the implementation of a smart grid in Ontario;
- 25 • The customers of both local distribution companies will be held harmless;
- 26 • The transaction eliminates the duplication of effort between Hydro One and WHSI and
27 results in a single electric distribution service provider for all of the City of Woodstock,

1 which will ultimately lead to lower cost of service across Hydro One and WHSI service
2 areas, and will create downward pressure on electricity distribution rates; and

- 3 • This transaction was completed on a commercial basis between a willing seller and a willing
4 buyer. It is a demonstration of the type of benefits that can be realized from voluntary
5 consolidation; it will deliver cost synergies and economy of scale benefits contemplated by
6 the Ontario Distribution Sector Review Panel and will promote the objectives contained in
7 the OEB's Renewed Regulatory Framework for Electricity Distributors.

SUPPLEMENTARY TRANSACTION INFORMATION

This exhibit provides information addressing how the proposed transaction meets the merger, acquisition, amalgamation and divestiture (“MAAD”) requirements set forth in the *Ontario Energy Board Act, 1998* (“the Act”) and details both quantitative and qualitative savings expected as a result of this transaction. Further details on approvals sought with respect to customer rates and bill impacts, timing of rebasing, regulatory assets and riders, USGAAP and compliance matters are also discussed.

MAAD APPLICATION REQUIREMENTS

1.0 CONSUMER PROTECTION

Section 1 of the Act requires that the Ontario Energy Board (“Board” or “OEB”), in carrying out its responsibilities, shall be guided by the following objectives:

1. To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service;
2. To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry;
3. To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer’s economic circumstances;
4. To facilitate the implementation of a smart grid in Ontario; and
5. To promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

1 In Hydro One's recent Norfolk MAAD Application (EB-2013-187/EB-2013-0196/EB-2013-
2 0198) the Board found in its Decision and Order dated July 3, 2014, that the "no harm test"
3 remains the relevant benchmark and that Section 1 of the Act remains the approved determinant
4 to meet the Board's objectives.¹

6 **1.1 Economic Efficiency and Cost Effectiveness**

7
8 Hydro One projects that the resultant cost structures from proceeding with the transaction will
9 result in ongoing operations, maintenance and administrative ("OM&A") savings of
10 approximately \$3.0 million per year and reductions in capital expenditures of approximately \$1.0
11 million per year. These savings will result in downward pressure on WHSI's cost structure
12 which would tend to decrease rates relative to the status quo. Quantitative savings will be
13 realized through cost synergies in the following areas, which will be discussed in more detail in
14 the section following:

- 15
16 • reduction in back-office staff, including accounting, administration, and customer
17 service;
- 18 • reprioritization of capital program costs utilizing Hydro One's Asset Risk Assessment
19 ("ARA") process;
- 20 • reduction in information technology ("IT") costs, such as hardware and software
21 maintenance fees;
- 22 • reduction in corporate governance costs, with the elimination of the Woodstock Hydro
23 Board of Directors;
- 24 • reduction in senior management costs;
- 25 • rationalization of smart grid, conservation and demand management, and renewable
26 energy initiatives;

¹ EB-2013-0196/0187/0198 Decision and Order dated July 3, 2014, page 10-11

- reduction in future regulatory costs associated with fulfilling regulatory requirements, including the preparation and filing of regulatory applications, including IRM and COS applications and eliminating Long-Term Load Transfers with Hydro One; and
- reduction in financing and insurance costs.

Quantitative Efficiencies

Quantitative efficiencies arise in three principal areas:

- Local area operating and capital savings resulting from a more efficient distribution system due to the elimination of an artificial electrical border (i.e., benefits from contiguity);
- Savings due to the elimination of redundant administrative and processing functions (i.e., back-office savings or scale efficiencies);
- Lower overall debt costs upon refinancing WHSI's current higher-cost debt assumed in the transaction, further enhanced by the reduced capital expenditure requirements.

Contiguity Benefits

Hydro One's existing service territory is situated immediately adjacent to the territory served by WHSI. The geographic advantage of contiguity allows for economies of scale to be realized at the field or operational level through the integration of WHSI and Hydro One's local systems. These operational scale economies may not be available at all, or to the same extent, to other would-be purchasers who do not have the same advantage of contiguity.

With the elimination of an artificial electrical border between contiguous distributors, operational efficiencies arise in various areas, such as the ability to: rationalize local space needs through the elimination or repurposing of duplicate facilities like service centres; more efficiently schedule operating and maintenance work and dispatch crews over a larger service area; and, more efficiently utilize work equipment (e.g., trucks and other tools), leading to lower capital replacement needs over time. The elimination of the electrical border allows for more rational

1 and efficient planning and development of the distribution system. All of the above provide the
2 potential to result in operating and capital savings, both immediate and over time, which will
3 provide long-term benefits to ratepayers relative to the status quo.

4
5 This situation is common throughout the Province and is shown in the attached map (see
6 **Attachments 3a and 3b**) depicting the current checkerboard pattern of the local distribution
7 system, with small- and medium-sized LDCs contiguous to or surrounded by Hydro One.

8 9 **Savings from Economies of Scale**

10 A larger customer base resulting from the creation of a larger regional distributor leads to costs
11 for processing systems, such as billing, customer care, human resources and financial, being
12 spread over a larger group of customers. Consolidation of these functions is expected to result in
13 efficiency benefits as duplicate systems and staff positions are eliminated, leading to lower
14 capital and operating costs over time. In addition, administrative savings arising from the
15 elimination of redundant senior management and administrative functions are also achievable.

16 Hydro One's cost of borrowing is typically lower than that of local LDCs, leading to savings in
17 financing costs over time. These savings arise from Hydro One's ability to refinance WHSI debt
18 upon maturation at a lower rate, and from the expectation that there will be capital savings over
19 time, which will lead to a reduced rate base and hence lower debt and equity return costs relative
20 to the status quo.

21 **Efficiency and Quantitative Savings in the Woodstock Context**

22 Hydro One's existing Beachville operating centre is located less than 10 km from the WHSI
23 operating centre. Hydro One currently serves customers in the City of Woodstock, thus having
24 crews that travel much of the same roads and drive by the same facilities as the existing line
25 crews from WHSI. Staff in the Hydro One Field Business Centre in Beachville answer calls
26 from local businesses and customers for operational services provided by Hydro One within the

1 City of Woodstock. WHSI has customer service representatives that carry out similar functions
2 for their neighbouring customers also within the City of Woodstock. Rationalizing these
3 functions over a larger service area will yield efficiency savings.
4

5 As mentioned earlier, contiguity savings are expected through more efficient system planning by
6 the elimination of the artificial electrical border between Hydro One's and WHSI's service areas.
7 In addition, the integration of Hydro One and WHSI will allow for efficiency gains to be realized
8 through eliminating duplication in administrative and transaction-processing functions. For
9 example, Hydro One currently processes financial, human resource, information technology, and
10 work management transactions for its existing customers and staff. WHSI processes very similar
11 transactions for its own service area in the City of Woodstock. This means that if the transaction
12 proceeds, Hydro One has the opportunity to eliminate these sources of duplication. For example
13 the functions performed by senior management would be eliminated, and the Board of Directors
14 would no longer be required. Further, there is an opportunity to reduce the number of regulatory
15 filings, CDM program administration costs, vehicle fleet and information technology costs, and
16 the use of external consultants and contractors.
17

18 The efficiencies attained through some of the activities discussed above result in Hydro One
19 expecting to be able to eliminate 22 of the 36 positions currently required to operate WHSI. As
20 Hydro One already has an operating organization in place that provides the same functions (such
21 as senior management, professional, and some union staff) certain positions will no longer be
22 required.
23

24 The WHSI personnel currently in these roles will have the opportunity to transition to other
25 positions within the Hydro One organization. As Hydro One is facing significant demographic
26 challenges and upcoming retirements, it is able to provide job security for WHSI staff,
27 leveraging their industry knowledge, and will utilize both its existing staff and those acquired
28 from WHSI to meet the needs of all its customers. As Hydro One will now be planning the

electricity needs for the entire Woodstock region, it will be able to more efficiently manage both the operating and capital costs associated with serving customers across the area.

Table 1 below shows Hydro One's projection, by staff category, of the number of staff that are currently employed by WHSI and their respective aggregate salaries. WHSI direct staff will be integrated into Hydro One's Beachville operations and will become part of the centre's pool of resources working on everything within the larger service area encompassing WHSI's current service territory. Indirect staff are those staff that are expected to move to other positions within Hydro One once integration is complete. The left side of Table 1 breaks down the current staff between direct and indirect positions and shows the total salary paid by WHSI. The right-hand side of Table 1 illustrates the anticipated level of staffing and salaries required to operate the current WHSI service territory once acquired by Hydro One and operating as the Woodstock business segment.

Table 1

	WHSI Staffing and Salaries			Proposed Hydro One Woodstock Staffing and Salaries	
Staff Category	Direct	Indirect	Salary(\$)	Direct	Salary (\$)
Management and Professional		6	671,248		
Inside Union		10	555,991		
Outside Union	14	6	1,453,246	14	1,367,539
Total	14	22	2,680,485	14	1,367,539
Projected Salary Savings	\$1,312,946				

Table 1 demonstrates that Hydro One anticipates overall salary savings of approximately \$1.3 million annually, after accounting for differences between salary levels between WHSI and Hydro One.

1 This transaction will also achieve capital expenditure savings. Hydro One utilizes an ARA
2 process. This process determines the state of Hydro One's distribution system, identifies current
3 asset needs, and creates a line of sight to future needs, which enables an in-depth view of asset
4 risk, and improved decision-making. The ARA incorporates field asset assessment including
5 visual inspections and evaluation. This process allows Hydro One to assess the state of its assets
6 and assess the risks that those assets pose and to develop appropriate plans in order to ensure
7 reliability and service quality are met. This assessment considered the state of the WHSI
8 distribution system, identified current asset needs, and created a line of sight to future asset
9 needs. Using the ARA process has enabled Hydro One to project the WHSI OM&A and capital
10 expenditure requirements and the resulting potential savings.

11
12 Based on the quantitative factors discussed above, Hydro One has provided a comparative cost
13 structure analysis for the proposed transaction relative to the status quo, extending out ten years
14 (see **Table 2**). Three scenarios are presented in **Table 2** with respect to efficiency savings
15 associated with Hydro One operating in the WHSI service territory under the proposed
16 acquisition. The medium scenario represents a *base case* and compares expenditures based on
17 Hydro One's estimate of WHSI's status quo operations with Hydro One's forecast of WHSI's
18 operations under its ownership. The high and low scenarios illustrate a plus/minus 20%
19 variation on Hydro One's forecast based on its ownership of WHSI.

20
21 Financing savings are also expected to be achieved as a result of both a lower Hydro One cost of
22 debt upon refinancing of some or all of the debt assumed in the transaction, and lower capital
23 replacement needs over time. These savings have not been quantified due to uncertainty related
24 to the timing of refinancing, and of the size of the spread that will prevail when refinancing
25 occurs.

Table 2: Projected LDC Acquisition OM&A and Capital Expenditure Savings

\$M	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
OM&A										
Status Quo Scenario	3.9	4.6	4.0	4.1	4.2	4.3	4.4	4.8	4.7	4.7
Hydro One Forecast	1.7	2.2	1.6	1.4	1.4	1.4	1.5	1.8	1.7	1.6
Projected Savings - Base Case Scenario	2.3	2.3	2.4	2.7	2.7	2.8	2.9	2.9	3.0	3.1
Low Cost Scenario - Projected Savings ¹										
Lower OM&A, Higher Savings Scenario	2.6	2.8	2.7	3.0	3.0	3.1	3.2	3.3	3.3	3.4
High Cost Scenario - Projected Savings ²										
Higher OM&A, Lower Savings Scenario	1.9	1.9	2.0	2.4	2.5	2.5	2.6	2.6	2.7	2.8
Capital										
Status Quo Scenario	2.4	2.5	2.5	2.6	2.6 ³	2.7	2.8	2.8	2.9	2.9
Hydro One Forecast	2.2	2.9	3.2	1.8	2.1 ³	1.8	2.1	1.7	1.9	2.0
Projected Savings - Base Case Scenario	0.2	(0.5)	(0.7)	0.8	0.5	0.9	0.7	1.2	0.9	0.9
Low Cost Scenario - Projected Savings ¹										
Lower Capital, Higher Savings Scenario	0.6	0.1	(0.0)	1.1	1.0	1.3	1.1	1.5	1.3	1.3
High Cost Scenario - Projected Savings ²										
Higher Capital, Lower Savings Scenario	(0.3)	(1.1)	(1.3)	0.4	0.1	0.5	0.3	0.8	0.5	0.5

¹ Low case scenario based on a 20% reduction in costs from Hydro One Forecast

² High case scenario based on a 20% increase in costs from Hydro One Forecast

³ The Commerceway TS true-up has been eliminated from this analysis in Year 5

Hydro One's current OM&A forecast to serve customers in its high density residential rate class (UR) is \$181/customer/year² compared to WHSI cost of \$258/customer/month as shown in the 2012 OEB Yearbook. Hydro One's urban rate class covers areas containing 3,000 or more customers with a density of at least 60 customers per kilometer. As such, it is reasonable to believe that the majority of WHSI's customers would have a comparable cost to serve as Hydro One's UR rate class (over 90% of WHSI's customers are residential).

Qualitative Efficiencies

Qualitative benefits will be realized in an acquisition and integration of a smaller LDC, like WHSI, with Hydro One. Some of these benefits are listed below:

- Continued employment for all staff of acquired LDCs - Although redundant staffing functions will be eliminated as part of the integration process leading to efficiency gains, Hydro One, due to its size and current staff retirement profile, is able to offer continued employment to staff of acquired LDCs. This is a benefit that smaller would-be acquirers may not be able to offer;
- Enhanced call centre service to customers – Hydro One has a sophisticated call-centre operation which offers 24/7 live outage reporting, which is currently not available from WHSI, and web access. In addition, Hydro One has launched a highly successful smart-phone application for real-time outage management that customers can download to their devices, allowing instant access to outage information and estimated restoration time. Hydro One was recognized by the International Association of Business Communicators (“IABC”) as the 2013 recipient of two Gold Quill awards and the Jake Wittmer Research Award for the launch of Hydro One's mobile application;
- Savings in recruitment, training, and staff development costs are expected as the transaction will allow trained and experienced utility staff to continue to be available within the Hydro One organization arising due to expected retirements and other attrition;

- Industry benefits are also expected to accrue to various agencies within the Ontario energy industry. For example, the costs to regulate and administer the sector may be reduced as this and further acquisitions are completed. The Ontario Power Authority, the Independent Electric System Operator, the OEB, and Ministry of Energy can achieve potential savings through reduced regulatory burden and industry oversight. Further, enhanced regional planning efficiencies could also be achieved by having fewer distribution companies planning for larger areas where capital can be deployed more efficiently than with the current fragmented approach.

1.2 Price of Electricity Service

The proposed transaction protects WHSI customers through a commitment to freeze base electricity distribution delivery rates for a period of five years from closing of this transaction. In addition, WHSI is seeking approval to implement a negative rate rider that will result in a further 1% reduction of 2014 base delivery rates as approved by the OEB in EB-2013-0182. The cost of providing this rate rider will be recovered from synergies that are generated from consolidating WHSI's operations into Hydro One.

The proposed transaction also protects Hydro One's customers. Hydro One filed a five-year cost of service rate application (EB-2013-0416) on December 19, 2013, for rates effective 2015 to 2019 under the Board's Custom Incentive Regulation regime. That application was based on Hydro One's existing customer base: in other words, it did not include any capital or OM&A costs associated with serving customers, and/or maintaining or operating assets in the service territory of any acquired LDC, including WHSI. As such, this transaction will not impact Hydro One's existing customers with respect to price. In the long term, because the company's fixed costs of operations will be spread over a wider customer base, Hydro One's existing customers are expected to obtain a small price benefit.

1.2.1 Bill Impact

Below are the bill impacts for customers in the WHSI service territory, of the proposed transaction on the total bill as well as distribution base rates, in order to give effect to the proposed negative rate rider. The impacts are based on WHSI's current rates applied to the average consumption levels for each rate class used by WHSI in calculating bill impacts as part of its 2014 IRM application, and approved by the OEB. The rate reductions vary slightly from the 1% reduction as a result of rounding errors from using two decimal places for fixed charges and four decimal places for volumetric charges.

Table 3

	Change in Base Distribution Rates (%)	Change in Total Bill (%)
Residential	(0.94%)	(0.22%)
General Service less than 50 kW	(0.83%)	(0.15%)
General Service 50 to 999 kW	(1.00%)	(0.05%)
General Service greater than 1,000 kW	(1.00%)	(0.06%)
Unmetered Scattered Load	(1.01%)	(0.42%)
Street Lighting	(0.98%)	(0.38%)

Detailed calculations of the bill impacts can be found in **Exhibit A, Tab 3, Schedule 1, Attachment 14.**

1.2.2 Regulatory Assets and Rate Riders

In addition to the rate rider to reduce base distribution delivery rates, Hydro One requests approval to extend the existing WHSI rate rider for the recovery of incremental capital to be in effect until the effective date of the next cost of service application. This rider is associated with the capital contribution related to the Commerce Way TS.

The WHSI Regulatory Assets currently approved by the OEB will continue to be tracked in their respective accounts and disposition will be sought at a future date.

1.2.3 Rate Schedules

The proposed rate schedules, including the requested rate rider, for the area currently served by WHSI, effective after closing, are filed as **Exhibit A, Tab 3, Schedule 1, Attachment 15**.

1.3 Adequacy, Reliability and Quality of Electricity Service

Hydro One will endeavour to maintain or improve reliability and quality of electricity service for all of its customers. As part of the proposed transaction, Hydro One will retain local knowledge from existing WHSI staff. This local knowledge will be leveraged through greater coordination with Hydro One's regional operations and staff, which will allow Hydro One to maintain or improve reliability. Hydro One has committed to meet or exceed specific service levels for reliability and customer service (see **Section 6.9 of Attachment 6**). With respect to reliability, the Share Purchase Agreement ("**the Agreement**") stipulates that the current WHSI three-year running average for OEB metrics SAIDI, SAIFI, and CAIDI will be maintained or exceeded. Moreover, with respect to customer service, the Agreement stipulates that the current WHSI three-year running average for a subset of OEB Customer Service Standards metrics - low voltage connections, telephone accessibility, and appointments met - will also be maintained or

1 exceeded. Again, Hydro One will achieve these results by retaining the direct staff from WHSI
2 as part of its local operations. This will allow Hydro One to retain local knowledge and skills to
3 ensure that it meets its service quality obligations.

4
5 The City of Woodstock will retain several buildings in the downtown core for redevelopment.
6 Hydro One has agreed to enter into a three-year lease agreement with the City of Woodstock to
7 lease the current WHSI Operating Centre on Graham Street. Conditional on the completion of
8 the sale, Hydro One intends to commence construction, during the lease period, of a permanent
9 operations and administration building within the City of Woodstock in a more accessible
10 location. This new centre will consolidate operations between Hydro One's Beachville
11 Operating Centre and WHSI's Operating Centre on Graham Street. This combined, larger
12 operating presence, with reduced distance to travel, will also bring additional resources within
13 the City of Woodstock to support Hydro One's ability to deliver reliable service.

14
15 Hydro One's existing operating centre in Beachville already serves over one-third of the
16 geographic area of Woodstock (**see Attachment 3c**). As mentioned, subsequent to this
17 application's approval, the new facility in the City of Woodstock will be a regional operating
18 centre thereby increasing the number of resources available to respond to outages. It should also
19 be noted that WHSI is embedded in Hydro One's service territory; and with the elimination of
20 the service boundary between the two utilities, Hydro One will have accountability for planning
21 the electricity needs for the entire region, which will allow for a more rational, efficient and
22 effective planning and development of the distribution system.

23
24 The existing reliability metrics for Woodstock Hydro and the local metrics for Hydro One for
25 comparable conditions are provided in **Table 4** below.

Table 4

	2011	2011	2012	2012	2013	2013
	Hydro One	Woodstock Hydro ²	Hydro One	Woodstock Hydro	Hydro One	Woodstock Hydro
Excluding LOS ^{3*}						
Duration (SAIDI)	0.63	0.40 ⁴	1.76	0.55	0.82	1.27
Frequency (SAIFI)	0.21	0.94	0.34	0.88	0.40	0.85

Based on reliability statistics for 2011 and 2012, Hydro One customers in the vicinity of the City of Woodstock experienced a similar level of service in terms of duration and frequency of interruptions as WHSI customers. For 2013, Hydro One performed better than WHSI in terms of duration of outages whereas WHSI performed better in 2011 and 2012; for 2011, 2012 and 2013, Hydro One performed better than WHSI in terms of frequency of outages. Hydro One anticipates that reliability will in fact improve once the operating centre is consolidated in the City of Woodstock.

Hydro One has committed to use commercially reasonable efforts to meet a capital expenditure budget as set forth in **Schedule 6.7 of the Agreement** (see **Attachment 6**), thereby allowing Hydro One to maintain or improve reliability from the current performance level achieved by WHSI. Please see **Section 1.1** of this exhibit for more information on the capital forecast.

Hydro One has also agreed to establish an Advisory Committee to provide a forum for communication between Hydro One and the Vendor. Under the terms of the Agreement, the Vendor may appoint three representatives to the committee, and Hydro One will include staff representation from the same geographic district covered by WHSI's current distribution licence.

² Data-source is the OEB Yearbook

³ Loss of Supply ("LOS") interruptions attributable to assets that are not part of the Hydro One distribution System or the WHSI Distribution System

⁴ There was an error in the WHSI's SAIDI value in the OEB Yearbook. The number has been corrected.

1 In the long term, WHSI customers are expected to benefit from operational efficiencies expected
2 by having the WHSI assets integrated into Hydro One's larger distribution system. Scale
3 efficiencies are expected in the areas of operating and maintaining the distribution system,
4 planning capital replacement and the overhead and management functions. The foregoing are
5 discussed further in **Section 1.1**.

6 7 **1.4 Conservation and Demand Management, Smart Grid and Promotion of Renewable** 8 **Energy Sources** 9

10 Similarly to most LDCs, WHSI has developed its own programs related to Conservation and
11 Demand Management, Smart Grid, and the Promotion of Renewable Energy sources. To
12 achieve further synergies from the transaction, Hydro One will rationalize these programs with
13 its own. There may also be opportunities to rationalize programs across the other acquired LDCs
14 that Hydro One has acquired or will acquire. Each LDC is mandated to have its own initiatives in
15 these areas, as such there are opportunities for program consolidation. This may include areas
16 where an LDC can offer unique capabilities or experience that can provide a positive impact on
17 Hydro One's programs going forward. For example, WHSI and Norfolk Power both utilize
18 Survalent for Supervisory Control and Data Acquisition ("SCADA"). Norfolk Power and
19 Woodstock also have significant Geographic Information Systems ("GIS") in place, which will
20 allow for ready integration of their assets into Hydro One's asset management systems and
21 processes. These benefits are qualitative in nature, but represent examples of synergies
22 nonetheless that support the underlying objectives of the Board related to these three areas.

23 24 **1.5 Additional Sector Support of Consolidation** 25

26 There are recognized efficiencies from sector consolidation. The Ontario Distribution Sector
27 Review Panel, "Renewing Ontario's Electricity Distribution Sector: Putting the Customer First",
28 supported distributor consolidation:

1
2 *The Panel is supporting consolidation not as an end, but as a means to an end. The*
3 *current fragmented nature of Ontario’s electricity distribution system, with its large*
4 *number of small distributors, is a barrier to the innovation that is needed in the sector,*
5 *and that its customers deserve. It is also an obstacle in the way of the most cost-effective*
6 *delivery of electricity.*⁵

7
8 The Commission on the Reform of Ontario’s Public Services, “A Path to Sustainability and
9 Excellence” (“**the Drummond Report**”) recommended that the Province:

10
11 *Consolidate Ontario’s 80 local distribution companies (LDCs) along regional lines to*
12 *create economies of scale. Reducing the \$1.35 billion spent on operations, maintenance*
13 *and administrative costs for Ontario’s LDCs would result in direct savings on the*
14 *delivery portion of the electricity bill.*⁶

15
16 The OEB’s decision in RP-2003-0044 also recognized that further efficiencies are gained with
17 the elimination of artificial electrical borders between contiguous distributors. In RP-2003-0044,
18 although the context for the Board’s Findings in that case was in relation to service area
19 amendment (“SAA”) applications, the principles adopted by the Board in general apply equally
20 to merger situations, as noted below:

21
22 *The promotion of economic efficiency in the distribution sector is one of the*
23 *Board’s guiding objectives in the regulation of the electricity sector. The Board is*
24 *persuaded that economic efficiency should be a primary principle in assessing the*
25 *merits of a service area amendment application. Economic efficiency would*
26 *include ensuring the maintenance or enhancement of economies of contiguity,*

⁵ Ontario Distribution Sector Review Panel Report, page 27

⁶ Drummond Report, page 331

1 *density and scale in the distribution network; the development of smooth,*
2 *contiguous, well-defined boundaries between distributors; the lowest incremental*
3 *cost connection of a specific customer or group of customers; optimization of use*
4 *of the existing system configuration; and ensuring that the amendment does not*
5 *result in any unnecessary duplication or investment in distribution lines and other*
6 *distribution assets and facilities. [Para. 84]*

7 A core difference in assessing the economic efficiency of a merger or acquisition versus a SAA
8 is that in an SAA application, which typically deals with a request to serve new connecting
9 customers in an adjacent service area, the lower incremental cost to connect is a key
10 consideration in assessing the merits of the application, as noted in the excerpt from the RP-
11 2003-0044 Decision above. In a merger or acquisition, net ratepayer and system benefit, relative
12 to the status quo, based on the no-harm test, rather than lower incremental cost to serve, is the
13 key factor in determining whether the transaction is in the public interest.
14 The completion of this transaction provides an example where significant efficiency gains can be
15 realized by a merger or acquisition between a large contiguous distributor, like Hydro One, and
16 smaller adjacent LDCs, like WHSI.

18 **1.6 Incremental Transaction Costs**

19
20 Both parties to the transaction will have incurred some incremental costs associated with the
21 transaction. These include costs incurred for due diligence, to negotiate and complete the
22 transaction, costs associated with all necessary regulatory approvals, the integration costs to
23 transfer the customers into Hydro One's customer and outage management systems, and initial
24 costs to bring equipment up to Hydro One standards. These costs will be financed through
25 productivity gains associated with the transaction and will not be included in Hydro One's
26 revenue requirement and thus will not be funded by ratepayers.

1 These costs are estimated between \$2.5 million to \$4 million. All of these costs are expected to
2 be incurred during the rate freeze period and will be off-set through the productivity gains
3 achieved during this time period.

4 5 **2.0 TIMING OF REBASING AND RATE HARMONIZATION**

6
7 Hydro One proposes to defer the rate rebasing of the former WHSI to the earliest opportunity
8 after five years from the date of closing the proposed transaction. This was an important factor
9 in Hydro One's consideration of the merits of the proposed transaction. The deferral of rebasing
10 Hydro One Woodstock will give Hydro One time to retain savings to offset costs while
11 protecting the interests of consumers across both existing service areas. This approach is
12 consistent with the policy described in the Board's Report entitled "Rate-making Associated with
13 Distributor Consolidation".

14
15 As industry rates evolve over the next five-plus years, Hydro One expects to file a rate
16 application consistent with OEB rate-making principles (e.g. fair, practical, clear, rate stability
17 and effective cost recovery of revenue requirement) in line with the principles noted above. The
18 rate application at that time may propose: (i) to create new acquired customer rate classes; (ii) to
19 move acquired customers to an appropriate Hydro One rate class existing at that time; or (iii)
20 some other option. It is not possible today to say which of these approaches will be adopted: it
21 will depend on the situation at the time of setting the new rates for Hydro One Woodstock. The
22 approach will consider the bill impact on both legacy and acquired customers. Some
23 considerations in deciding on rate strategies include the number and characteristics of the
24 acquired utilities, customer growth in the acquired utilities and potential development within the
25 electricity regulatory arena in Ontario.

26
27 Whichever approach is adopted for setting the rates of acquired utilities, any future proposed rate
28 applications will be subject to OEB approval and will satisfy the Board's "Filing Requirements

1 for Electricity Distribution Rate Applications”, and will reflect the cost to serve these customers
2 as impacted by the productivity gains due to this consolidation.

3
4 Until the end of the five-year freeze period, Hydro One proposes to retain two separate rate
5 schedules for customers in each of the service areas – i.e. those currently served by Hydro One
6 and those currently served by WHSI.

7 8 **3.0 USGAAP**

9
10 HONI Transmission received OEB approval to utilize US Generally Accepted Accounting
11 Principles (“**US GAAP**”) as its approved framework for rate setting, regulatory accounting and
12 regulatory reporting in the Decision with Reasons in EB-2011-0268 (issued on November 23,
13 2011). Hydro One also received OEB approval for the same in EB-2011-0399 (issued on March
14 23, 2012). The latter Decision noted “as the Board has found that Hydro One transmission rates
15 should be set on the basis of USGAAP, it would generally be inefficient to require the
16 distribution utility to use MIFRS for regulatory reporting and rate making”. In addition in the
17 recent Norfolk Decision and Order, the Board decided that using USGAAP methodology in
18 accounting for Norfolk Power Distribution Inc. (the acquired utility) will be more efficient than
19 continuing to use MIFRS methodology.

20
21 WHSI’s financial statements are currently prepared under Canadian Generally Accepted
22 Accounting Principles (“**CGAAP**”) and are compliant with the OEB letter (July 27, 2012)
23 requiring all LDCs retaining CGAAP to adopt IFRS-compliant depreciation policy and an IFRS-
24 compliant cost capitalization policy.

25
26 Hydro One requests approval to utilize USGAAP for accounting purposes in relation to Hydro
27 One Woodstock. Approval to use USGAAP for Hydro One Woodstock will simplify any future
28 rate integration, will avoid incremental costs or productivity losses by simplifying processes and

1 avoiding the need for workarounds, and will facilitate Hydro One Inc.'s consolidated reporting
2 for securities filing purposes (including future U.S. Securities and Exchange Commission), thus
3 avoiding incremental costs and/or reduced productivity. By using one uniform standard of
4 reporting, Hydro One seeks to achieve integration and scale efficiencies. Given the relative
5 small size of the WHSI operations (when compared to Hydro One), Hydro One believes it would
6 be inefficient and costly to maintain two equally robust yet distinct accounting regimes for
7 divisions within Hydro One.

8 9 **4.0 COMPLIANCE MATTERS**

10
11 Pending approval of this transaction, and after notification to the Board that integration is
12 completed, WHSI's distribution system, Electricity Distribution Licence ED-2003-0011, and
13 Rate Order will be transferred to Hydro One. The customers, assets, systems, processes and
14 operations of WHSI will be fully integrated into Hydro One's business activities.

15
16 Hydro One confirms that it is materially in compliance with its regulatory requirements, subject
17 to any approved regulatory exemptions. The list of specific code requirements from which
18 Hydro One has been exempted can be found in Schedule 3 of Hydro One's Electricity
19 Distribution Licence.

20
21 WHSI has confirmed that as of the date of the Application, to the best of its knowledge, it is in
22 compliance with all relevant licence and code requirements per its Electricity Distribution
23 Licence (EB-2003-0011). It is expected that following the approval and completion of the
24 transaction and after the integration of the WHSI distribution business activities into those of
25 Hydro One, Hydro One will continue to be materially compliant with all applicable Legislation,
26 Regulations, Market Rules, other Licence Conditions and Codes.

1 Hydro One's compliance policy will continue to require that confirmed instances of non-
2 compliance be disclosed and mitigated as necessary including applications for exemptions from
3 such requirements, if necessary. Any potential instances of non-compliance associated with
4 WHSI's distribution business activities will be addressed during the integration process. For
5 example, the non-electricity billing services currently being provided by WHSI to the County of
6 Oxford (the "**County**") may be transferred to Hydro One Telecom Inc. (if necessary, as it is not
7 clear at this time whether the County intends to renew its contract for this service). This transfer,
8 if needed, will be implemented after a short transition period, in compliance with Section 71(1)
9 of the Act. In any case, given the small customer base of WHSI (when compared to Hydro One),
10 the integration is not expected to have any material impact on the current compliance status of
11 Hydro One, even during the transition period.

12
13 During the period after closing of the transaction and prior to full integration, service level
14 agreements in compliance with the OEB's *Affiliate Relationships Code for Electricity*
15 *Distributors and Transmitters* will be drafted between WHSI and Hydro One affiliates.

16
17 Hydro One will keep separate financial records for WHSI. Upon integration, WHSI's assets will
18 be transferred to Hydro One and tracked as a separate business unit within Hydro One. OM&A
19 costs will be charged to WHSI business unit similar to what is now done to record costs between
20 Hydro One's Transmission and Distribution businesses. Common costs will be allocated to the
21 WHSI business unit, consistent with Hydro One's current common corporate cost allocation
22 model.

23
24 **5.0 SUMMARY – COMPLIANCE WITH THE “NO HARM TEST” AND**
25 **SECTION 1 OF THE OEB ACT, 1998**

26
27 For the reasons addressed in the preceding sections, both qualitative and quantitative savings and
28 efficiencies are expected to result from this transaction. Overall, Hydro One's analysis shows

1 the synergies that will accrue as a result of this transaction will be to the benefit of ratepayers.
2 These attributes allow Hydro One and WHSI to conclude that the transaction will not cause harm
3 to ratepayers, and indeed will provide benefits to its ratepayers in the long term. Moreover, this
4 application embodies the current regulatory policies and principles of the Board in pursuing the
5 objectives established by section 1 of the Act.

Ontario Energy Board

Application form for Applications under Section 86 of the *Ontario Energy Board Act, 1998*



PART I: GENERAL INFORMATION

1.1 Nature of Applications:

(A) under section 86(2)(b), the applicant is Hydro One Inc. (the “Purchaser” or “HOI”) and the other party is The Corporation of the City of Woodstock (the “Vendor” or “City of Woodstock”), regarding the acquisition by HOI of all of the shares of Woodstock Hydro Holdings Inc. (“WHHI”), the parent company of the distributor Woodstock Hydro Services Inc. (“WHSI”); and

(B) under section 86(1)(a), WHSI applies for leave to transfer its distribution system to Hydro One Networks Inc.’s (“Hydro One”) distribution company;

1.1.1 Application Type

- ☒ For leave for a transmitter or distributor to sell, lease or otherwise dispose of its transmission or distribution system as an entirety or substantially as an entirety (section 86(1)(a))
- ☐ For leave for a transmitter or distributor to sell, lease or otherwise dispose of that part of its transmission or distribution system that is necessary in serving the public (section 86(1)(b))
- ☐ For leave for a transmitter or distributor to amalgamate with any other corporation (section 86(1)(c))
- ☐ For leave for a person to acquire voting securities that will exceed 20% of a distributor or transmitter (section 86(2)(a))
- ☒ For leave for a person to acquire control of a company that holds more than 20% of the voting securities of a transmitter or distributor if such voting securities constitute a significant asset of the corporation (section 86(2)(b))

1.1.2 Notice under section 80 or 81 of the Act

Is a notice of proposal required under section 80 or 81 of the Act?

- ☒ Yes
- ☐ No

If yes, the applicant must also file a completed “Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*” with the Board.

1.2 Identification of the Parties

1.2.1 Name of Applicant

Legal name of the applicant: Hydro One Inc. ("HOI")

Name of Primary Contact:

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Engelberg	Michael	
Other	<input type="checkbox"/>					
				Title/Position		
				Assistant General Counsel		

Address of Head Office: 483 Bay Street

City	Province/State	Country	Postal/Zip Code
Toronto	Ontario	Canada	M5G 2P5
Phone Number	Fax Number	E-mail Address	
(416) 345-6305	(416) 345-6972	mengelberg@HydroOne.com	

Name of Primary Contact:

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Nettleton	Gord	
Other	<input type="checkbox"/>					
				Title/Position		
				Counsel		

Address of Head Office:

City	Province/State	Country	Postal/Zip Code
Toronto	Ontario	Canada	M5G 2P5
Phone Number	Fax Number	E-mail Address	
403-260-3622	(416) 345-6972	gnettleton@mccarthy.ca	

Legal name of the applicant in (B): Woodstock Hydro Services Inc..

The transaction which is the subject of the application by WHSI under s. 86(1) occurs following the acquisition of WHSI's parent by HOI and is contingent on approval of the application by HOI. under s.86(2). The address given for the applicant WHSI below is the address of the Vendor to which all notices should be directed for WHSI as applicant. However, WHSI, the currently licenced distributor, is represented by J. Mark Rodger of the law firm Borden Ladner Gervais and he should be considered the primary contact for WHSI with respect to the

application under s. 86(2). With respect to the s.86(1) application, the primary contact named below is a Director of WHSI and is available at the phone and fax numbers indicated.

Name of Primary Contact:

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Creery	David	
Other	<input type="checkbox"/>					
				Title/Position		
				CAO		

Address of the City of Woodstock: 500 Dundas Street

City	Province/State	Country	Postal/Zip Code
Woodstock	Ontario	Canada	N4S 0A7
Phone Number	Fax Number	E-mail Address	
(519) 539-2382 x2101	519-539-3275	dcreery@cityofwoodstock.ca	

Address of Primary Contact for WHSI in relation to s. 86(2) application: Borden Ladner Gervais LLP, Scotia Plaza, 40 King St. W., Toronto, Ontario, M5H 3Y4

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Rodger	Mark	
Other	<input type="checkbox"/>					
				Title/Position		
				Partner		

City	Province/State	Country	Postal/Zip Code
Toronto	Ontario	Canada	M5H 3Y4
Phone Number	Fax Number	E-mail Address	
(416) 367-6190	(416) 361-7088	mrodger@blg.com	

Other Party to the Transaction (if more than one attach a list)

Name of the other party: The Corporation of the City of Woodstock

Name of Primary Contact:

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Sobeski	Pat	
Other	<input type="checkbox"/>					
				Title/Position		
				Mayor		

Address of Head Office: 500 Dundas Street

City	Province/State	Country	Postal/Zip Code
Woodstock	Ontario	Canada	N4S 0A7
Phone Number	Fax Number	E-mail Address	
(519) 539-2382 x2102	(519) 539-3275	psobeski@cityofwoodstock.ca	

Name of the other party: Hydro One Networks Inc.

Name of Primary Contact:

Mr.	<input type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input checked="" type="checkbox"/>	Henderson	Erin	
Other	<input type="checkbox"/>					
				Title/Position		
				Sr. Regulatory Coordinator		

Address of Head Office: 483 Bay Street, South Tower, 7th Floor

City	Province/State	Country	Postal/Zip Code
Toronto	Ontario	Canada	M5G 2P5
Phone Number	Fax Number	E-mail Address	
(416) 345-6948	(416) 345-5866	regulatory@HydroOne.com	

1.3 Description of the Business of Each of the Parties

- 1.3.1 Please provide a description of the business of each of the parties to the proposed transaction, including each of their affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity ("Electricity Sector Affiliates").

Woodstock Hydro Services Inc. ("WHSI")

WHSI owns and is responsible for the operation, maintenance and management of the assets associated with the distribution of electrical power and energy within its service territory, as specified in Distribution Licence ED-2003-0011 (a copy of which is provided in **Exhibit A, Tab 3, Schedule 1 Attachment 1**). WHSI also provides water and waste water billing for the County of Oxford for Woodstock residents.

WHSI is, at the date of this application, a wholly-owned subsidiary of Woodstock Hydro Holdings Inc. ("WHHI"), a holding company, itself wholly-owned by the City of Woodstock.

Hydro One Inc. ("HOI")

Hydro One Inc. is wholly-owned by the Province of Ontario and is the parent company of Hydro One Networks Inc., Hydro One Brampton Networks Inc., Hydro One Remote Communities Inc., Norfolk Power Distribution Inc. and Hydro One Telecom Inc.

Hydro One Networks Inc. ("Hydro One")

Hydro One is a wholly-owned subsidiary of HOI and is the largest transmitter and distributor of electricity in Ontario. Hydro One's distribution company serves approximately 1.2 million customers. Customers include local distribution companies, customers with load exceeding 5 MW, and rural and urban customers. Distribution assets as at December 31, 2013, had a net book value of \$5.6 billion. Hydro One owns and is responsible for the operation, maintenance and management of the assets associated with the distribution of electrical power and energy within its service territory, as specified in Distribution Licence ED-2003-0043 (a copy of which is provided in **Exhibit A, Tab 3, Schedule 1, Attachment 2**). Hydro One also has a regulated transmission business owning 97% of transmission in Ontario with almost 30,000 km of high-voltage transmission lines.

Hydro One Inc. – Norfolk Power Distribution Inc.

Hydro One Inc. – Norfolk Power Distribution Inc. owns and is responsible for the operation, maintenance, and management of the assets associated with the distribution of electrical power and energy for approximately 23,000 customers in both urban and rural areas of Norfolk County. Hydro One recently acquired all issued and outstanding shares of Norfolk Power Distribution Inc. as approved by the OEB in EB-2013-0196/EB-2013-0187/EB-2013-0198.

Hydro One Brampton Networks Inc.

Hydro One Brampton Networks Inc. is HOI's urban distribution company serving customers in the GTA.

Hydro One Remote Communities Inc.

Hydro One Remote Communities Inc. operates a small, regulated generation and distribution system serving remote communities across Northern Ontario that are not connected to Ontario's electricity grid.

HOI's other business segment is represented primarily by the operations of **Hydro One Telecom Inc.**, which markets dark and lit fibre-optic capacity to telecommunications carriers and commercial customers with broadband network requirements. The assets of this segment, including Hydro One Telecom Inc., constituted approximately \$974 million of HOI's total assets of \$22 billion as at December 31, 2013.

Note the Share Purchase Agreement is structured between The Corporation of the City of Woodstock, 1908873 Ontario Inc. and Hydro One Inc. 1908873 Ontario Inc. was used to allow for tax efficient integration of the two corporate structures. The shares held by 19088773 Ontario Inc. will be transferred to HOI after closing. As such, this OEB application has referenced the transaction as between HOI and the Corporation of the City of Woodstock.

- 1.3.2 Please provide a description of the geographic territory served by each of the parties to the proposed transaction, including each of their Electricity Sector Affiliates, if applicable.

Woodstock Hydro Services Inc.

As defined in Schedule 1 to its Distribution Licence, WHSI serves the geographical territory described as follows (the "WHSI Service Territory"):

- (a) The City of Woodstock as of September 1, 1997
- (b) Boot Hill Development located on part of lots 3, 7, 8, 11, 12, 13 and registered plan 86 and 501.
- (c) Three customers on Mill Street with civic address numbers 388, 390 and 410.

Hydro One Networks Inc.

See Hydro One's Electricity Distribution Licence ED-2003-0043 (**Exhibit A, Tab 3, Schedule 1 Attachment 2**), Schedule 1 for a Definition of its Distribution Service Area.

The attached map (**Exhibit A, Tab 3, Schedule 1, Attachment 3a**) is a representation of Hydro One's distribution service territory. It is not a substitute for the written description in its Electricity Distribution Licence ED-2003-0043. The map is accurate where local distribution companies' ("LDC") boundaries conform to existing or former municipal boundaries but is only a best-efforts representation in locations where there have been annexations or, for other reasons, the LDC boundaries are different from current or former municipal boundaries.

- 1.3.3 Please provide a description of the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.

Woodstock Hydro Services Inc.

WHSI's distribution system serves approximately 15,534 Residential and General Service customers in the WHSI Service Territory.

The following table provides a summary of the number of customers and connections by customer class for 2013:

Rate Class	Number of Customers
Residential	14,113
General Service < 50 kW	1,227
General Service 50 to 999 kW	188
General Service > 1,000 kW	6
Street Lighting	4,376
Unmetered Scattered Load	131
Total	20,041

Hydro One Networks Inc. - Distribution

Hydro One's distribution system serves approximately 1.2 million customers in its Service Territory.

The following table provides a summary of the number of customers in each Hydro One rate class:

Rate Class	Number of Customers
Urban Density Residential (UR)	140,540
Medium Density Residential (R1)	412,455
Low Density Residential (R2)	367,107
Seasonal Residential	156,901
General Service Energy Billed (GSe)	98,776
General Service Demand Billed (GSd)	7,361
Urban Density General Service Energy (UGe)	10,577
Urban Density General Service Demand (UGd)	1,130
Street Lights	5,234
Sentinel Lights	37,506
Distributed Generation (DGen)	88
Sub Transmission (ST)	607
Total	1,238,282

- 1.3.4 Please provide a description of the proposed geographic service area of each of the parties after completion of the proposed transaction.

If the Board grants approval to section 86(2)(b) as stated above, Hydro One requests that the Board grant leave to either transfer or assign WHSI's distribution licence in accordance Section 18 of the *Ontario Energy Board Act, 1998* to reflect the fact that the WHSI service territory will be operated and maintained by Hydro One.

- 1.3.5 Please attach a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.

Please refer to **Exhibit A, Tab 3, Schedule 1, Attachments 4 and 5** for corporate charts of the Purchaser and the Vendor, respectively.

1.4 **Description of the Proposed Transaction**

- 1.4.1 Please provide a detailed description of the proposed transaction.

On May 21, 2014, the City of Woodstock (as Vendor) and HOI (as Purchaser) entered into a Share Purchase Agreement (the "Agreement"), whereby the Vendor agreed to sell, and the Purchaser agreed to purchase, all of the issued and outstanding shares of WHHI (the "Purchased Shares"). The Agreement stipulates that the purchase price will be \$46.2 million for the issued and outstanding shares of WHHI. This will comprise of a cash payment of approximately \$29.2 million and the assumption of approximately \$17.0 million of existing short and long-term debt. The Agreement contemplates the transaction closing 90 days following the Parties' receipt of all required approvals, including Ontario Energy Board approval of this Application under sections 86(2) and 86(1) of the *Ontario Energy Board Act, 1998*.

A copy of the signed Agreement is attached hereto as **Exhibit A, Tab 3, Schedule 1, Attachment 6**. The Agreement contemplates the following items in addition to the sale of the Shares:

- (a) WHSI will apply to the OEB for approval to include a negative rate rider to WHSI's electricity rates (effective May 1, 2014) to reduce base delivery distribution rates by one per cent across all rate classes, and to have such reduced rates apply for the next five years (please see **Exhibit A, Tab 2, Schedule 1, Section 1.2** of this application for further details).
- (b) During the period in which the negative rate ride is in effect, Hydro One and WHSI intend to transfer the WHSI's regulated distribution system assets so that they are owned, integrated and form part of Hydro One's existing distribution system. The parties therefore seek to have WHSI's Electricity Distribution Licence ED-2003-0011, and Rate Orders, transferred and assigned to Hydro One. Asset transfer and integration steps are expected to occur within 18 months of the close of the Agreement.
- (c) Following the effective period for the negative rate rider, Hydro One expects to apply to harmonize these rates with Hydro One's revenue requirement. The rebasing and rate harmonization application is expected to take effect in 2020 and will be based on then-prevailing forecast costs as discussed **Exhibit A, Tab 2, Schedule 1, Section 2**.
- (d) The Purchaser or an affiliate shall offer all active employees of WHHI and/or WHSI continued employment in the city of Woodstock for at least one year post-closing.
- (e) The Purchaser and the Vendor shall establish an advisory committee (the "**Advisory Committee**") to provide a forum for communication between the Purchaser and the Vendor. In establishing the Advisory Committee, the Purchaser shall select one senior official and one local official as its representatives, in consultation with officials of the Vendor. The Vendor has the right to appoint at least three Representatives to the Advisory Committee.
- (f) If, three years after closing, the three-year average for service reliability and customer service standards levels of the current WHSI is below the current three-year reported average prior to

closing, the Purchaser shall make a single payment to the Vendor in the amount of \$200,000, to be used for community purposes, including charities.

- (g) The purchase price is subject to adjustment within 90 days following closing, for Working Capital, Net Fixed Assets, and Long-Term Debt, as defined in the Agreement.

The rate base value of the assets to be transferred as a result of this transaction is approximately \$26 million.

- 1.4.2 Please provide the details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.

As described in section 1.4.1, the total purchase price is \$46.2 million. The Agreement outlines three types of adjustments to the purchase price: (i) Working Capital, (ii) Net Fixed Assets, and (iii) Long Term Debt, as defined in the Agreement. These adjustments will be calculated within 90 days following closing.

- 1.4.3 Please attach the financial statements (including balance sheet, income statement, and cash flow statement) of the parties to the proposed transaction for the past two most recent years.

Please refer to the following attachments to **Exhibit A, Tab 3, Schedule 1** for a copy of the audited financial statements for the past two most recent years:

- **Attachment 7** 2013 Hydro One Inc. Consolidated
- **Attachment 8** 2012 Hydro One Inc. Consolidated
- **Attachment 9** 2013 Hydro One Networks Inc. - Distribution
- **Attachment 10** 2012 Hydro One Networks Inc. - Distribution
- **Attachment 11** 2013 Woodstock Hydro Services Inc.
- **Attachment 12** 2012 Woodstock Hydro Services Inc.

Note that although the City of Woodstock is a party to this transaction, its financial statements have not been included, as they are not relevant to the transaction.

- 1.4.4 Please attach the pro forma financial statements for each of the parties (or if amalgamation, the one party) for the first full year following the completion of the proposed transaction.

The proposed transaction will not have a material impact on Hydro One's financial position. The price is less than 1% of Hydro One's Distribution's net fixed assets.

1.5 **Documentation**

- 1.5.1 Please provide copies of all annual reports, proxy circulars, prospectuses or other information filed with securities commissions or similar authorities or sent to shareholders for each of the parties to the proposed transaction and their affiliates within the past 2 years.

HOI

Information which HOI has filed to the Ontario Securities Commission is publicly available through SEDAR (www.sedar.com).

WHSI

This corporation does not file any material with securities commissions.

- 1.5.2 Please list all legal documents (including those currently in draft form if not yet executed) to be used to implement the proposed transaction.

A copy of the Share Purchase Agreement is provided in **Exhibit A, Tab 3, Schedule 1, Attachment 6**. Please note that the Agreement has been redacted to remove any “personal information” within the meaning of the *Freedom of Information and Protection of Privacy Act* (Ontario) and pursuant to section 42 of that Act such information should not be released publicly.

A copy of the resolution of the City of Woodstock dated May 21, 2014 authorizing the sale of shares to Hydro One Inc. is provided as **Exhibit A, Tab 3, Schedule 1, Attachment 13**.

- 1.5.3 Please list all Board issued licences held by the parties and confirm that the parties will be in compliance with all licence, code and rule requirements both before and after the proposed transaction. If any of the parties will not be in compliance with all applicable licences, codes and rules after completion of the proposed transaction, please explain the reasons for such non-compliance. (Note: any application for an exemption from a provision of a rule or code is subject to a separate application process.)

WHSI, currently operates under Electricity Distribution Licence ED-2003-0011. Hydro One’s Electricity Distribution Licence is ED-2003-0043.

Please see **Exhibit A, Tab 2, Schedule 1 Section 4.0** for compliance related matters.

1.6 Consumer Protection

- 1.6.1 Please explain whether the proposed transaction will cause a change of control of any of the transmission or distribution system assets, at any time, during or by the end of the transaction.

As mentioned above, WHHI is a holding company, which is wholly-owned by the Vendor. WHHI in turn wholly owns WHSI, a licenced electricity distributor. HOI’s purchase of the shares from the Vendor (as described in section 1.4.1 and the Agreement) will therefore result in a change of control of WHHI, and consequently, a change in control of the distributor WHSI.

- 1.6.2 Please indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability and quality of electricity service.

As discussed in section 1.4.1, as a result of the proposed transaction, WHSI is applying to the Board for approval to include a negative rate rider to WHSI’s approved 2014 rates (EB-2013-0182) to give effect to a 1% reduction to 2014 base electricity distribution delivery rates (exclusive of rate riders) (see **Exhibit A, Tab 2, Schedule 1, Section 1.2**). This would provide a benefit to WHSI ratepayers.

The existing customers of Hydro One will also be held harmless from this transaction. Hydro One has applied for 2015-2019 rates under the Custom Incentive Ratemaking regime (EB-2013-0416). That application was based on Hydro One’s existing customer base and did not include any capital or OM&A costs associated with serving customers and/or maintaining or operating assets for any

acquired LDC, including WHSI. As such, there will be no impact on Hydro One's existing customers with respect to price. In addition, in the long term, because the fixed costs of operations will be spread over a wider customer base, Hydro One customers will see a small price benefit.

Hydro One is committed to maintaining the quality, reliability and adequacy of electricity service in the current WHSI service territory. Please see **Exhibit A, Tab 2, Schedule 1 Section 1** for information on how this transaction provides consumer protection,

- 1.6.3 Please describe the steps, including details of any capital expenditure plans that will be taken to ensure that operational safety and system integrity are maintained after completion of the proposed transaction.

Through the share acquisition described herein, the acquired WHSI assets will be fully integrated with Hydro One's assets to ensure the safe and secure operations and system integrity for both the acquired customers and the neighbouring Hydro One customers. The assets will be maintained and operated by Hydro One in the same fashion and to the same standards as Hydro One's current assets. The acquisition will not adversely affect operational safety or system integrity. For more information, please refer to **Exhibit A, Tab 2, Schedule 1 Section 1.3**.

- 1.6.4 Please provide details, including any capital expenditure plans, of how quality and reliability of service will be maintained after completion of the proposed transaction. Indicate where service centres will be located and expected response times.

Hydro One will use its Asset Risk Assessment ("ARA") process to determine capital expenditure required for operating and maintaining the current WHSI service territory to provide the same or better quality and reliability as customers experience today.

In performing maintenance on the acquired WHSI distribution system, Hydro One's system standards will be used. Hydro One will thereby be able to serve the customers of WHSI with the same level of service Hydro One provides its existing customers by virtue of the existing customer service practices and policies of Hydro One.

Electric utility service to customers currently served by WHSI will remain subject to OEB rules and regulations governing all Ontario distributors.

Reliability will be maintained from the use of existing and required resources and as a result response times are not expected to be affected

- 1.6.5 Please indicate whether the parties to the proposed transaction intend to undertake a rate harmonization process after the proposed transaction is completed. If yes, please provide a description of the plan.

As industry rates evolve over the next five-plus years, Hydro One expects to file a rate application consistent with the OEB rate-making principles (e.g. fair, practical, clear, rate stability and effective cost recovery of revenue requirement). The rate application at that time may propose: (i) to create new acquired customer rate classes; (ii) to move acquired customers to an appropriate Hydro One rate class existing at that time; or (iii) some other option. Hydro One will assess which of these approaches will be adopted at the time of setting new rates for the current WHSI, considering the bill impact on both legacy and acquired customers. Some considerations in deciding on rate strategies include the number and characteristic of the acquired utilities, customer growth in the acquired utilities and potential development within the electricity regulatory arena in Ontario.

If required, Hydro One will have also maintained the ability to have a separate revenue requirement for WHSI, by, as mentioned previously, separately tracking all costs associated with this business.

Whichever approach is adopted for setting the rates of acquired utilities, any future proposed rate applications will be subject to OEB approval and will satisfy the Board's "Filing Requirements for Electricity Distribution Rate Applications". Until the end of the five year freeze period, Hydro One proposes to retain two separate distribution rate schedules for customers in each of the service areas – i.e. those currently served by Hydro One and those currently served by WHSI. Please see **Exhibit A, Tab 2, Schedule 1, Sections 1.2 and 2.0** for further details on rates.

- 1.6.6 If the application is for an amalgamation, please provide a proposal for the time of rebasing the consolidated entity in accordance with the five-year limit set by the Board.

The proposed transaction does not contemplate an amalgamation.

For details on Hydro One's rebasing strategy, please see **Exhibit A, Tab 2, Schedule 1, Section 2.0**.

- 1.6.7 Please identify all incremental costs that the parties to the proposed transaction expect to incur. These may include incremental transaction costs, (i.e., legal), incremental merged costs (i.e., employee severances), and incremental ongoing costs (i.e., purchase and maintenance of new IT systems). Please explain how the new utility plans to finance these costs.

The transaction will not result in a new utility.

Incremental costs associated with the transaction include costs incurred for due diligence, to negotiate and complete the transaction, costs associated with all necessary regulatory approvals, and the integration costs to transfer the customers into Hydro One's customer and outage management systems. These costs (estimated to be \$2.5 to \$4 million) will be incurred during the rate-freeze period, will be financed through productivity gains associated with the transaction, and will not be included in Hydro One's distribution revenue requirement and thus will not be funded by ratepayers.

- 1.6.8 Please describe the changes, if any, in distribution or transmission rate levels (as applicable) and the impact on the total bill that may result from the proposed transaction.

Please see **Exhibit A, Tab 2, Schedule 1 Section 1.2.1** for changes/impacts on the total bill as a result of this transaction. Detailed calculations of these bill impacts can be found in **Exhibit A, Tab 3, Schedule 1, Attachment 14**.

Hydro One is requesting to extend WHSI's Rate Rider for "Recovery of Incremental Capital" effective until April 30, 2015 to be effective until the effective date of the next cost of service application . Please see **Exhibit A, Tab 2, Schedule 1, Section 1.2.2** for further details.

- 1.6.9 Please provide details of the costs and benefits of the proposed transaction to the customers of the parties to the proposed transaction.

WHSI's distribution customers will experience no harm from this transaction. There will be no additional costs to the customers of the parties to the proposed transaction. To the contrary, and as stated in **Section 1.6.2**, the customers will have the benefit of a negative rate rider requested in this Application and have their rates frozen at that reduced level for the next five years.

Hydro One's current customers will continue to enjoy the same service they receive now. In the long term, because fixed costs of operations will be spread over a wider customer base, Hydro One customers will see a small price benefit.

This transaction meets the Board's five objectives as set out in Section 1 of the Act as described in **Exhibit A, Tab 2, Schedule 1, Section 1**.

1.7 **Economic Efficiency**

- 1.7.1 Please indicate the impact the proposed transaction will have on economic efficiency and cost effectiveness (in the distribution or transmission of electricity). Details on the impacts of the proposed transaction on economic efficiency and cost effectiveness should include, but are not limited to, impacts on administration support functions such as IT, accounting, and customer service.

Please see **Exhibit A, Tab 2, Schedule 1, Section 1**.

1.8 Financial Viability

- 1.8.1 Please provide a valuation of any assets or shares that will be transferred in the proposed transaction. Provide details on how this value was determined, including any assumptions made about future rate levels.

The Purchaser and the Vendor have entered into a Share Purchase Agreement whereby the Purchaser will be purchasing all of the shares of WHHI, which owns all of the shares of WHSI. The Vendor also retained the services of Henley International Inc. ("Henley") to advise and assist in evaluating the financial offer from Hydro One which has resulted in the sale of the shares of WHHI. The Vendor is satisfied that the price to be received is fair and reasonable, based on staff and Henley review.

The Purchaser considered the financial statements, as well as cash flow projections, an assessment of asset condition, one-time costs of integration and potential efficiency gains in assessing the value of the business.

Please refer to **Section 1.6.2** for discussion regarding future rate levels.

- 1.8.2 If the price paid as part of the proposed transaction is significantly more than the book value of the assets of the selling utility, please provide details as to why this price will not have an adverse affect on the economic viability of the acquiring utility.

The premium paid over the book value on the transaction will not have a material impact on HOI's financial viability. In addition, the premium paid over the net book value of the assets will not be recovered through Hydro One rates.

- 1.8.3 Please provide details of the financing of the proposed transaction.

HOI will initially finance the proposed transaction through cash or its short-term commercial paper program, which is operational and fully backed by a syndicated bank line of credit maturing June, 2019. Long-term financing will be through its Medium-Term Note program, which is fully operational and valid until October, 2015, and planned to be renewed thereafter.

- 1.8.4 If the proposed transaction involves a leasing arrangement, please identify separately any assets in the service area that are owned, from those assets that are encumbered by any means, e.g., subject to a lease or debt covenant.

This transaction is for a share purchase.

- 1.8.5 Please outline the capital (debt/equity) structure, on an actual basis, of the parties to the proposed transaction prior to the transaction and on a pro forma basis after completion of the proposed transaction. In order to allow the Board to assess any potential impacts on the utility's financial viability, please include the terms associated with the debt structure of the utility as well as the utility's dividend policy after the completion of the proposed transaction. Please ensure that any debt covenants associated with the debt issue are also disclosed.

The premium paid over the book value on the transaction will not have a material impact on Hydro One's or HOI's financial viability. In alignment with Board practice and as referred to in Board Staff's Discussion Paper on Rate Making Associated with Distributor Consolidation, the premium paid over the net book value of the assets will not be recovered through Hydro One rates.

- 1.8.6 Please provide details of any potential liabilities associated with the proposed transaction in relation to public health and safety matters or environmental matters. These may be matters that have been identified in the audited financial statements or they may be matters that the parties have become aware of since the release of the most recently audited financial statements. If there are any pre-existing potential liabilities regarding public health and safety matters or environmental matters for any party to the proposed transaction, provide details on how the parties propose to deal with those potential liabilities after the transaction is completed. Specify who will have on-going liability for the pre-existing potential liabilities.

Certain environmental matters were disclosed by the Vendor as part of the due diligence process and as part of its disclosures under the Agreement. Liability for these matters remains momentarily with WHSI until the properties subject to the environmental concerns are transferred to the Purchaser through the contemplated share transfer. HONI manages a distribution business throughout the Province with similar assets to WHSI and has programs in place to deal with any relevant safety and environmental matters.

1.9 Other Information

- 1.9.1 If the proposed transaction requires the approval of a parent company, municipal council or any other entity please provide a copy of appropriate resolutions indicating that all such parties have approved the proposed transaction.

A copy of the resolution authorizing the sale of shares to HOI is provided as **Exhibit A, Tab 3, Schedule 1, Attachment 13.**

- 1.9.2 Please list all suits, actions, investigations, inquiries or proceedings by any government body, or other legal or administrative proceeding, except proceedings before the Board, that have been instituted or threatened against each of the parties to the proposed transaction or any of their respective affiliates.

There are none associated with the parties to this Application related to this transaction.

- 1.9.3 Regarding net metering thresholds, the Board will, absent exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Please indicate the current net metering thresholds of the utilities involved in the proposed transaction. Please also indicate if there are any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the new or remaining utility.

The current net metering thresholds of Hydro One and WHSI are 14,330 kW and 730 kW respectively. There are no special circumstances that warrant the Board using a different methodology to determine the net metering threshold for each utility. Therefore, Hydro One and WHSI submit that individual CDM targets for both Hydro One and WHSI should remain separate.

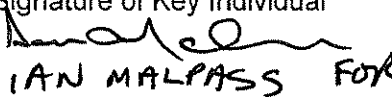
- 1.9.4 Please provide the Board with any other information that is relevant to the application. When providing this additional information, please have due regard to the Board's objectives in relation to electricity.


This transaction was completed on a commercial basis between a willing seller and a willing buyer. It is a demonstration of the type of benefits that can be realized from consolidation within the electric distribution sector in Ontario and is consistent with the findings of the Sector Review Panel. This transaction eliminates the duplication of effort between Hydro One and WHSI and results in a single electric distribution service provider for all of the regional area, which will ultimately lead to a lower cost of service across the combined service areas and will create downward pressure on electricity distribution rates.

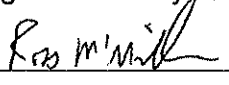
PART II: CERTIFICATION AND ACKNOWLEDGMENT

2.1 Certification and Acknowledgment

I certify that the information contained in this application and in documents provided are true and accurate.

Signature of Key Individual  IAN MALPASS FOR	Print Name of Key Individual Susan Frank	Title/Position Chief Regulatory Officer
	Date July 9, 2014	Company 1908873 Ontario Inc.(HO)

Signature of Key Individual 	Print Name of Key Individual Pat Sobeski	Title/Position Mayor
	Date July 9, 2014	Company The Corporation of the City of Woodstock

Signature of Key Individual 	Print Name of Key Individual Ross McMillan	Title/Position VP-Finance and Secretary
	Date July 9, 2014	Company Woodstock Hydro Holdings Inc.

(Must be signed by a key individual. A key individual is one that is responsible for executing the following functions for the applicant: matters related to regulatory requirements and conduct, financial matters and technical matters. These key individuals may include the Chief Executive Officer, the Chief Financial Officer, other officers, directors or proprietors.) TOR01: 5157356: v2

Attachment List

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- Attachment 1: Woodstock Hydro Services Inc. Distribution Licence – ED-2003-0011
- Attachment 2: Hydro One Networks Inc. Distribution Licence – ED-2003-0043
- Attachment 3a: Map of Hydro One Networks Inc. Service Area
- Attachment 3b: Checkerboard Map of Distributors in Woodstock Surrounding Area
- Attachment 3c: Map of Existing Electricity Distributors in the City of Woodstock
- Attachment 4: Hydro One Inc. Corporate Structure
- Attachment 5: Woodstock Hydro Services Inc. Corporate Structure
- Attachment 6: Share Purchase Agreement
- Attachment 7: 2013 Hydro One Inc. Financial Statements
- Attachment 8: 2012 Hydro One Inc. Financial Statements
- Attachment 9: 2013 Hydro One Networks Inc. Distribution Financial Statements
- Attachment 10: 2012 Hydro One Networks Inc. Distribution Financial Statements
- Attachment 11: 2013 Woodstock Hydro Service Inc. Financial Statements
- Attachment 12: 2012 Woodstock Hydro Service Inc. Financial Statements
- Attachment 13: Resolution
- Attachment 14: Bill Impact Analysis
- Attachment 15: Proposed Rate Schedule for Existing WHSI



Electricity Distribution Licence

ED-2003-0011

Woodstock Hydro Services Inc.

Valid Until

December 17, 2023

Original signed by

Kirsten Walli

Board Secretary

Ontario Energy Board

Date of Issuance: December 18, 2003

Date of Amendment: December 14, 2009

Date of Amendment: November 12, 2010

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

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4

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1 Definitions

In this Licence:

“Accounting Procedures Handbook” means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

“Act” means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

“Affiliate Relationships Code for Electricity Distributors and Transmitters” means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

“Conservation and Demand Management” and **“CDM”** means distribution activities and programs to reduce electricity consumption and peak provincial electricity demand;

“Conservation and Demand Management Code for Electricity Distributors” means the code approved by the Board which, among other things, establishes the rules and obligations surrounding Board approved programs to help distributors meet their CDM Targets;

“distribution services” means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

“Distribution System Code” means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

“Electricity Act” means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

“Licensee” means Woodstock Hydro Services Inc.;

“Market Rules” means the rules made under section 32 of the Electricity Act;

“Net Annual Peak Demand Energy Savings Target” means the reduction in a distributor’s peak electricity demand persisting at the end of the four-year period (i.e. December 31, 2014) that coincides with the provincial peak electricity demand that is associated with the implementation of CDM Programs;

“Net Cumulative Energy Savings Target” means the total amount of reduction in electricity consumption associated with the implementation of CDM Programs between 2011-2014;

“OPA” means the Ontario Power Authority;

“Performance Standards” means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

“Provincial Brand” means any mark or logo that the Province has used or is using, created or to be created by or on behalf of the Province, and which will be identified to the Board by the Ministry as a provincial mark or logo for its conservation programs;

“Rate Order” means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

“regulation” means a regulation made under the Act or the Electricity Act;

“Retail Settlement Code” means the code approved by the Board which, among other things, establishes a distributor’s obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

“service area” with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

“Standard Supply Service Code” means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

“wholesaler” means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

- 2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this Licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

- 3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence:
- a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence;

- b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and
- c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act.

4 Obligation to Comply with Legislation, Regulations and Market Rules

- 4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.
- 4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

- 5.1 The Licensee shall at all times comply with the following Codes (collectively the “Codes”) approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:
 - a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;
 - b) the Distribution System Code;
 - c) the Retail Settlement Code; and
 - d) the Standard Supply Service Code.
- 5.2 The Licensee shall:
 - a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and
 - b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Obligation to Provide Non-discriminatory Access

- 6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee’s distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

7 Obligation to Connect

- 7.1 The Licensee shall connect a building to its distribution system if:
 - a) the building lies along any of the lines of the distributor’s distribution system; and

- b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.2 The Licensee shall make an offer to connect a building to its distribution system if:

- a) the building is within the Licensee's service area as described in Schedule 1; and
- b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.

7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the Act or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.

8 Obligation to Sell Electricity

8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

9 Obligation to Maintain System Integrity

9.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

10 Market Power Mitigation Rebates

10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.

11 Distribution Rates

11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.

12 Separation of Business Activities

12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

13 Expansion of Distribution System

- 13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules.
- 13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

14 Provision of Information to the Board

- 14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.
- 14.2 Without limiting the generality of paragraph 14.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.

15 Restrictions on Provision of Information

- 15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.
- 15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:
- a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;
 - b) for billing, settlement or market operations purposes;
 - c) for law enforcement purposes; or
 - d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.
- 15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.
- 15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.
- 15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed.

16 Customer Complaint and Dispute Resolution

16.1 The Licensee shall:

- a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;
- b) publish information which will make its customers aware of and help them to use its dispute resolution process;
- c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;
- d) give or send free of charge a copy of the process to any person who reasonably requests it; and
- e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

17 Term of Licence

17.1 This Licence shall take effect on December 18, 2003 and expire on December 17, 2023. The term of this Licence may be extended by the Board.

18 Fees and Assessments

18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.

19.2 All official communication relating to this Licence shall be in writing.

19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

- a) when delivered in person to the addressee by hand, by registered mail or by courier;
- b) ten (10) business days after the date of posting if the communication is sent by regular mail; and
- c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

20 Copies of the Licence

20.1 The Licensee shall:

- a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and
- b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

21 Conservation and Demand Management

21.1 The Licensee shall achieve reductions in electricity consumption and reductions in peak provincial electricity demand through the delivery of CDM programs. The Licensee shall meet its 2014 Net Annual Peak Demand Savings Target of 4.490 MW, and its 2011-2014 Net Cumulative Energy Savings Target of 18.880 GWh (collectively the "CDM Targets"), over a four-year period beginning January 1, 2011

21.2 The Licensee shall meet its CDM Targets through:

- a) the delivery of Board approved CDM Programs delivered in the Licensee's service area ("Board-Approved CDM Programs");
- b) the delivery of CDM Programs that are made available by the OPA to distributors in the Licensee's service area under contract with the OPA ("OPA-Contracted Province-Wide CDM Programs"); or
- c) a combination of a) and b).

21.3 The Licensee shall make its best efforts to deliver a mix of CDM Programs to all consumer types in the Licensee's service area.

21.4 The Licensee shall comply with the rules mandated by the Board's Conservation and Demand Management Code for Electricity Distributors.

21.5 The Licensee shall utilize the common Provincial brand, once available, with all Board-Approved CDM Programs, OPA-Contracted Province-Wide Programs, and in conjunction with or co-branded with the Licensee's own brand or marks.

SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

1. The City of Woodstock as of September 1, 1997.
- 4
2. Boot Hill Development located on part of lots 3, 7, 8, 11, 12, 13 and registered plan 86 and 501.
3. Three customers on Mill Street with civic address numbers 388, 390 and 410.

SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act.

The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with paragraph 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

SCHEDULE 3 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the Licensee has been exempted.

The Licensee is exempt from the requirements of section 2.5.3 of the Standard Supply Service Code with respect to the price for small volume/residential consumers, subject to the Licensee offering an equal billing plan as described in its application for exemption from Fixed Reference Price, and meeting all other undertakings and material representations contained in the application and the materials filed in connection with it.

APPENDIX A

MARKET POWER MITIGATION REBATES

1. Definitions and Interpretations

In this Licence

“embedded distributor” means a distributor who is not a market participant and to whom a host distributor distributes electricity;

“embedded generator” means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

“host distributor” means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity

consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

ONTARIO POWER GENERATION INC. REBATES

For the payments that relate to the period from May 1, 2006 to April 30, 2009, the rules set out below shall apply.

1. Definitions and Interpretations

In this Licence

“embedded distributor” means a distributor who is not a market participant and to whom a host distributor distributes electricity;

“embedded generator” means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

“host distributor” means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

- ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

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“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host

distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.



Electricity Distribution Licence

ED-2003-0043

Hydro One Networks Inc.

Valid Until

September 28, 2024

Original signed by

David Richmond
Manager, Electricity Facilities and Infrastructure Applications
Ontario Energy Board

Date of Issuance: September 29, 2004
Date of Last Amendment: October 30, 2013

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

Commission de l'énergie de l'Ontario
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LIST OF AMENDMENTS

Board File No.	Date of Amendment
EB-2005-0286	October 12, 2005
EB-2007-0688	November 26, 2007
EB-2007-0912	February 1, 2008
EB-2007-0916	February 27, 2008
EB-2007-0968	March 20, 2008
EB-2007-0792	April 4, 2008
EB-2007-0933	June 26, 2008
EB-2007-0917	July 25, 2008
EB-2008-0269	October 22, 2008
EB-2009-0148	June 3, 2009
EB-2009-0325	November 24, 2009
EB-2009-0325	December 14, 2009
EB-2010-0172	August 26, 2010
EB-2010-0215	November 12, 2010
EB-2010-0282	January 13, 2011
EB-2010-0229	March 7, 2011
EB-2010-0398	March 29, 2011
EB-2011-0018	April 25, 2011
EB-2011-0067	May 18, 2011
EB-2011-0209	September 12, 2011
EB-2011-0118	October 11, 2011
EB-2011-0321	November 9, 2011
EB-2012-0007	March 8, 2012
EB-2012-0088	May 10, 2012
EB-2012-0204	July 5, 2012
EB-2012-0305	September 27, 2012
EB-2012-0343	November 8, 2012
EB-2012-0384	December 21, 2012
EB-2013-0373	October 30, 2013

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1 Definitions

In this Licence:

“Accounting Procedures Handbook” means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

“Act” means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

“Affiliate Relationships Code for Electricity Distributors and Transmitters” means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

“Conservation and Demand Management” and **“CDM”** means distribution activities and programs to reduce electricity consumption and peak provincial electricity demand;

“Conservation and Demand Management Code for Electricity Distributors” means the code approved by the Board which, among other things, establishes the rules and obligations surrounding Board approved programs to help distributors meet their CDM Targets;

“distribution services” means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

“Distribution System Code” means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

“Electricity Act” means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

“Licensee” means Hydro One Networks Inc.

“Market Rules” means the rules made under section 32 of the Electricity Act;

“Net Annual Peak Demand Energy Savings Target” means the reduction in a distributor’s peak electricity demand persisting at the end of the four-year period (i.e. December 31, 2014) that coincides with the provincial peak electricity demand that is associated with the implementation of CDM Programs;

“Net Cumulative Energy Savings Target” means the total amount of reduction in electricity consumption associated with the implementation of CDM Programs between 2011-2014;

“OPA” means the Ontario Power Authority;

“Performance Standards” means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

“Provincial Brand” means any mark or logo that the Province has used or is using, created or to be created by or on behalf of the Province, and which will be identified to the Board by the Ministry as a provincial mark or logo for its conservation programs;

“Rate Order” means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

“regulation” means a regulation made under the Act or the Electricity Act;

“Retail Settlement Code” means the code approved by the Board which, among other things, establishes a distributor’s obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

“service area” with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

“Standard Supply Service Code” means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

“wholesaler” means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

- 2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this Licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

- 3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence:
- a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence;

- b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and
- c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act.

4 Obligation to Comply with Legislation, Regulations and Market Rules

- 4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.
- 4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

- 5.1 The Licensee shall at all times comply with the following Codes (collectively the “Codes”) approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the Licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:
 - a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;
 - b) the Distribution System Code;
 - c) the Retail Settlement Code; and
 - d) the Standard Supply Service Code.
- 5.2 The Licensee shall:
 - a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and
 - b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Obligation to Provide Non-discriminatory Access

- 6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee’s distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

7 Obligation to Connect

- 7.1 The Licensee shall connect a building to its distribution system if:
 - a) the building lies along any of the lines of the distributor’s distribution system; and

- b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.2 The Licensee shall make an offer to connect a building to its distribution system if:

- a) the building is within the Licensee's service area as described in Schedule 1; and
- b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.

7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the Act or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.

8 Obligation to Sell Electricity

8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

9 Obligation to Maintain System Integrity

9.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

10 Market Power Mitigation Rebates

10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.

11 Distribution Rates

11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.

12 Separation of Business Activities

12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

13 Expansion of Distribution System

- 13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules.
- 13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

14 Provision of Information to the Board

- 14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.
- 14.2 Without limiting the generality of paragraph 14.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.
- 14.3 The Licensee shall:
- a) immediately notify the Board in writing of the notice; and
 - b) provide a plan to the Board as soon as possible, but no later than ten (10) days after the receipt of the notice, as to how the affected distribution services will be maintained in compliance with the terms of this Licence.

15 Restrictions on Provision of Information

- 15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.
- 15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:
- a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;
 - b) for billing, settlement or market operations purposes;
 - c) for law enforcement purposes; or
 - d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.

- 15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.
- 15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.
- 15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed.

16 Customer Complaint and Dispute Resolution

- 16.1 The Licensee shall:
- a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;
 - b) publish information which will make its customers aware of and help them to use its dispute resolution process;
 - c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;
 - d) give or send free of charge a copy of the process to any person who reasonably requests it; and
 - e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

17 Term of Licence

- 17.1 This Licence shall take effect on September 29, 2004 and expire on September 28, 2024. The term of this Licence may be extended by the Board.

18 Fees and Assessments

- 18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

- 19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.
- 19.2 All official communication relating to this Licence shall be in writing.
- 19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

- a) when delivered in person to the addressee by hand, by registered mail or by courier;
- b) ten (10) business days after the date of posting if the communication is sent by regular mail; and
- c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

20 Copies of the Licence

20.1 The Licensee shall:

- a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and
- b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

21 Conservation and Demand Management

21.1 The Licensee shall achieve reductions in electricity consumption and reductions in peak provincial electricity demand through the delivery of CDM programs. The Licensee shall meet its 2014 Net Annual Peak Demand Savings Target of 213.660 MW, and its 2011-2014 Net Cumulative Energy Savings Target of 1,130.210 GWh (collectively the "CDM Targets"), over a four-year period beginning January 1, 2011.

21.2 The Licensee shall meet its CDM Targets through:

- a) the delivery of Board approved CDM Programs delivered in the Licensee's service area ("Board-Approved CDM Programs");
- b) the delivery of CDM Programs that are made available by the OPA to distributors in the Licensee's service area under contract with the OPA ("OPA-Contracted Province-Wide CDM Programs"); or
- c) a combination of a) and b).

21.3 The Licensee shall make its best efforts to deliver a mix of CDM Programs to all consumer types in the Licensee's service area.

21.4 The Licensee shall comply with the rules mandated by the Board's Conservation and Demand Management Code for Electricity Distributors.

21.5 The Licensee shall utilize the common Provincial brand, once available, with all Board-Approved CDM Programs, OPA-Contracted Province-Wide Programs, and in conjunction with or co-branded with the Licensee's own brand or marks.

SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

1. Municipalities as set out in Appendix B – Tab 1.
2. First Nation Reserves as set out in Appendix B – Tab 2.
3. Unorganized Townships as set out in Appendix B – Tab 3.
4. Municipalities in which a portion of the municipality is served by the Licensee and another portion of the municipality is served by another distributor. as set out in Appendix B – Tab 4.
5. Consumers embedded within another distributor but served by the Licensee as set out in Appendix B – Tab 5.

SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act.

1. The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with paragraph 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

SCHEDULE 3 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the Licensee has been exempted.

1. The Licensee is exempt from the provisions of the Standard Supply Service Code for Electricity Distributors requiring time-of-use pricing for RPP consumers with eligible time-of-use meters, as of the mandatory date. This exemption applies only for service to approximately 122,000 of the identified hard to reach customers who, as of October 31, 2012 and as per Decision and Order EB-2012-0384, are outside the reach of the Licensee's smart meter telecommunications infrastructure. This exemption expires December 31, 2014.
2. The Licensee is exempt from the requirement of section 6.2.4.1e(i) of the Distribution System Code with respect to the following 12 generation projects, as per the Board's Decision and Order in EB-2010-0229:

Project ID	Generator Name	Project Name
11,690	Grand Valley Wind Farms Inc.	Grand Valley Wind Farms (Phase 2)
11,700	Invenergy Wind Centre ULC	Conestogo Wind Centre 2
11,720	Conestogo Wind, LP	Conestogo Wind Centre
11,870	International Power Canada, Inc.	Plateau I and II Wind
12,270	Pukwis Wind Partner Inc. & Pukwis Energy Co-op	Pukwis Community Wind Park
12,290	Glead Power Corporation	22.5 MW Ostrander Wind Farm
12,430	Grey Highlands Clean Energy LP	Grey Highlands Clean Energy
12,610	ZEP Wind Farm Ganaraska LP	ZEP Wind Farm Ganaraska
12,750	Clean Breeze Wind Park LP	Clean Breeze Wind Park
12,800	Southbranch Wind Farm Inc.	Southbranch Wind Farm
12,810	WPD Canada Corporation	Sumac Ridge Wind Farm
12,860	WPD Canada Corporation	Fairview Wind Farm

3. As per the Board's Decision and Order in EB-2011-0067, for generation facilities for which the primary energy source is water with a capacity not exceeding 10 megawatts and that are located on provincial Crown or federally-regulated lands and for which the electrical connection is to the distribution system owned by Hydro One Networks Inc. ("Hydro One"), Hydro One shall be exempted from the current connection cost deposit stipulated in s. 6.2.18(a) of the Distribution System Code (the "DSC") and shall, instead, adhere to the following schedule:
 - (a) \$20,000 per MW of capacity shall be paid by the proponent to Hydro One upon the execution of the Connection Cost Agreement.
 - (b) An additional deposit in the amount of 30% of the total estimated cost, as estimated by Hydro One, less the amount received by Hydro One under paragraph (a) above, shall be paid by the proponent to Hydro One no later than 6 months after the proponent notifies Hydro One that it has issued its statement of completion under the earlier of the Waterpower Class Environmental Assessment and the equivalent environmental assessment process under the Canadian Environmental Assessment Act.
 - (c) No later than 180 days after Hydro One receives payment of the amount referenced in paragraph (b) above, Hydro One shall provide to the proponent a construction schedule and a more accurate estimate of the project cost, if such estimate is requested and paid for by the

proponent. The payment for the estimate shall be drawn from the deposit to the extent possible.

- (d) The balance of the total estimated cost, as estimated by Hydro One based upon the best available information, shall be paid by the proponent to Hydro One no later than 30 days after the proponent notifies Hydro One that it has received the last of its necessary construction approval permits under Ontario's Lakes and Rivers Improvement Act or the Dominion Water Power Act.
- (e) Hydro One and the proponent shall mutually agree upon an in-service date that is no later than 2 years after Hydro One receives the balance referenced in paragraph (d), above, subject to the following: in cases where a transmission upgrade or new transmission facilities are required, Hydro One and the proponent may agree to an in-service date that is later than two years after Hydro One receives the balance referenced in paragraph (d), above.
- (f) The Expansion Deposit, as stipulated by Section 3.2.20 of the DSC, shall be paid to Hydro One at the same time as the payment in paragraph (d).

Notwithstanding the foregoing, if at any time the above-noted payments to Hydro One are insufficient to cover Hydro One's costs as estimated by Hydro One, the proponent shall pay, to Hydro One, additional funding sufficient to meet the shortfall identified by Hydro One, and Hydro One shall be relieved of its obligation to perform such further work until it receives the said additional funding.

- 4. For the Trout Creek Wind Farm (Hydro One Project #12,780), Hydro One shall be exempted from the current connection cost deposit stipulated in s. 6.2.18(a) of the Distribution System Code (the "DSC") and shall, instead, adhere to the following schedule:
 - (a) \$20,000 per MW of capacity shall be paid by the proponent to Hydro One upon the execution of the Connection Cost Agreement.
 - (b) An additional deposit in the amount of 30% of the total estimated cost, as estimated by Hydro One, less the amount received by Hydro One under paragraph (a) above, shall be paid by the proponent to Hydro One no later than 4 months after the proponent notifies Hydro One that it has completed the Renewable Energy Approval.
 - (c) No later than 180 days after Hydro One receives payment of the amount referenced in paragraph (b) above, Hydro One shall provide to the proponent a construction schedule and a more accurate estimate of the project cost, if such estimate is requested and paid for by the proponent. The payment for the estimate shall be drawn from the deposit to the extent possible.
 - (d) The balance of the total estimated cost, as estimated by Hydro One based upon the best available information, shall be paid by the proponent to Hydro One no later than 30 days after the proponent notifies Hydro One that it is proceeding to construction. If this notification is not given by May 31, 2015, then the proponent's capacity allocation shall be removed.
 - (e) Hydro One and the proponent shall mutually agree upon an in-service date that is no later than 2 years after Hydro One receives the balance referenced in paragraph (d), above, subject to the following: in cases where a transmission upgrade or new transmission facilities

are required, Hydro One and the proponent may agree to an in-service date that is later than two years after Hydro One receives the balance referenced in paragraph (d), above.

- (f) The Expansion Deposit, as stipulated by Section 3.2.20 of the DSC shall be paid to Hydro One at the same time as the payment in paragraph (d).

Notwithstanding the foregoing, if at any time the above-noted payments to Hydro One are insufficient to cover Hydro One's costs as estimated by Hydro One, the proponent shall pay, to Hydro One, additional funding sufficient to meet the shortfall identified by Hydro One, and Hydro One shall be relieved of its obligation to perform such further work until it receives the said additional funding.

5. As per the Board's Decision and Order in EB-2012-0343:

- (a) The Licensee is exempt from section 6.2.6 of the Distribution System Code for micro-embedded generation projects that are an indirect connection requiring a site assessment. This exemption expires August 3, 2013 or six months after the conclusion of the Board's consultation EB-2012-0246, whichever is earlier. During the period of exemption, for micro-embedded generation projects that are an indirect connection requiring a site assessment, the Licensee shall be required to issue an offer to connect or issue reasons for refusal within 30 days, for at least 90% of applications. If a customer requests a delay with respect to 6.2.6, the additional time will be added to the timeline. Hydro One Networks Inc. shall track its compliance with this provision. For all projects other than micro-embedded generation projects that are an indirect connection requiring a site assessment, the application of section 6.2.6 of the Distribution System Code shall remain unchanged.
- (b) The Licensee is exempt from the provisions of 6.2.7 of the Distribution System Code for micro-embedded generation applications. This exemption expires August 3, 2013 or six months after the conclusion of the Board's consultation EB-2012-0246, whichever is earlier. During the period of exemption, the Licensee shall comply with the provisions of sections 7.2.1 and 7.2.3 of the Distribution System Code.

SCHEDULE 4 LIST OF RRR EXEMPTIONS

The Licensee is exempt from the following sections of the Electricity Reporting and Record Keeping Requirements:

1. Section 2.1.5.5 (b)

APPENDIX A

MARKET POWER MITIGATION REBATES

1. Definitions and Interpretations

In this Licence

“embedded distributor” means a distributor who is not a market participant and to whom a host distributor distributes electricity;

“embedded generator” means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

“host distributor” means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor’s service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor’s host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor’s service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity

consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

ONTARIO POWER GENERATION INC. REBATES

For the payments that relate to the period from May 1, 2006 to April 30, 2009, the rules set out below shall apply.

1. Definitions and Interpretations

In this Licence

“embedded distributor” means a distributor who is not a market participant and to whom a host distributor distributes electricity;

“embedded generator” means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

“host distributor” means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor’s service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor’s host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor’s service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

- ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host

distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

APPENDIX B

TAB 1 MUNICIPALITIES

Name of Municipality:	Township of Addington Highlands
Formerly Known as:	Township of Denbigh, Abinger and Ashby, Township of Anglesea and Effingham, Kaladar, as at December 31, 1999.
Name of Municipality:	Township of Adelaide Metcalfe
Formerly Known As:	Township of Adelaide, Township of Metcalfe, as at December 31, 2000.
Name of Municipality:	Township of Adjala-Tosorontio
Formerly Known As:	Portions of the Township of Adjala, Township of Tosorontio, Township of Sunnidale, as at December 31, 1993.
Name of Municipality:	Township of Admaston/Bromley
Formerly Known As:	Township of Admaston, Township of Bromley, as at December 31, 1999.
Name of Municipality:	Township of Alberton as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Algonquin Highlands, (Formerly known as Township of Sherborne, Stanhope, McClintock, Livingstone, Lawrence and Nightingale)
Formerly Known As:	Township of Sherborne et al, Township of Stanhope, as at December 31, 2000.
Name of Municipality:	Township of Alnwick/Haldimand
Formerly Known As:	Township of Alnwick, Township of Haldimand, as at December 31, 2000.
Name of Municipality:	Township of Amaranth as at March 31, 1999.
Formerly Known As:	Same

Name of Municipality:	Township of The Archipelago as at March 31, 1999.
Formerly Known As:	Conger, Cowper, Harrison, Henvey, Wallbridge plus geographic/unorganized townships and unsurveyed areas
Name of Municipality:	Township of Armour as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Armstrong as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Arnprior as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of Arran-Elderslie
Formerly Known As:	Township of Arran, Township of Elderslie, Town of Chesley, Village of Tara, Village of Paisley, as at December 31, 1998.
Name of Municipality:	Township of Ashfield-Colborne-Wawanosh
Formerly Known As:	Township of Ashfield, Township of West Wananosh, Township of Colborne, as at December 31, 2000.
Name of Municipality:	Township of Assiginack as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Athens
Formerly Known As:	Township of Rear of Young and Escott, Village of Athens, as at December 31, 2000.
Name of Municipality:	Township of Augusta as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Baldwin as at March 31, 1999.
Formerly Known As:	Same

Name of Municipality:	Town of Bancroft
Formerly Known As:	Town of Bancroft, Township of Dungannon, as at December 31, 1998.
Name of Municipality:	Township of Barrie Island as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of Bayham
Formerly Known As:	Township of Baymen, Village of Port Burwell, Village of Vienna, as at December 31, 1997.
Name of Municipality:	Township of Beckwith as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Billings as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Black River-Matheson as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Blind River as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Bonfield as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Bonnechere Valley
Formerly Known As:	Village of Eganville, Township of Grattan, Township of Sebastopol, Township of South Algona, as at December 31, 2000.
Name of Municipality:	Township of Brethour as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of Brighton
Formerly Known As:	Town of Brighton, Township of Brighton, as at December 31, 2001.

Name of Municipality:	City of Brockville as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Brudenell, Lyndoch and Raglan
Formerly Known As:	Township of Brudenell and Lyndoch, Township of Raglan, as at December 31, 1998.
Name of Municipality:	Township of Burpee and Mills
Formerly Known As:	Township of Burpee, Unorganized Twp of Mills, as at December 31, 1997.
Name of Municipality:	Town of Caledon
Formerly Known As:	Township of Albion, Township of Caledon, Village of Bolton, Village of Caledon East, Township of Chinguacousy (part), as at December 31, 1973.
Name of Municipality:	Township of Calvin as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Carleton Place as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Carling as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Carlow/Mayo
Formerly Known As:	Township of Carlow, Township of Mayo, as at December 31, 2000.
Name of Municipality:	Township of Casey as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Cavan-Millbrook-North Monaghan
Formerly Known As:	Township of Cavan, Township of North Monaghan, Village of Millbrook, as at December 31, 1997.

Name of Municipality:	Township of Central Frontenac
Formerly Known As:	Township of Hinchinbrooke, Township of Kennebec, Township of Olden, Township of Oso, as at December 31, 1997.
Name of Municipality:	Township of Central Manitoulin
Formerly Known As:	Twp. Of Carnarvon, Unorganized Twp of Sandfield, as at April 30, 1997.
Name of Municipality:	Municipality of Centre Hastings
Formerly Known As:	Village of Madoc, Township of Huntingdon, as at December 31, 1997.
Name of Municipality:	Township of Chamberlain as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Champlain
Formerly Known As:	Village of L'Orignal, Township of West Hawkesbury, Township of Longueuil, Town of Vankleek Hill, as at December 31, 1997.
Name of Municipality:	Township of Chapple as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of Charlton and Dack
Formerly Known As:	Town of Charlton, Township of Dack, as at December 31, 2002.
Name of Municipality:	Township of Chatsworth
Formerly Known As:	Village of Chatsworth, Township of Holland, Township of Sullivan, as at December 31, 1999.
Name of Municipality:	Township of Chisolm as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	City of Clarence-Rockland
Formerly Known As:	Town of Rockland, Township of Clarence, as at December 31, 1997.
Name of Municipality:	Town of Cobalt as at March 31, 1999.
Formerly Known As:	Same

Name of Municipality: Township of Cockburn Island as at March 31, 1999
Formerly Known As: Same

Name of Municipality: Township of Coleman as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Township of Conmee as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Township of Dawn-Euphemia
Formerly Known As: Township of Dawn, Township of Euphemia, as at December 31, 1997.

Name of Municipality: Township of Dawson
Formerly Known As: Township of Atwood, Township of Blue,
Township of Worthington, Township of Dilke, as at December 31, 1996.

Name of Municipality: Town of Deep River as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Town of Deseronto as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Township of Dorion as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Township of Douro-Dummer
Formerly Known As: Township of Douro, Township of Dummer, as at December 31, 1997.

Name of Municipality: Township of Drummond/North Elmsley
Formerly Known As: Township of Drummond, Township of North Elmsley, as at December 31, 1997.

Name of Municipality: City of Dryden
Formerly Known As: Town of Dryden, Township of Barclay

Name of Municipality:	Township of Dysart et al as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of Ear Falls as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of East Ferris as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of East Garafraxa as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of East Hawkesbury as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Elizabethtown-Kitley
Formerly Known As:	Township of Kitley, Township of Elizabethtown as at December 31, 2000.
Name of Municipality:	City of Elliott Lake as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Emo, as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Englehart as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Enniskillen as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Erin
Formerly Known As:	Township of Erin, Village of Erin, as at December 31, 1997.

Name of Municipality:	Township of Ewantural as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Faraday as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Fauquier-Strickland as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of French River
Formerly Known As:	Township of Cosby, Township of Mason, Township of Martland, geographic/unorganized townships of Delamere, Hoskin and Scollard in whole and Bigwood, Cherriman and Haddo in part, as at December 31, 1998.
Name of Municipality:	Township of Front of Yonge as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Frontenac Islands
Formerly Known As:	Township of Howe Island, Township of Wolfe Island, as at December 31, 1997.
Name of Municipality:	Township of Galway-Cavendish and Harvey
Formerly Known As:	Township of Galway and Cavandish, Township of Harvey, as at December 31, 1997.
Name of Municipality:	Township of Gauthier as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Georgian Bay as at March 31, 1999.
Formerly Known As:	Township of Freeman, Township of Gibson, Township of Baxter.
Name of Municipality:	Township of Georgian Bluffs
Formerly Known As:	Township of Derby, Township of Keppel, Township of Sarawak, as at December 31, 2000.

Name of Municipality:	Town of Georgina as at March 31, 1999.
Formerly Known As:	Township of North Gwillimbury, Township of Georgina.
Name of Municipality:	Township of Gillies as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Gordon as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Gore Bay as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Greater Madawaska
Formerly Known As:	Township of Bagot, Blythfield and Brougham, Township of Griffith, and Matawatchan, (Jan 1998: Township of Bagot and Blythfield, Township of Brougham amalgamated into Township of Bagot, Blythfield and Brougham), as at December 31, 2000.
Name of Municipality:	Town of Greater Napanee
Formerly Known As:	Township of Adolphustown, Township of North Fredericksburgh, Township of South Fredericksburgh, Township of Richmond, Town of Napanee, as at December 31, 1997.
Name of Municipality:	Municipality of Greenstone
Formerly Known As:	Town of Geraldton, Town of Longlac, Township of Beardmore, Township of Nakina, as at December 31, 2000.
Name of Municipality:	Municipality of Grey Highlands
Formerly Known As:	Township of Artemesia, Township of Euphrasia Village of Markdale, Township of Osprey, as at December 31, 2000.
Name of Municipality:	Township of Hamilton as at March 31, 1999.
Formerly Known As:	Same

Name of Municipality:	Township of Harley as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Harris as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of Hastings Highlands
Formerly Known As:	Township of Bangor, Wicklow and McClure, Township of Herschel, Township of Monteagle, as at December 31, 2000.
Name of Municipality:	Township of Havelock-Belmont-Methuen
Formerly Known As:	Township of Belmont and Methuen, Village of Havelock, as at December 31, 1997.
Name of Municipality:	Township of Head, Clara and Maria, as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of Highland East
Formerly Known As:	Township of Bicroft, Township Cardiff, Township of Glamorgan, Township of Monmouth, as at December 31, 2000.
Name of Municipality:	Township of Hilliard as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Hornpayne as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Horton as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	The Township of Howick as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Hudson as at March 31, 1999.
Formerly Known As:	Same

Name of Municipality: Township of Ignace as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Township of James as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Township of Joly as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: The City of Kawartha Lakes
Formerly Known As: County of Victoria, Town of Lindsay, Municipality of Bobcaygeon/ Verulam, Village of Fenelon Falls, Village of Omemee, Village of Sturgeon Point, Village of Woodville, Township of Bexley, Township of Carden/Dalton, Township of Eldon, Township of Emily, Township of Fenelon, Township of Laxton, Digby and Longford, Township Manvers, Township of Mariposa, Township of Ops, Township of Somerville, (Jan 2000: Township of Carden , Township of Dalton amalgamated into Township of Carden/Dalton), (Jan 2000; Village of Bobcaygeon/Township of Verulam amalgamated into the Municipality of Bobcaygeon/Verulam), as at December 31, 2000.

Name of Municipality: Town of Kearney as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Township of Kerns as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Municipality of Killarney
Formerly Known As: Townships of Rutherford and George Island and the geographic/unorganized townships of, Allen, Atlee, Goschen, Hansen, Killarney, Kilpatrick, Sale, Struthers, Travers, and portions of the geographic/unorganized townships of Bigwood, Carlyle, Humboldt, Mowat, and unsurveyed territory and islands, as at December 31, 1998.

Name of Municipality:	Town of Kirkland Lake as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of La Vallee as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Lake of Bays as at March 31, 1999.
Formerly Known As:	Township of McLean, Township of Ridout, Township of Franklin, Township of Sinclair, Township of Finlayson.
Name of Municipality:	Township of Lake of the Woods
Formerly Known As:	Township of McCrosson and Tovell, Township of of Morson, unorganized islands in Kenora District and Rainy River District, as at December 31, 1998.
Name of Municipality:	Municipality of Lambton Shores
Formerly Known As:	Village of Arkona, Town of Bosanquet, Town of Forest, Village of Grand Bend, Village of Thedford, as at December 31, 2000.
Name of Municipality:	Township of Lanark Highlands
Formerly Known As:	Township of Darling, Township of North West Lanark, (May 1997: Lavant, Dalhousie and North Sherbrook Township/Township Lanark/Village Lanark amalgamated into Township of North West Lanark), as at June 30, 1996.
Name of Municipality:	Township of Larder Lake as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Latchford as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Laurentian Hills
Formerly Known As:	Township of Rolph, Township of Wylie and McKay, Village of Chalk River, as at December 31, 1999.

Name of Municipality:	Township of Laurentian Valley
Formerly Known As:	Township of Stafford and Pembroke, Township of Alice and Fraser, as at December 31, 1999.
Name of Municipality:	Township of Limerick as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Loyalist
Formerly Known As:	Township of Amherst Island, Township of Ernestown, Village of Bath, as at December 31, 1997.
Name of Municipality:	Township of Lucan Biddulph
Formerly Known As:	Village of Lucan, Township of Biddulph, Police Village of Granton, as at December 31, 1998.
Name of Municipality:	Township of Machar as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Machin as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Madawaska Valley
Formerly Known As:	Village of Barry's Bay, Township of Radcliffe, Township of Sherwood, Jones and Burns, as at December 31, 2000.
Name of Municipality:	Township of Madoc as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Malahide
Formerly Known As:	Township of Malahide, Township of Dorchester, Village of Springfield, as at December 31, 1997.
Name of Municipality:	Township of Manitouwadge as at March 31, 1999.
Formerly Known As:	Same

Name of Municipality:	Township of Mapleton
Formerly Known As:	Township of Mapleton, Township of Maryborough, (Jan 1998-Village of Drayton, Township of Peel amalgamated into the Township of Mapleton), as at December 31, 1998.
Name of Municipality:	Town of Marathon as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of Markstay-Warren
Formerly Known As:	Township of Hagar, Township of Ratter and Dunnet, geographic/unorganized township of Awrey and portions of the geographic/unorganized townships of Hawley, Henry, Loughrin, Street, as at December 31, 1998.
Name of Municipality:	Municipality of Marmora and Lake
Formerly Known As:	Township of Marmora and Lake, Village of Marmora, (Jan 1998: Village of Deloro, Township of Marmora and Lake amalgamated into the Township of Marmora and Lake, as at December 31, 1997.
Name of Municipality:	Township of Matachewan as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Mattawa as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Mattawan as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Mattice-Val Cote as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of McDougall
Formerly Known As:	Township of McDougall, geographic/unorganized township of Ferguson, as at December 31, 1999.
Name of Municipality:	Township of McGarry as at March 31, 1999.
Formerly Known As:	Same

Name of Municipality:	Township of McKellar as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of McMurrich/Monteith
Formerly Known As:	Township of McMurrich, geographic/unorganized township of Monteith (eastern portion), as at December 31, 1997.
Name of Municipality:	Township of McNab/Braeside
Formerly Known As:	Township of McNab, Village Braeside, as at December 31, 1997
Name of Municipality:	Municipality of Meaford (formerly known as Town of Georgian Highlands)
Formerly Known As:	Township of St. Vincent, Township of Sydenham, Town of Meaford, as at December 31, 2000.
Name of Municipality:	Township of Melancthon as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Village of Merrickville-Wolford
Formerly Known As:	Township of Wolford, Village of Merrickville, as at December 31, 1997.
Name of Municipality:	Township of Middlesex Centre
Formerly Known As:	Township of Lobo, Township of London, Township of Delaware, Police Village of Delaware, as at December 31, 1998.
Name of Municipality:	Township of Minden Hills
Formerly Known As:	Township of Anson, Hindon and Minden, Township of Lutterworth, Township of Snowdon, as at December 31, 2000.
Name of Municipality :	Town of Mono as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Montague as at March 31, 1999.
Formerly Known As:	Same

Name of Municipality:	Township of Moonbeam as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Moosonee as at March 31, 1999.
Formerly Known As:	Moosonee Development Board
Name of Municipality:	Township of Morley
Formerly Known As:	Township of Morley, geographic/unorganized townships Twp's of Dewart and Sifton, as at December 31, 2003.
Name of Municipality:	Municipality of Morris-Turnberry
Formerly Known As:	Township of Morris, Township of Turnberry, as at December 31, 2000.
Name of Municipality:	Township of Mulmar as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Muskoka Lakes as at March 31, 1999.
Formerly Known As:	Township of Cardwell, Township of Watt, Township of Medora, Township of Monck, Township of Wood.
Name of Municipality:	Township of Nairn and Hyman
Formerly Known As:	Township of Nairn, Unorganized Township of Hyman, as at December 31, 1997.
Name of Municipality:	The Nation Municipality
Formerly Known As:	Township of Cambridge, Township of South Plantagenet, Village of St. Isidore, Township of Caledonia, as December 31, 1997.
Name of Municipality:	Municipality of Neebing as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	City of Temiskaming Shores
Formerly Known As:	Town of New Liskeard, Town of Haileybury, Township of Dymond, as at December 31, 2003.

Name of Municipality:	Township of Nipigon as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Nipissing as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of North Algona-Wilberforce
Formerly Known As:	Township of North Algona, Township of Wilberforce, as at December 31, 1998.
Name of Municipality:	Municipality of Northern Bruce Peninsula
Formerly Known As:	Township of St. Edmunds, Township of Lindsay, Township of Eastnor, Village of Lion's Head, as at December 31, 1998.
Name of Municipality:	Township of North Dundas
Formerly Known As:	Township of Mountain, Township of Winchester, Village of Chesterville, Village of Winchester, as at December 31, 1997.
Name of Municipality:	Township of North Frontenac
Formerly Known As:	Township of Barrie, Township of Clarendon, Township of Miller, Township of Palmerston, Township of North Canonto, Township of South Canonto, as at December 31, 1997.
Name of Municipality:	Township of North Glengarry
Formerly Known As:	Township of Kenyon, Township of Lochiel, Town of Alexandria, Village of Maxville, Police Village of Apple Hill, as at December 31, 1997.
Name of Municipality:	Township of North Grenville
Formerly Known As:	Township of Oxford-on-Rideau, Town of Kemptville, Township of South Gower, as at December 31, 1997.
Name of Municipality:	Township of North Himsworth as at March 31, 1999.
Formerly Known As:	Same

Name of Municipality:	Township of North Kawartha
Formerly Known As:	Township of Burleigh and Anstruther, Township of Chandos, as at December 31, 1997.
Name of Municipality:	Town of North Perth
Formerly Known As:	Township of Wallace, Township of Elma, Town of Listowel, as at December 31, 1997.
Name of Municipality:	Township of The North Shore as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of North Stormont
Formerly Known As:	Township of Finch, Township of Roxborough, Village of Finch, Police Village of Avonmore (in the Township of Roxborough), as at December 31, 1997.
Name of Municipality:	Town of Northeastern Manitoulin and the Islands
Formerly Known As:	Township of Howland, Town of Little Current, all islands not part of other municipalities on Manitoulin Island, as at December 31, 1997.
Name of Municipality:	Township of O'Conner as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Oliver Paipoonge
Formerly Known As:	Township of Oliver, Township of Paipoonge, as at December 31, 1997.
Name of Municipality:	Township of Opasatika as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Oro-Medonte
Formerly Known As:	Portions of the Township of Medonte, Township of Oro, Township of Orillia, Township of Tay, Township of Flos, Township of Vespra, as at December 31, 1993.

Name of Municipality:	Township of Otonabee-South Monaghan
Formerly Known As:	Township of Otonabee, Township of South Monaghan, as at December 1, 1999.
Name of Municipality:	City of Owen Sound as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Papineau-Cameron as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Perry as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Pelee as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	The Township of Perth South
Formerly Known As:	Township of Downie, Township of Blanshard, as at December 31, 1997.
Name of Municipality:	Town of Perth as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Petawawa
Formerly Known As:	Village of Petawawa, Township of Petawawa, as at June 30, 1996.
Name of Municipality:	Township of Pickle Lake as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Plympton-Wyoming
Formerly Known As:	Township of Plympton, Village of Wyoming, as at December 31, 2000.
Name of Municipality:	Municipality of Powassan
Formerly Known As:	Town of Powassan, Township of Himsworth South, Town of Trout Creek, as at December 31, 2000.

Name of Municipality:	County of Prince Edward
Formerly Known As:	County of Prince Edward, Town of Picton, Village of Bloomfield, Village of Wellington, Township of Ameliasburgh, Township of Athol, Township of Hallowell, Township of Hillier, Township of North Marysburgh, Township of South Marysburgh, Township of Sophiasburgh, as at December 31, 1997.
Name of Municipality:	City of Quinte West
Formerly Known As:	City of Trenton, Village of Frankford, Township of Sidney, Township of Murray, as at December 31, 1997.
Name of Municipality:	Town of Rainy River as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Ramara
Formerly Known As:	Township of Mara, Township of Rama , as at December 31, 1993.
Name of Municipality:	Township of Red Rock as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Rideau Lakes
Formerly Known As:	Village of Newboro, Township of Bastard and South Burgess, Township of North Crosby, Township of South Crosby, Township of South Elmsley, as at December 31, 1997.
Name of Municipality:	Township of Ryerson as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Schreiber as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Seguin
Formerly Known As:	Township of Humphrey, Township of Foley, Township of Christie, geographic/unorganized Township of Monteith (western portion), Village of Rosseau, as at December 31, 1997.

Name of Municipality:	Township of Severn
Formerly Known As:	Portions of Village of Coldwater, Township of Matchedash, Township of Medonte, Township of Orillia, Township of Tay, as at December 31, 1993.
Name of Municipality:	Township of Shedden as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Shelburne as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Shuniah as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Sioux Narrows-Nestor Falls
Formerly Known As:	Township of Sioux Narrows, all of the geographic/unorganized townships of Code, Devonshire, Godson, Manross, MacQuarrie, Phillips, Tweedsmuir, and Work, portions of the geographic/unorganized townships of LeMay, McKeekin in Kenora District, and the geographic/unorganized townships of Claxton, Croome, and Mathieu in the Rainy River District, as at December 31, 2000.
Name of Municipality:	Separated Town of Smiths Falls as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Town of Smooth Rock Falls as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of South Algonquin
Formerly Known As:	Township of Airy and geographic/unincorporated townships of Dickens, Lyell, Murchison and Sabine, as at May 31, 1997.
Name of Municipality:	Town of South Bruce Peninsula
Formerly Known As:	Township of Albemarle, Township of Amabel, Town of Wiarton, Village of Hepworth, as at December 31, 1998.

Name of Municipality:	Township of South Frontenac
Formerly Known As:	Township of Bedford, Township of Loughborough, Township of Portland, Township of Storrington, as at December 31, 1997.
Name of Municipality:	Village of South River as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of Southwest Middlesex
Formerly Known As:	Township of Ekfrid, Township of Mosa, Village of Glencoe, Village of Wardsville, as at December 31, 2000.
Name of Municipality:	Township of Southwold as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Springwater
Formerly Known As:	Portions of the former Village of Elmvale, Township of Flos, Township of Medonte, Township of Vespra, Town of Wasaga Beach, as at December 31, 1993.
Name of Municipality:	Municipality of St. Charles
Formerly Known As:	Township of Casimir, Jennings & Appleby and the geographic/unorganized townships of Cherriman and Haddo, as at December 31, 1998.
Name of Municipality:	Township of St. Clair
Formerly Known As:	Township of Sombra, Township of Moore, as at December 31, 2000.
Name of Municipality:	Township of Stirling-Rawdon
Formerly Known As:	Village of Stirling, Township of Rawdon, as at December 31, 1997.
Name of Municipality:	Township of Stone Mills
Formerly Known As:	Township of Camden East, Township of Sheffield, Village of Newburgh, as at December 31, 1997.
Name of Municipality:	Township of Strong as at March 31, 1996.
Formerly Known As:	Same

Name of Municipality:	Township of Tay Valley
Formerly Known As:	Township of South Sherbrooke, Township of Bathurst, Township of North Burgess, as at December 31, 1997.
Name of Municipality:	Township of Tehkummah as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of Temagami as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Terrace Bay as at March 31, 1999
Formerly Known As:	Same
Name of Municipality:	Municipality of Thames Centre
Formerly Known As:	Township of North Dorchester, Township of West Nissouri, Village of Dorchester, Police Village of Thorndale, as at December 31, 2000.
Name of Municipality:	Town of Thessalon as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Village of Thornloe as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	City of Thorold as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	City of Timmins as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Township of Tiny as at March 31, 1999.
Formerly Known As:	Same
Name of Municipality:	Municipality of Trent Hills
Formerly Known As:	Municipality of Campbellford/Seymour, Township of Percy, Village of Hastings, Police Village of Warkworth (Jan 1998-Town of Campbellford, Township of

Seymour amalgamated into the Municipality of Campbellford/Seymour), as at December 31, 2000.

Name of Municipality: Township of Tudor and Cashel as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Municipality of Tweed
Formerly Known As: Village of Tweed, Township of Hungerford, Township of Elzevir and Gromsthorpe, as at December 31, 1997.

Name of Municipality: Township of Tyendinaga as at March 31, 1999.
Formerly Known As: Same
Name of Municipality: Township of Val Rita-Harty as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Township of Wainfleet as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Municipality of West Elgin
Formerly Known As: Township of Aldborough, Village of West Lorne, Police Village of Rodney, as at December 31, 1997.

Name of Municipality: Town of Whitchurch-Stouffville as at March 31, 1999.
Formerly Known As: Village of Stouffville and portions of the Township of Whitchurch and the Township of Markham.

Name of Municipality: Township of White River as at March 31, 1999.
Formerly Known As: Same

Name of Municipality: Municipality of Whitestone
Formerly Known As: Township Hagerman, and the geographic/unorganized townships of Ferrie, McKenzie, East Burpee, and a portion of the Township of Magnetawan, as at December 31, 1999.

Name of Municipality: Township of Wollaston as at March 31, 1999.
Formerly Known As: Same

APPENDIX B

TAB 2 FIRST NATION RESERVES

Reserve Name:	Abitibi I.R. No. 70
Band Name:	Wahgoshig First Nation
Reserve Name:	Alderville I.R No. 37
Band Name:	Alderville First Nation
Reserve Name:	Aroland Indian Settlement
Band Name:	Aroland
Reserve Name:	Big Grassy River I.R. No. 35G
Band Name:	Big Grassy First Nation
Reserve Name:	Big Island Mainland 93
Band Name:	Anishnaabeg of Naongashiing
Reserve Name:	Cape Croker Island I.R. No. 27, Neyaashiinigmiing Reserve
Band Name:	Chippewas of Nawash First Nation
Reserve Name:	Chippewas of the Thames
Band Name:	Chippewas of the Thames First Nation
Reserve Name:	Chapleau I.R. No. 74A
Band Name:	Chapleau Ojibway First Nation
Reserve Name:	Christian Island I.R. No.30
Band Name:	Beausoleil First Nation
Reserve Name:	Cockburn Island 19, 19A
Band Name:	Zhiibaahaasing First Nation

Reserve Name:	Constance Lake I.R. 92
Band Name:	Constance Lake First Nations
Reserve Name:	Couchiching I.R. No. 16A
Band Name:	Couchiching First Nation
Reserve Name:	Curve Lake I.R. No. 35
Band Name:	Curve Lake First Nation
Reserve Name:	Dalles I.R. No. 38C
Band Name:	Ochiichagwe'babigo'ining First Nation
Reserve Name:	Duck Lake R.R. No. 76B
Band Name:	Brunswick House First Nation
Reserve Name:	Dokis I.R. No. 9
Band Name:	Dokis First Nation
Reserve Name:	Eagle Lake I.R. No. 27
Band Name:	Eagle Lake First Nation
Reserve Name:	English River I.R. No.21
Band Name:	Grassy Narrows First Nation
Reserve Name:	Factory Island I.R. No. 1
Band Name:	Moose Factory First Nation
Reserve Name:	Georgina Island I.R. No. 33
Band Name:	Chippewas of Georgina Island First Nation
Reserve Name:	Gibson I.R. No. 31 Wahta mohawk
Band Name:	Mohawks of Gibson
Reserve Name:	Golden Lake No. 39
Band Name:	Algonquins Golden Lake First Nation

Reserve Name: Henvey Inlet I.R. No. 2 French River I.R. 13
Band Name: Henvey Inlet First Nation

Reserve Name: Hiawatha I.R. No.36
Band Name: Ojibways of Hiawatha First Nation

Reserve Name: Islington I.R No. 29
Band Name: Wabasemoong Independent Nations

Reserve Name: Kenora I.R. No. 38B
Band Name: Wauzhushk Onigum Nation

Reserve Name: Kettle Point I.R. No. 44
Band Name: Chippewas of Kettle and Stony Point First Nation

Reserve Name: Lac des Milles Lacs I.R. 22A1, Seine River I.R. 22A2
Band Name: Lac des Milles Lacs

Reserve Name: Lac Suel I.R. No. 28
Band Name: Lac Suel Nation

Reserve Name: Lake Helen I.R. No. 53A
Band Name: Red Rock Band

Reserve Name: Long Lake I.R. No. 77
Band Name: Ginoogaming First Nation

Reserve Name: Long Lake I.R. No. 58
Band Name: Long Lake No. 58 First Nation

Reserve Name: Magnetewan I.R No. 1
Band Name: Magnetewan First Nation

Reserve Name: Manitou Rapids I.R. No. 11
Band Name: Rainy River First Nation

Reserve Name: Matachewan I.R 72
Band Name: Matachewan First Nation

Reserve Name: Mattagami I.R No.71
Band Name: Mattagami First Nation

Reserve Name: Mississagi River I.R No.8
Band Name: Mississauga First Nation

Reserve Name: Moberg I.R No. 82
Band Name: Pic Moberg First Nation

Reserve Name: Moose Point I.R No. 79
Band Name: Moose Deer Point First Nation

Reserve Name: Moravian I.R. No. 47
Band Name: Delaware First Nation

Reserve Name: Muncey Delaware Nation No. 1
Band Name: Munsee-Delaware First Nation

Reserve Name: Neguaguon Lake I.R No. 25d
Band Name: Lac La Croix First Nation

Reserve Name: New Credit I.R 40A
Band Name: Mississaugas of the New Credit First Nation

Reserve Name: New Post 69, 69a
Band Name: New Post First Nation

Reserve Name: Nipissing I.R No. 10
Band Name: Nipissing First Nation

Reserve Name: Northwest Angle I.R. No. 33B and Whitefish Bay I.R. No. 33a
Band Name: Northwest Angle No. 33 First Nation

Reserve Name: Oneida I.R. No. 41
Band Name: ONA YO TE'A:KA

Reserve Name: Osnaburgh I.R. No. 63A, 63B
Band Name: Osnaburgh First Nation

Reserve Name: Parry Island I.R. No. 16
Band Name: Wasauksing First Nation

Reserve Name: Pays Plat I.R. No. 51
Band Name: Pays Plat First Nation

Reserve Name: Pic River I..R. No. 50
Band Name: Ojibways of Pic River No. 50 First Nation

Reserve Name: Rainy Lake I.R. No. 17A, 17B
Band Name: Naicatchewenin First Nation

Reserve Name: Rainy Lake I.R. 26A
Band Name: Nicickousemenecaning First Nation

Reserve Name: Rainy Lake I.R. No. 18c
Band Name: Stanjikoming First Nation

Reserve Name: Rama I.R. No. 32
Band Name: Chippewas of Mnjikaning First Nation
Reserve Name: Rat Portage I.R. No. 38A
Band Name: Washagamis Bay First Nation

Reserve Name: Rocky Bay I.R. No. 1
Band Name: Rocky Bay First Nation

Reserve Name: Sabaskong Bay 32c, Whitefish Bay 32a, Yellow Girl Bay 32b
Band Name: Naotkamegwanning Anishnabe First Nation

Reserve Name: Sabaskong Bay I.R 35D
Band Name: Ojibways of Onegaming First Nation

Reserve Name: Sarnia I.R.No.45
Band Name: Chippewas of Sarnia

Reserve Name: Saug-A-Gaw-Sing I.R. No. 1
Band Name: Big Island First Nation

Reserve Name: Saugeen I.R. No. 29
Band Name: Chippewas of Saugeen First Nation

Reserve Name: Savant Lake Indian Settlement
Band Name: Saugeen Nation

Reserve Name: Scugog I.R No. 34
Band Name: Mississauga of Scugog First Nation

Reserve Name: Seine River I.R. No. 23A, 23B, Sturgeon Falls No. 23
Band Name: Seine River First Nation

Reserve Name: Serpent River I.R. No. 7
Band Name: Serpent River First Nation

Reserve Name: Shawanaga I.R. No. 17
Band Name: Shawanaga First Nation

Reserve Name: Sheguiandah I.R. No. 24
Band Name: Sheguiandah First Nation

Reserve Name: Sheshegwaning I.R. No. 20
Band Name: Sheshegwaning First Nation

Reserve Name:	Shoal Lake I.R. No 39A
Band Name:	Shoal Lake No. 39 First Nation
Reserve Name:	Shoal Lake I.R. No 40
Band Name:	Shoal Lake No. 40 First Nation
Reserve Name:	Six Nations I.R. No. 40
Band Name:	Six Nations of the Grand River Territory
Reserve Name:	Slate Falls Indian Settlement
Band Name:	Slate Falls Nation
Reserve Name:	Spanish River I.R. No. 5
Band Name:	Sagamok Anishnawbek
Reserve Name:	Sucker Creek I.R NO. 23
Band Name:	Sucker Creek First Nation
Reserve Name:	Thessalon I.R. No. 12
Band Name:	Thessalon First Nation
Reserve Name:	Tyendinaga Mohawk Territory
Band Name:	Mohawks of the Bay of Quinte
Reserve Name:	Wabauskang 21
Band Name:	Wabauskang First Nation
Reserve Name:	Wabigoon Lake I.R No. 27
Band Name:	Wabigoon Lake Ojibway Nation
Reserve Name:	Wahnapitae 11
Band Name:	Wahnapitae First Nation

Reserve Name: Walpole Island I.R. No.46
Band Name: Walpole Island First Nation

Reserve Name: West Bay I.R. No. 22
Band Name: West Bay First Nation

Reserve Name: Whitefish Bay I.R No. 32A
Band Name: Whitefish Bay First Nation

Reserve Name: Whitefish Bay I.R No. 34A and Lake of the Woods I.R No. 37
Band Name: Northwest Angle No. 37 First Nation

Reserve Name: Whitefish Lake I.R. No. 6
Band Name: Whitefish Lake First Nation

Reserve Name: Whitefish River I.R. No. 4
Band Name: Whitefish River First Nation

Reserve Name: Wikewemikong I.R. No. 26
Band Name: Wikwemikong Unceded First Nation

APPENDIX B

TAB 3 UNORGANIZED TOWNSHIPS

**Networks provides service to numerous Unorganized geographic townships.
These townships are not incorporated as municipalities.**

APPENDIX B

**TAB 4 MUNICIPALITIES IN WHICH A PORTION OF THE MUNICIPALITY IS SERVED BY THE LICENSEE
AND ANOTHER PORTION OF THE MUNICIPALITY IS SERVED BY ANOTHER DISTRIBUTOR**

Name of Municipality:	Township of Alfred and Plantagenet
Formerly Known As:	Township of Alfred, Village of Alfred, Township of North Plantagenet, Village of Plantagenet, as at December 31, 1996.
Area Not Served By Networks:	The area served by Hydro 2000 Inc. described as the former Villages of Alfred and Plantagenet as more particularly set out in Licence No. ED-2002-0542.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	Town of Amherstburg
Formerly Known As:	Town of Amherstburg, Township of Anderdon, Township of Malden, as at December 31, 1997.
Area Not Served By Networks:	The area served by Essex Powerlines Corporation described as the former Town of Amherstburg as more particularly set out in Licence No. ED-2002-0499.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	Two industrial (former Direct Class) customers located at 381 Front Road North, Amherstburg ON, and 99 Thomas Road, Amherstburg ON

Name of Municipality:	Township of Asphodel-Norwood
Formerly Known As:	Township of Asphodel, Village of Norwood, as at December 31, 1997.
Area Not Served By Networks:	The area served by Peterborough Distribution Inc. described as the former Village of Norwood as more particularly set out in Licence No. ED-2002-0504.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	Township of Atikokan
Formerly Known As:	Same
Area Not Served By Networks:	The area served by Atikokan Hydro Inc. as set out in Licence No. ED-2003-0001.
Networks assets within area not served by Networks:	No
Customer(s) within area not Served by Networks:	No
<hr/>	
Name of Municipality:	Town of Aylmer as at January 1, 1998.
Formerly Known As:	Same
Area Not Served By Networks:	The area served by Erie Thames Powerlines Corporation described as the Town of Aylmer as more particularly set out in Licence No. ED-2002-0156.

**Networks assets within area
not served by Networks:** Yes

**Customer(s) within area not
served by Networks:** No

Name of Municipality: **City of Belleville**

Formerly Known As: City of Belleville, Township of Thurlow, City of Quinte West, as at December 31, 1997.

Area Not Served By Networks: The area served by Veridian Connections Inc. described as the former City of Belleville as more particularly set out in Licence No. ED-2002-0503.

**Networks assets within area
not served by Networks:** Yes

**Customer(s) within area not
served by Networks:** No

Name of Municipality: **Township Blanford-Blenheim**

Formerly Known As: Township Blanford-Blenheim as at March 31, 1999.

Area Not Served By Networks: The area served by Cambridge and North Dumfries Hydro Inc. as particularly set out in Licence No. ED-2002-0574.

The area served by Kitchener-Wilmot Hydro Inc. as particularly set out in Licence No. ED-2002-0573.

**Networks assets within area
not served by Networks:** Yes

**Customer(s) within area not
served by Networks:** No

Name of Municipality:	Town of the Blue Mountains
Formerly Known As:	Town of Thornbury, Township of Collingwood, as at December 31, 1997.
Area Not Served By Networks:	The area served by COLLUS Power Corp. described as the former Town of Thornbury as more particularly set out in Licence No. ED- 2002-0518.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	Municipality of Bluewater
Formerly Known As:	Township of Hay, Township of Stanley, Village of Bayfield, Village of Hensall, Village of Zurich, as at December 31, 2000.
Area Not Served By Networks:	The area served by Festival Hydro Inc. described as the former Village of Hensall, and the former Village of Zurich as more particularly set out in Licence No. ED-2002-0513.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	Town of Bracebridge
Formerly Known As:	Townships of Macaulay, Draper, Monck, Oakely, Town of Bracebridge, as at December 31, 1970.
Area Not Served By Networks:	The area served by Lakeland Power Distribution Ltd. described as the former Town of Bracebridge, as more particularly set out in Licence No. ED-2002-0540.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

One industrial customer located at 154 Beaumont Drive, Bracebridge,
ON.

Name of Municipality:

Town of Bradford-West Gwillimbury

Formerly Known As:

Town of Bradford, Township of West Gwillimbury, as at December 31,
1990.

Area Not Served By Networks:

The area served by PowerStream Inc. as particularly set out in Licence
No. ED-2004-0420, previously served by Barrie Hydro Distribution Inc.
described as the former Town of Bradford as more particularly set out
in Licence No. ED-2002-0534.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

County of Brant (Initially known as City of Brant-on-the-Grand)

Formerly Known As:

County of Brant, Town of Paris, Township of Brantford, Township of
Burford, Township of Oakland, Township of Onondaga, Township of
South Dumfries, as at December 31, 1998.

Area Not Served By Networks:

The area served by Brant County Power Inc. described as the former
Village of Burford, the former Town of Paris, the former Township of
Brantford and the former Police Village of St. George (in the former
Township of South Dumfries) as more particularly set out in Licence
No. ED-2002-0522.

The area served by Cambridge and North Dumfries Hydro Inc. as
particularly set out in Licence No. ED-2002-0574.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Brock

Formerly Known As:

Village of Beaverton, Village of Cannington, Township of Brock,
Township of Thorah, as at December 31, 1973.

Area Not Served By Networks:

The area served by Veridian Connections Inc. described as the former Villages of Beaverton and Cannington and the former Police Village of Sunderland (in the former Township of Brock) as more particularly set out in Licence No. ED-2002-0503.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Municipality of Brockton

Formerly Known As:

Township of Greenock, Township of Brant, Town of Walkerton, as at December 31, 1998.

Area Not Served By Networks:

The area served by Westario Power Inc. described as the former Town of Walkerton and the portion of the former Police Village of Elmwood (in the former Township of Brant) as more particularly set out in Licence No. ED-2002-0515.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:	Township of Brooke-Alvinston
Formerly Known As:	Township of Brooke, Village of Alvinston
Area Not Served By Networks:	The area served by Bluewater Power Distribution Corp. described as the former Village of Alvinston as more particularly set out in Licence No. ED-2002-0517.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	Municipality of Central Elgin
Formerly Known As:	Township of Yarmouth, Village of Belmont, Village of Port Stanley, as at December 31, 1997.
Area Not Served By Networks:	The area served by Erie Thames Powerlines Corporation described as the former Villages of Belmont and Port Stanley as more particularly set out in Licence No. ED-2002-0516.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	Municipality of Central Huron
Formerly Known As:	Township of Goderich, Township of Hullett, Town of Clinton, as at December 31, 2000.
Area Not Served By Networks:	The area served by Clinton Power Corporation described as the former Town of Clinton as more particularly set out in Licence No. ED-2002-0496..

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Centre Wellington

Formerly Known As:

Town of Fergus, Village of Elora, Township of West Garafraxa, Township of Nichol, Township of Pilkington, as at December 31, 1998.

Area Not Served By Networks:

The area served by Centre Wellington Hydro Ltd. described as the former Town of Fergus and the former Village of Elora as more particularly set out in Licence No. ED-2002-0498.

**Networks Assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Municipality of Chatham-Kent

Formerly Known As:

City of Chatham, County of Kent, Town of Blenheim, Town of Bothwell, Town of Dresden, Town of Ridgetown, Town of Tilbury, Town of Wallaceburg, Village of Erie Beach, Village of Eriean, Village of Highgate, Village of Thamesville, Village of Wheatley, Township of Camden, Township of Chatham, Township of Dover, Township of Harwich, Township of Howard, Township of Orford, Township of Raleigh, Township of Rodney, Township of Tilbury East, Township of Zone, as at December 31, 1997.

Area Not Served By Networks:

The area served by Chatham-Kent Hydro Inc. described as the former City of Chatham, former Police Village of Merlin (straddling the former townships of Raleigh and Tilbury East), former Village of Eriean, former Village of Thamesville, former Town of Bothwell, former Village of Wheatley, former Town of Dresden, former Town of Blenheim,

former Town of Tilbury, former Town of Ridgetown, and the former Town of Wallaceburg as more particularly set out in Licence No. ED-2002-0563.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Municipality of Clarington

Formerly Known As:

Town of Bowmanville, Village of Newcastle, Township of Clarke, Township of Darlington, as at December 31, 1973.

Area Not Served By Networks:

The area served by Veridian Connections Inc. described as the former Town of Bowmanville, the former Police Village of Orono (in the former Township of Clarke), the former Town of Newcastle as more particularly set out in Licence No. ED-2002-0503

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

One Industrial customer located at 410 Waverley Road, Bowmanville ON.

Name of Municipality:

Township of Clearview

Formerly Known As:

Town of Stayner, Village of Creemore, Township of Nottawasaga, Township of Sunnidale, as at December 31, 1993.

Area Not Served By Networks:

The area served by COLLUS Power Corp. described as the former Town of Stayner and the former Village of Creemore as more particularly set out in Licence No. ED-2002-0518.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Town of Cochrane

Formerly Known As:

Town of Cochrane, Township of Glackmeyer, Unorganized Twp. of
Lamarche, as at December 31, 1999.

Area Not Served By Networks:

The area served by Northern Ontario Wires Inc. described as the
former Town of Cochrane as more particularly set out in Licence No.
ED-2002-0018

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Cramahe

Formerly Known As:

Village of Colborne, Township of Cramahe, as at December 31, 2000.

Area Not Served By Networks:

The area served by Lakefront Utilities Inc. described as the former
Village of Colborne as more particularly set out in Licence No. ED-
2002-0545.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:	Municipality of Dutton/Dunwich
Formerly Known As:	Township of Dunwich, Village of Dutton, as at December 31, 1997.
Area Not Served By Networks:	The area served by Dutton Hydro Limited described as the former Village of Dutton as more particularly set out in Licence No. ED-2003-0025.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	Town of East Gwillimbury as at March 31, 1999.
Formerly Known As:	Same
Area Not Served By Networks:	The area served by Newmarket-Tay Power Distribution Ltd. as particularly set out in Licence No. ED- 2007-0624.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	Township of East Luther Grand Valley
Formerly Known As:	Township of East Luther, Village of Grand Valley, as at December 31, 1994.
Area Not Served By Networks:	The area served by Orangeville Hydro Limited described as the former Village of Grand Valley as more particularly set out in Licence No. ED-2002-0500.

**Networks assets within area
not served by Networks:** Yes

**Customer(s) within area not
served by Networks:** No

Name of Municipality: **The Township of East Zorra-Tavistock**

Formerly Known As: Township of East Zorra, Town of Tavistock, as at December 31, 1997.

Area Not Served By Networks: The area served by Erie Thames Powerlines Corp. described as the former Town of Tavistock as more particularly set out in Licence No. ED-2002-0516.

**Networks assets within area
not served by Networks:** Yes

**Customer(s) within area not
served by Networks:** No

Name of Municipality: **Township of Edwardsburgh/Cardinal**

Formerly Known As: Village of Cardinal, Township of Edwardsburgh, as at December 31, 2000.

Area Not Served By Networks: The area served by Rideau St. Lawrence Distribution Inc. described as the former Village of Cardinal as more particularly set out in Licence No. ED-2003-0003.

**Networks assets within area
not served by Networks:** Yes

**Customer(s) within area not
served by Networks:** No

Name of Municipality: **Township of Essa as at March 31, 1999.**

Formerly Known As: Same

Area Not Served By Networks: The area served by Barrie Hydro Distribution Inc. described as the former Police Village of Thorton as more particularly set out in Licence No. ED-2002-0534.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **Town of Essex**

Formerly Known As: Town of Essex, Town of Harrow, Township of North Colchester, Township of South Colchester, as at December 31, 1998.

Area Not Served By Networks: The area served by E.L.K. Energy Inc. described as the former Town of Essex and the former Town of Harrow as more particularly set out in Licence No. ED-2003-0015.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **Town of Gravenhurst**

Formerly Known As: Formerly the Township of Morrison, the United Townships of Medora and Wood, the Township of Muskoka, the Township of Ryde, the Town of Gravenhurst, as at December 31, 1970.

Area Not Served By Networks: The area served by Veridian Connections Inc. described as the former urban boundary of the Town of Gravenhurst as more particularly set out in Licence No. ED-2002-0503.

Networks assets within area not served by Networks: Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

City of Greater Sudbury

Formerly Known As:

Region of Sudbury, City of Sudbury, City of Valley East, Town of Capreol, Town of Nickel Centre, Town of Onaping Falls, Town of Rayside-Balfour, Town of Walden, as at December 31, 2000.

Area Not Served By Networks:

The area served by Greater Sudbury Hydro Inc. described as the former City of Sudbury, the former townsite of the former Town of Capreol, and the former Town of Conniston (part of former Town of Nickel Centre) as more particularly set out in Licence No. ED-2002-0559.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Guelph/Eramosa

Formerly Known As:

Township of Guelph, Township of Eramosa, as at December 31, 1998.

Area Not Served By Networks:

The area served by Guelph Hydro Electric Systems Inc. as more particularly set out in Licence No. ED-2002-0565.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:	City of Hamilton
Formerly Known As:	Region of Hamilton-Wentworth, City of Hamilton, City of Stoney Creek, Town of Ancaster, Town of Dundas, Town of Flamborough, Township of Glanbrook, as at December 31, 2000.
Area Not Served By Networks:	The area served by Horizon Utilities Corp. described as the former City of Hamilton, the former Police Village of Ancaster, former Town of Dundas, the former Police Village of Lynden (straddling the former Town of Flamborough and Town of Ancaster), the former Village of Waterdown, and the former City of Stoney Creek as more particularly set out in Licence No. ED-2006-0031.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	Town of Hawkesbury as at March 31, 1999.
Formerly Known As:	Same
Area Not Served By Networks:	The area served by Hydro Hawkesbury Inc. described as the Town of Hawkesbury prior to annexation or amalgamation pursuant to the Minister's Order or Restructuring Act as more particularly set out in Licence No. ED-2003-0027.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No

Name of Municipality:	Town of Huntsville
Formerly Known As:	Township of Brunel, Village of Port Sydney, Town of Chaffey, Township of Stephenson, Township of of Stisted, Town of Huntsville, as at December 31, 1970.
Area Not Served By Networks:	The area served by Lakeland Power Distribution Ltd. described as the former Town of Huntsville as more particularly set out in Licence No. ED-2002-0540.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	One Industrial customer located at 61 Domtar Road, Huntsville ON.

Name of Municipality:	Municipality of Huron East
Formerly Known As:	Village of Brussels, Township of Grey, Township of McKillop, Town of Seaforth, Township of Tuckersmith, as at December 31, 2000.
Area Not Served By Networks:	The area served by Festival Hydro Inc. described as the former Village of Brussels and the former Town of Seaforth as more particularly set out in Licence No. ED-2002-0513.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No

Name of Municipality:	Township of Huron-Kinloss
Formerly Known As:	Township of Huron (former Police Village of Ripley amalgamated with twp in 1995), Township of Kinloss, Village of Lucknow, as at December 31, 1998.
Area Not Served By Networks:	The area served by Westario Power Inc. described as the former

Police Village of Ripley (in the former Township of Huron) and the former Village of Lucknow as more particularly set out in Licence No. ED-2002-0515.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Municipality of Huron Shores

Formerly Known As:

Township of Day & Bright Add'l, Township of Thessalon, Township of Thompson, Village of Iron Bridge, as at December 31, 1998.

Area Not Served By Networks:

The area served by Great Lakes Power Limited described as part of the former Township of Thessalon or as more particularly set out in Licence No. ED-1999-0227

**Networks assets within area
not served by Networks:**

No

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Town of Ingersoll

Formerly Known As:

Same

Area Not Served By Networks:

The area served by Erie Thames Powerlines Corporation described as the Town of Ingersoll as more particularly set out in Licence No. ED-2002-0516.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Town of Iroquois Falls as at March 31, 1999.

Formerly Known As:

Same

Area Not Served By Networks:

The area served by Northern Ontario Wires Inc. described as the Town of Iroquois Falls as more particularly set out in Licence No. ED-2002-0018.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

City of Kenora

Formerly Known As:

Town of Kenora, Town of Keewatin, Town of Jaffray Melick, as at December 31, 1999.

Area Not Served By Networks:

The area served by Kenora Hydro Electric Corporation Ltd. described as the former Town of Kenora and part of the former Town of Keewatin as more particularly set out in Licence No. ED-2003-0030.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Killaloe, Hagarty and Richards

Formerly Known As:

Township of Hagarty and Richards, Village of Killaloe, as at June 30, 1999

Area Not Served By Networks: The area served by Ottawa River Power Corp. described as the former Village of Killaloe as more particularly set out in Licence No. ED-2002-0033.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **Municipality of Kincardine**

Formerly Known As: Town of Kincardine, Township of Bruce (Village of Tiverton, Township of Bruce amalgamation), Township of Kincardine, as at December 31, 1998.

Area Not Served By Networks: The area served by Westario Power Inc. described as the former Town of Kincardine as more particularly set out in Licence No. ED-2002-0515.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **Township of King as at March 31, 1999**

Formerly Known As: Same

Area Not Served By Networks: The area served by PowerStream Inc. as more particularly set out in Licence No. ED-2004-0420.

The area served by Newmarket-Tay Power Distribution Ltd. as more particularly set out in Licence No. ED-2007-0624.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
Served by Networks:**

No

Name of Municipality:

City of Kingston

Formerly Known As:

City of Kingston, Township of Kingston, Township of Pittsburgh, as at December 31, December 31, 1997.

Area Not Served By Networks:

The area served by Kingston Electricity Distribution Ltd. described as the former City of Kingston, the former Township of Kingston, and part of the former Township of Pittsburgh as more particularly set out in Licence No. ED-2003-0057.

The area served by Canadian Niagara Power Inc. described as part of the former Township of Pittsburgh as more particularly set out in Licence No. ED-2002-0572.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Town of Kingsville

Formerly Known As:

Town of Kingsville, Township of Gosfield North, Township of Gosfield South, as at December 31, 1997.

Area Not Served By Networks:

The area served by E.L.K. Energy Inc. described as the former Town of Kingsville and the former Police Village of Cottam (in the former Township of Gosfield North), including Part Lot 269 Part 1 12R-23403, Part Lot 268 Part 1 12R-23674 and Part Lot 269RP 12R-1331 Parts 4

and 5 located at 168 Belle River Road North, as more particularly set out in Licence No. ED-2003-0015.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Town of Lakeshore

Formerly Known As:

Township of Lakeshore, (Jan 1998: Town of Belle River, Township of Maidstone amalgamated into Lakeshore Township), Township of Rochester, Township of Tillbury North, Township of Tillbury West, as at December 31, 1998.

Area Not Served By Networks:

The area served by E.L.K. Energy Inc. described as the former Police Village of Comber (in the former Township of Tillbury West) and the former Town of Belle River as more particularly set out in Licence No. ED-2003-0015.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Municipality of Leamington

Formerly Known As:

Town of Leamington, Township of Mersea, as at December 31, 1998.

Area Not Served By Networks:

The area served by Essex Powerlines Corporation described as the former Town of Leamington as more particularly set out in Licence No. ED-2002-0499.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Leeds and the Thousand Islands

Formerly Known As:

Township of Front of Leeds and Lansdowne, Township of Rear of
Leeds and Lansdowne,

Township of Front of Escott, as at December 31, 2000.

Area Not Served By Networks:

The area served by Canadian Niagara Power Inc. described as part of
the former Township of the Front of Leeds and Lansdowne as more
particularly set out in Licence No. ED-2002-0572.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Municipality of Magnetawan

Formerly Known As:

Township of Chapman, Village of Magnetawan, Unorganized Township
of Croft, as at December 31, 1997.

Area Not Served By Networks:

The area served by Lakeland Power Distribution Ltd. described as the
former Village of Magnetawan as more particularly set out in Licence
No. ED-2002-0540.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:	Town of Minto
Formerly Known As:	Township of Minto, Town of Palmerston, Town of Harriston, Village of Clifford, as at December 31, 1998.
Area Not Served By Networks:	The area served by Westario Power Inc. described as the former Town of Harriston, the former Town of Palmerston, and the former Village of Clifford as more particularly set out in Licence No. ED-2002-0515.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	The Corporation of the Town of Mississippi Mills
Formerly Known As:	Town of Almonte, Township of Pakenham, Township of Ramsay, as at December 31, 1998.
Area Not Served By Networks:	The area served by Ottawa River Power Corp. described as the former Town of Almonte as more particularly set out in Licence No. ED-2003-0033.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	Town of New Tecumseth
Formerly Known As:	Town of Alliston, the Village of Beeton, the Village of Tottenham and the portion of the Township of Tecumseth, as at December 31, 1991.
Area Not Served By Networks:	The area served by PowerStream Inc. described as the former Town of Alliston, the former Village of Beeton and the former Village of

Tottenham (all in the former Township of Tecumseth) as more particularly set out in Licence No. ED-2004-0420.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

One Industrial customer located in the former Town of Alliston.

Name of Municipality:

The Corporation of Norfolk County

Formerly Known As:

Township of Norfolk, Township of Delhi, Town of Simcoe, City of Nanticoke (westerly 'half' only), as at December 31, 2000.

Area Not Served By Networks:

The area served by Norfolk Power Distribution Inc. described as the former Town of Delhi (in the former Township of Delhi), the westerly half of the former City of Nanticoke, the former Village of Port Rowan (in former Township of Norfolk), and the former Town of Simcoe as more particularly set out in Licence No. ED-2002-0521.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

One Industrial customer located at Lake Erie and Regional Rd.. 3, Nanticoke, ON.

Name of Municipality:

Township of North Huron

Formerly Known As:

Town of Wingham, Village of Blyth, Township of East Wawanosh, as at December 31, 2000.

Area Not Served By Networks:

The area served by Westario Power Inc. described as the former Town of Wingham as more particularly set out in Licence No. ED-2002-0515.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

Two Industrial customers located at 40621 Amberly Rd., and 200
Water Street Wingham, ON.

Name of Municipality:

Municipality of North Middlesex

Formerly Known As:

Township of McGillivray, Township of East Williams, Township of West
Williams, Town of Parkhill, Village of Ailsa Craig, as at December 31,
2000.

Area Not Served By Networks:

The area served by Middlesex Power Distribution Corp. described as
the former Town of Parkhill as more particularly set out in Licence No.
ED-2003-0059.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

The Township of Norwich as at March 31, 1999.

Formerly Known As:

Township of North Norwich, Township of South Norwich, Township of
East Oxford, Village of Norwich, Village of Burgessville, and Police
Village of Otterville, as at

Area Not Served By Networks:

The area served by Erie Thames Powerlines Corp. described as the
former Village of Norwich, the former Village of Burgessville, and the
former Police Village of Otterville as more particularly set out in
Licence No. ED-2002-0516.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:	City of Ottawa
Formerly Known As:	Region of Ottawa-Carleton, City of Gloucester, City of Kanata, City of Nepean, City of Ottawa, City of Vanier, Township of Cumberland, Township of Goulbourn, Township of Osgoode, Township of Rideau, Township of West Carleton, Village of Rockcliffe Park, as at December 31, 2000.
Area Not Served By Networks:	The area served by Hydro Ottawa Limited described as the former City of Gloucester, the former City of Kanata, the former City of Nepean, the former City of Ottawa, the former City of Vanier, the former Township of Goulbourn, the former Village of Rockcliffe Park, and the portion of the former Township of Rideau on Long Island, North of Bridge Street, as more particularly set out in Licence No. ED-2002-0556.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No.
<hr/>	
Name of Municipality:	Town of Pelham
Formerly Known As:	Township of Pelham, Village of Fonthill, as at December 31, 1969.
Area Not Served By Networks:	The area served by Niagara Peninsula Energy Inc. described as the former Village of Fonthill as more particularly set out in Licence No. ED-2002-0555.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No

Name of Municipality:	Township of Perth East
Formerly Known As:	Township of Mornington, Township of Ellice, Township of North Easthope, Township of South Easthope, Village of Milverton, as at December 31, 1997.
Area Not Served By Networks:	The area served by Festival Hydro Inc. as more particularly set out in Licence No. ED-2002-0513.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	City of Peterborough as at March 31, 1999.
Formerly Known As:	Same
Area Not Served By Networks:	The area served by Peterborough Distribution Inc. described as the City of Peterborough as more particularly set out in Licence No. ED-2002-0504.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
<hr/>	
Name of Municipality:	Municipality of Port Hope
Formerly Known As:	Town of Port Hope, Township of Hope (initially restructured as Municipality of Port Hope and Hope), as at December 31, 2000.
Area Not Served By Networks:	The area served by Veridian Connections Inc. described as the former Town of Port Hope as more particularly set out in Licence No. ED-

2002-0503.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Puslinch as at March 31, 1999

Formerly Known As:

Same

Area Not Served By Networks:

The area served by Guelph Hydro Electric Systems Inc. as more particularly set out in Licence No. ED-2002-0565.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Municipality of Red Lake

Formerly Known As:

Township of Red Lake, Township of Golden, as at June 30, 1997.

Area Not Served By Networks:

The area served by Gold Corp Inc. described as part of the former Improvement District of Balmertown.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Russell as at March 31, 1999.

Formerly Known As:

Same

Area Not Served By Networks:

The area served by Cooperative Hydro Embrun Inc. described as the

former Police Village of Embrum as more particularly set out in Licence No. ED-2002-0493.

**Networks assets within area
not served by Networks:**

No

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Sables-Spanish Rivers

Formerly Known As:

Town of Massey, Town of Webbwood, Township of the Spanish River,
as at June 30, 1997.

Area Not Served By Networks:

The area served by Espanola Regional Hydro Distribution Corp.
described as the former Town of Massey and the former Town of
Webbwood as more particularly set out in Licence No. ED-2002-0502.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Town of Saugeen Shores

Formerly Known As:

Township of Saugeen, Town of Southampton, Town of Port Elgin, as at
December 31, 1998.

Area Not Served By Networks:

The area served by Westario Power Inc. described as the former Town
of Southampton and the former Town of Port Elgin as more
particularly set out in Licence No. ED-2002-0515.

**Networks assets within area
not served by Networks:**

Yes

Customer(s) within area not

served by Networks:	No
Name of Municipality:	City of St. Thomas as at March 31, 1999.
Formerly Known As:	Same
Area Not Served By Networks:	The area served by St. Thomas Energy Inc. described as the City of St. Thomas as more particularly set out in Licence No. ED-2002-0523.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	One Industrial customer located at 1 Cosma Court
Name of Municipality:	Township of Scugog
Formerly Known As:	Township of Scugog, Township of Cartwright, Township of Reach, Village of Port Perry, as at December 31, 1973.
Area Not Served By Networks:	The area served by Veridian Connections Inc. described as the former Village of Port Perry as more particularly set out in Licence No. ED-2002-0503.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No
Name of Municipality:	Municipality of Sioux Lookout
Formerly Known As:	Town of Sioux Lookout, as at December 31, 1997
Area Not Served By Networks:	The area served by Sioux Lookout Hydro Inc. described as the Municipality of Sioux Lookout as more particularly set out in Licence No. ED-2002-0514.
Networks assets within area	

not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **Township of Smith-Ennismore-Lakefield**

Formerly Known As: Village of Lakefield, Township of Smith-Ennismore (formerly Township of Smith and Township of Ennismore), as at December 31, 2000.

Area Not Served By Networks: The area served by Peterborough Distribution Inc. described as the former Village of Lakefield as more particularly set out in Licence No. ED-2002-0504.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **Municipality of South Bruce**

Formerly Known As: Township of Mildmay-Carrick, Township of Teeswater-Culross, (Jan 1998: Village of Teeswater, Township of Culross amalgamated into the Township of Teeswater-Culross. Village of Mildmay, Township of Carrick amalgamated into the Township of Mildmay-Carrick), as at December 31, 1997.

Area Not Served By Networks: The area served by Westario Power Inc. described as the former Village of Mildmay and the former Village of Teeswater as more particularly set out in Licence No. ED-2002-0515.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality:	Township of South Dundas
Formerly Known As:	Township of Matilda, Township of Williamsburg, Village of Iroquois, Village of Morrisburg, as at December 31, 1997.
Area Not Served By Networks:	The area served by Rideau St. Lawrence Distribution Inc. described as the former Police Village of Williamsburg, the former Village of Morrisburg, and the former Village of Iroquois as more particularly set out in Licence No. ED-2003-0003.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	No

Name of Municipality:	Township of South Glengarry
Formerly Known As:	Township of Charlottenburgh, Township of Lancaster, Village of Lancaster, Police Village of Martintown, as at December 31, 1997.
Area Not Served By Networks:	The area served by the Cornwall Street Railway Light and Power Company Limited described as part of the former Township of Charlottenburgh as more particularly set out in Licence No. ED-2004-0405.
Networks assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	Three Solar PV generator customers located at: <ol style="list-style-type: none">1. Part of Lots 5 & 6, Concession 52. Part of Lots 15 & 16, Concession 5 & 63. Lot 41, 41A, Plan 107 except Part 20 and 20A on 14R299, s/t IL 3007, TCH 4416 and Plan 107 – Pt Lot 40 as in AR 1461, Except Pt 1 & 2, 14R2143 S/T TCH 4357

Name of Municipality:	Municipality of South Huron
Formerly Known As:	Township of Stephen, Township of Usborne, Town of Exeter, as at

December 31, 2000.

Area Not Served By Networks: The area served by Festival Hydro Inc. described as the former Police Village of Dashwood as more particularly set out in Licence No. ED-2002-0513.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **Township of South Stormont**

Formerly Known As: Township of Osnabruck, Township of Cornwall, as at December 31, 1997

Area Not Served By Networks: The area served by Cornwall Street Railway Light and Power Company Limited described as part of the former Township of Cornwall and part of the former Township of Osnabruk as more particularly set out in Licence No. ED-2004-0405.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **Township of Southgate**

Formerly Known As: Village of Dundalk, Township of Egremont, Township of Proton, Police Village of Holstein, as at December 31, 1999.

Area Not Served By Networks: The area served by Wellington North Power Inc. described as the former Police Village of Holstein as more particularly set out in Licence No. ED-2002-0511.

Networks assets within area not served by Networks: Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

The Township of South-West Oxford

Formerly Known As:

Township of West Oxford, Township of Dereham, Village of Beachville,
as at December 31, 1974.

Area Not Served By Networks:

The area served by Erie Thames Powerlines Corp. described as the
former Village of Beachville as more particularly set out in Licence No.
ED-2002-0516.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

City of Stratford

Formerly Known As:

Same

Area Not Served By Networks:

The area served by Festival Hydro Inc. as more particularly set out in
Licence No. ED-2002-0513.

**Networks assets within area
not served by Networks:**

No

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Strathroy-Caradoc

Formerly Known As:

Town of Strathroy, Township of Caradoc, as at December 31, 2000.

Area Not Served By Networks:

The area served by Middlesex Power Distribution Corp. described as
the former Police Village of Mount Brydges (in the former Township of
Caradoc) and the former Town of Strathroy as more particularly set out
in Licence No. ED-2003-0059.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Tay

Formerly Known As:

Village of Port McNicoll, Village of Victoria Harbour, the Township of Medonte, Township of Tay, Township of Tiny, Township of Flos, Police Village of Waubaushe, as at December 31, 1996.

Area Not Served By Networks:

The area served by Newmarket-Tay Power Distribution Ltd. as more particularly set out in Licence No. ED-2007-0624.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Town of Tecumseh

Formerly Known As:

Town of Tecumseh, Village of St. Clair Beach, Township of Sandwich South, as at December 31, 1998.

Area Not Served By Networks:

The area served by Essex Powerlines Corporation described as the former Town of Tecumseh and the former Village of St. Clair Beach as more particularly set out in Licence No. ED-2002-0499.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality: **Township of Uxbridge**
Formerly Known As: Town of Uxbridge, Township of Scott, Township of Uxbridge, as at December 31, 1973.
Area Not Served By Networks: The area served by Veridian Connections Inc. described as the former Town of Uxbridge as more particularly set out in Licence No. ED-2002-0503.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **Township of Warwick**
Formerly Known As: Village of Watford, Township of Warwick, as at December 31, 1997.
Area Not Served By Networks: The area served by Bluewater Power Distribution Corp. described as the former Village of Watford as more particularly set out in Licence No. ED-2002-0517.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **Township of Wellington North**
Formerly Known As: Town of Mount Forest, Village of Arthur, Township of Arthur, Township of West Luther, as at December 31, 1998.
Area Not Served By Networks: The area served by Wellington North Power Inc. described as the former Village of Arthur and the former Town of Mount Forest as more particularly set out in Licence No. ED-2002-0511.

**Networks assets within area
not served by Networks:**

No

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of West Grey

Formerly Known As:

Township of West Grey, Town of Durham (Jan 2000 Township Bentinck, Township of Glenelg, Town Normanby, Village of Neustadt amalgamated into the Township of West Grey), as at December 31, 1999.

Area Not Served By Networks:

The area served by Westario Power Inc. described as the former Village of Neustadt and a portion of the former Police Village of Elmwood (in the former Township of Bentinck) as more particularly set out in Licence No. ED-2002-0515.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Municipality of West Nipissing

Formerly Known As:

Town of Cache Bay, Town of Sturgeon Falls, Township of Caldwell, Township of Field, Township of Springer, as at December 31, 1998.

Area Not Served By Networks:

The area served by West Nipissing Energy Services Ltd. described as the former Town of Cache Bay and the former Town of Sturgeon Falls as more particularly set out in Licence No. ED-2002-0562.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality: **Municipality of West Perth**
Formerly Known As: Township of Logan, Township of Fullarton, Township of Hibbert, Town of Mitchell, Police Village of Dublin, as at December 31, 1997.
Area Not Served By Networks: The area served by West Perth Power Inc. described as the former Town of Mitchell and the former Police Village of Dublin as more particularly set out in Licence No. ED-2002-0508.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **Town of Whitby**
Formerly Known As: Same
Area Not Served By Networks: The area served by Whitby Hydro Electric Corporation and the area served by Veridian Connections Inc. as more particularly set out in Licence No. ED-2002-0571.

Name of Municipality: **Township of Whitewater Region**
Formerly Known As: Township of Ross, Township of Westmeath, Village of Beachburg, Village of Cobden, as at December 31, 2000.
Area Not Served By Networks: The area served by Ottawa River Power Corp. described as the former Village of Beachburg as more particularly set out in Licence No. ED-2003-0033.

Networks assets within area not served by Networks: Yes

Customer(s) within area not served by Networks: No

Name of Municipality: **City of Woodstock as at March 31, 1999.**
Formerly Known As: Same
Area Not Served By Networks: The area served by Woodstock Hydro Services Inc. described as the City of Woodstock as more particularly set out in Licence No. ED-

2003-0011, including the Boot Hill Development located on part of lots 3, 7, 8, 11, 12, 13 and registered plan 86 and 501, and three customers on Mill Street with civic address numbers 388, 390 and 410.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

Township of Zorra

Formerly Known As:

Township of West Zorra, Township of East Nissouri, Township of North Oxford, Village of Embro, Village of Thamesford , as at December 31, 1997.

Area Not Served By Networks:

The area served by Erie Thames Powerlines Corp. described as the former Village of Embro and the former Village of Thamesford as more particularly set out in Licence No. ED-2002-0516.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

No

Name of Municipality:

The Town of Penetanguishene as at March 31, 1999

Formerly Known As:

Same

Area Not Served By Networks:

The area served by Barrie Hydro Distribution Inc. described as part of the Town of Penetanguishene as more particularly set out in Licence No. ED-2002-0534.

**Networks assets within area
not served by Networks:**

Yes

**Customer(s) within area not
served by Networks:**

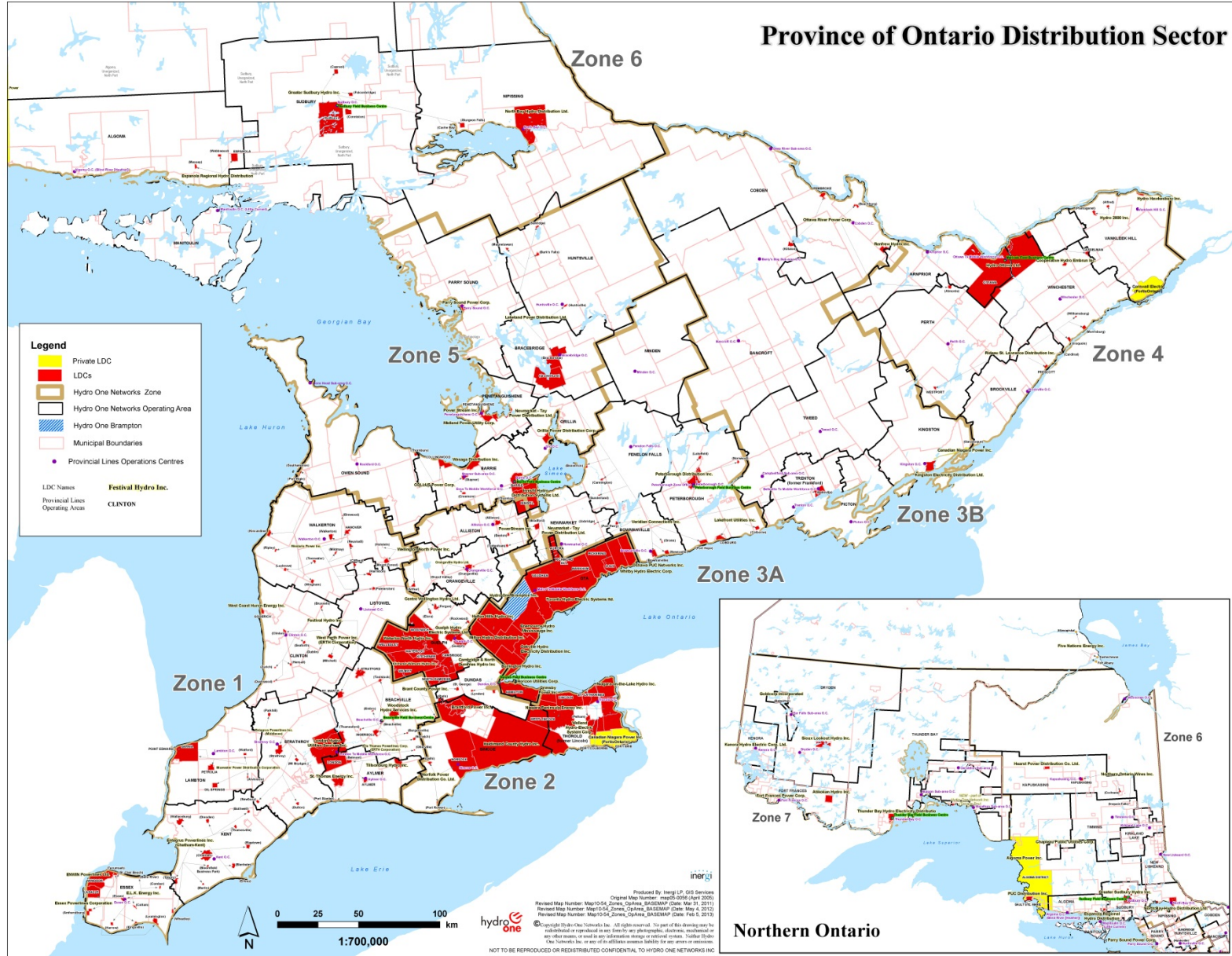
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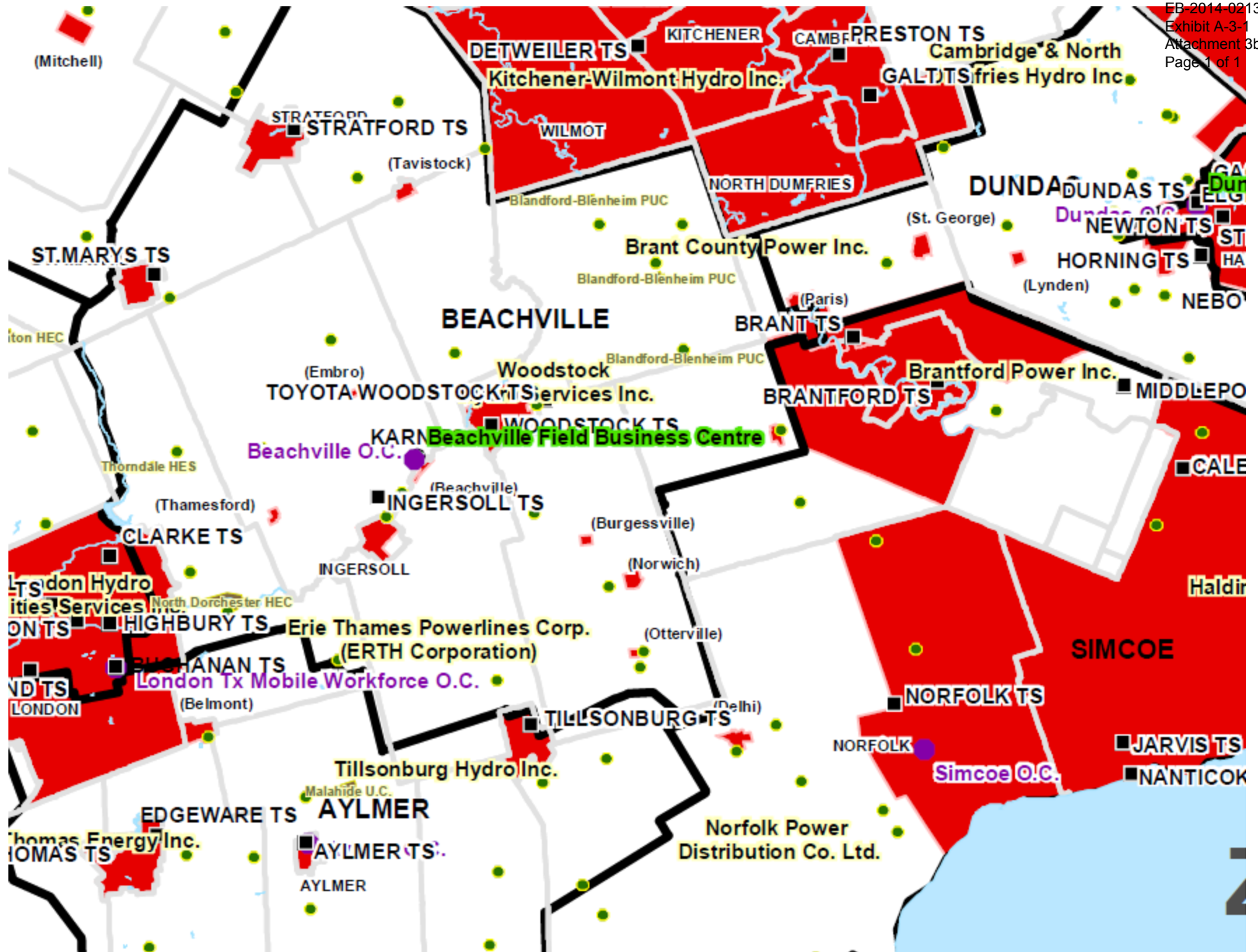
APPENDIX B

TAB 5 CONSUMERS EMBEDDED WITHIN ANOTHER DISTRIBUTOR BUT SERVED BY THE LICENSEE

(Note also that each municipality noted in Tab 5 is a municipality served almost entirely by another distributor but in which the Licensee serves one or more consumers.)

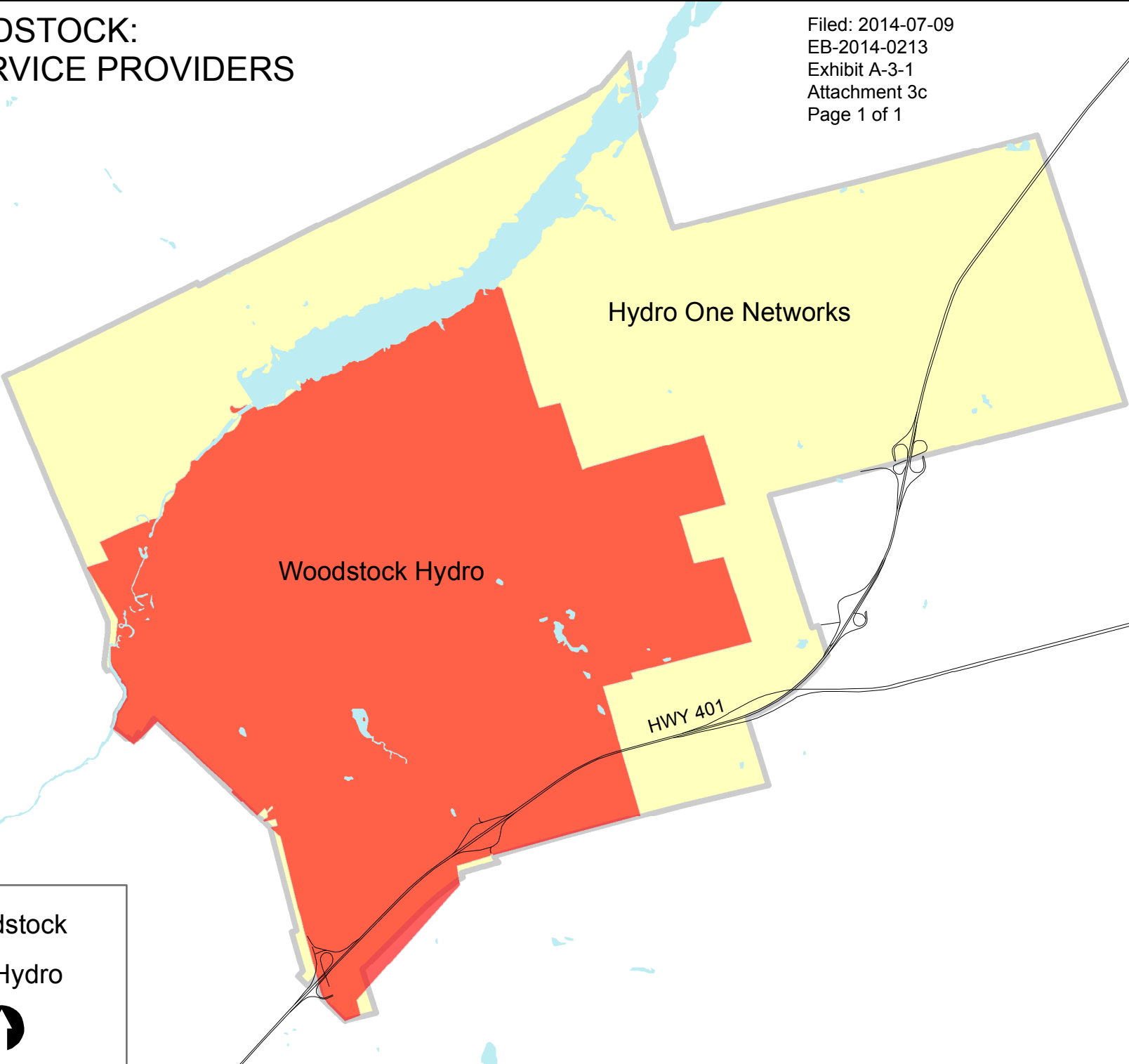
Name of Municipality:	City of Cornwall
Assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	The customers located at 501 Wallrich Avenue.
Name of Municipality:	County of Haldimand
Assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	One customer located in Caledonia, Ont.
Name of Municipality:	City of Niagara Falls
Assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	Three customers located at 8001 Daly Street, 7780 Stanley Ave, 6225 Progress Street
Name of Municipality:	City of St. Thomas
Assets within area not served by Networks:	Yes
Customer(s) within area not served by Networks:	One industrial customer located at 1 Cosma Court.





CITY OF WOODSTOCK:
ELECTRIC SERVICE PROVIDERS

Filed: 2014-07-09
EB-2014-0213
Exhibit A-3-1
Attachment 3c
Page 1 of 1

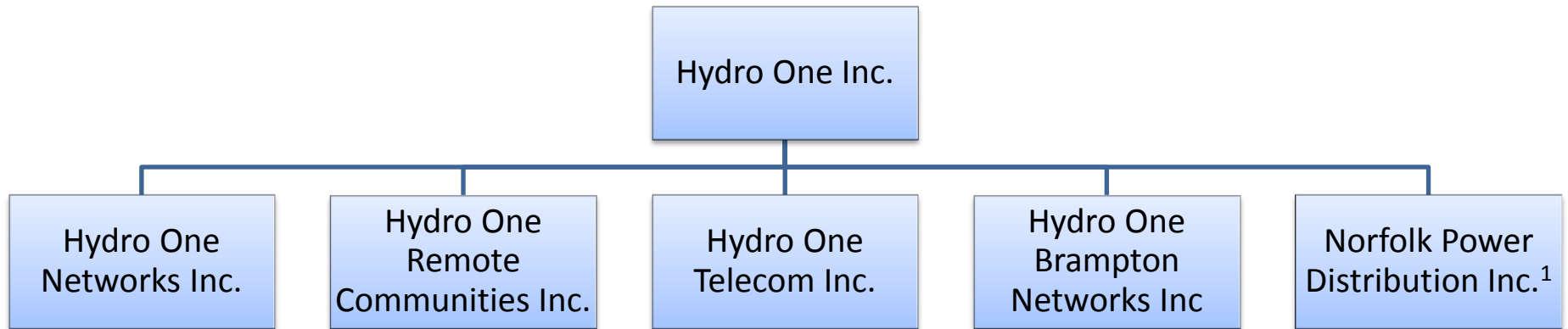


City of Woodstock
Woodstock Hydro

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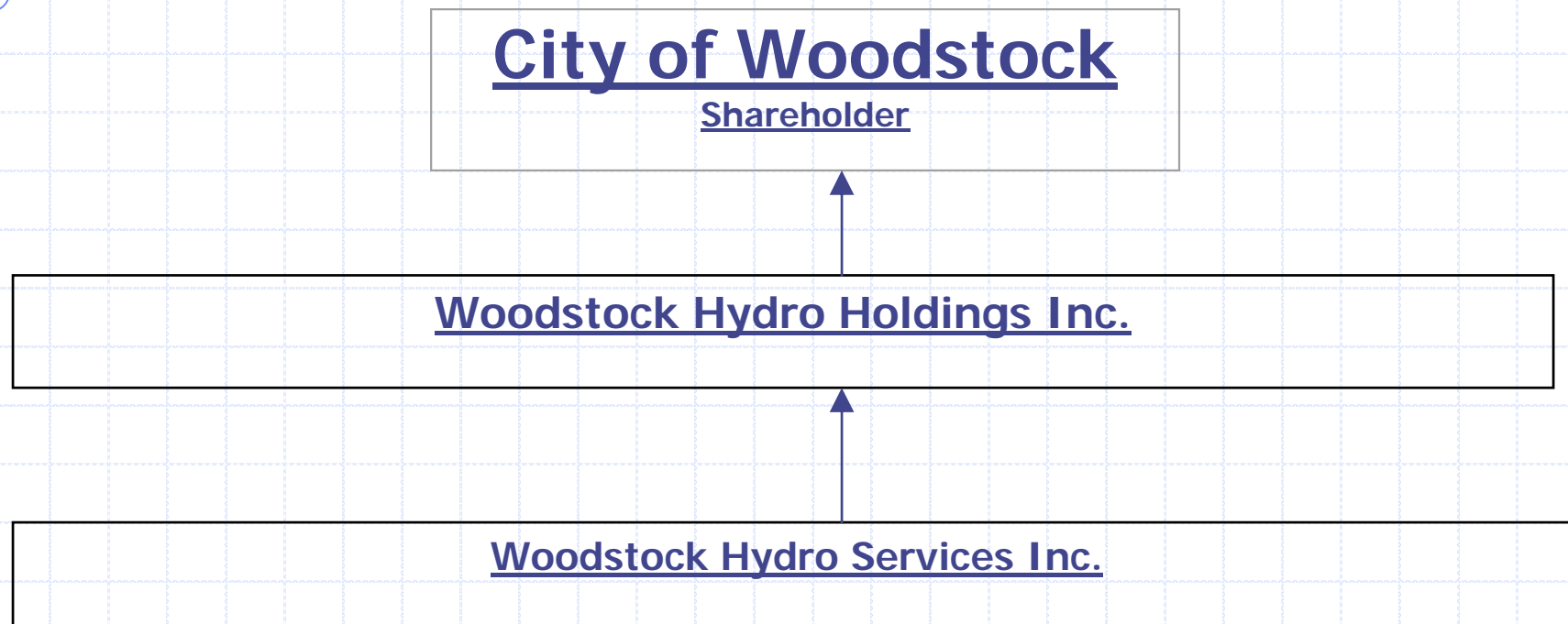
Hydro One Inc. Corporate Structure



Notes:

¹Subject to transaction closing.

Corporate Structure



THE CORPORATION OF THE CITY OF WOODSTOCK

- and -

1908873 ONTARIO INC.

- and -

HYDRO ONE INC.

SHARE PURCHASE AGREEMENT

Dated the 21st day of May, 2014

**Borden Ladner Gervais LLP
Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y4**

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SCHEDULE 3.1(S) – INSURANCE POLICIES		
SCHEDULE 3.1(U) – VENDOR LITIGATION		
SCHEDULE 3.1(V) – TAXES		
SCHEDULE 3.1(X) – PERMITTED ENCUMBRANCES		
SCHEDULE 3.1(Z) – LICENCES		
SCHEDULE 5.2 – PERMITTED DISPOSITION OF PROPERTY		
SCHEDULE 5.6 – FORM OF STANDARD VACANT LAND LEASE		
SCHEDULE 6.2 – PARTICIPATION IN COMMUNITY EVENTS		
SCHEDULE 6.5 – EXCLUDED CITY PROPERTY		
SCHEDULE 6.7 – CAPITAL PROGRAM		

SCHEDULE 6.8 – RATE CLASSES

SCHEDULE 6.9 – SERVICE QUALITY

SCHEDULE 6.11 – ACCESS TO PURCHASER’S PERSONNEL

SCHEDULE 9.1(C) – REQUIRED APPROVAL (PURCHASER)

SCHEDULE 9.2(c) – REQUIRED APPROVAL (VENDOR)

SHARE PURCHASE AGREEMENT

THIS AGREEMENT made the 21st day of May, 2014 (the “**Effective Date**”).

B E T W E E N:

THE CORPORATION OF THE CITY OF WOODSTOCK, a municipal corporation under the laws of Ontario, (the “**Vendor**”)

- and -

1908873 ONTARIO INC., a corporation incorporated under the laws of Ontario, (the “**Purchaser**”)

- and –

HYDRO ONE INC., a corporation incorporated under the laws of Ontario (the “**Guarantor**”)

Recitals

1. Woodstock Hydro Holdings Inc. (the “**Corporation**”) is a corporation incorporated under the Business Corporations Act (Ontario) and is wholly-owned by the Vendor;
2. The Vendor is the beneficial and registered owner of all of the issued and outstanding shares of the Corporation; and
3. The Vendor wishes to sell to the Purchaser, and the Purchaser wishes to purchase from the Vendor, all of the issued and outstanding shares of the Corporation, on and subject to the terms and conditions set forth herein.

THIS AGREEMENT WITNESSES THAT in consideration of the respective covenants, agreements, representations and warranties of the Parties herein contained and for other good and valuable consideration (the receipt and sufficiency of which are acknowledged by each Party), the Parties covenant and agree as follows.

ARTICLE I INTERPRETATION

1.1 **Defined Terms.** In this Agreement, including the recitals, and schedules hereto, unless the context otherwise specifies or requires, the following terms shall have the respective meanings specified or referred to below and grammatical variations of such terms shall have corresponding meanings:

- (a) **“Advisory Committee”** has the meaning ascribed thereto in Section 6.3.
- (b) **“Affiliate”** has the meaning ascribed thereto in the OBCA.
- (c) **“Agreement”** means this share purchase agreement, including all schedules attached hereto, as amended, supplemented, restated and replaced from time to time in accordance with its provisions.
- (d) **“Applicable Law”** means any and all applicable laws, including Environmental Laws, common law, statutes, codes, licensing requirements, directives, rules, regulations, protocols, policies, by-laws, guidelines, orders, injunctions, rulings, awards, judgments or decrees or any requirement or decision or agreement with or by any Government Authority, including without limitation, the OEB.
- (e) **“Auditor”** means KPMG LLP, Chartered Accountants.
- (f) **“Business”** means, the business carried on by the Woodstock Corporations, including the distribution of electricity and the provision of water-billing services in the City of Woodstock.
- (g) **“Business Day”** means a day other than a Saturday, Sunday, statutory holiday in Ontario or any other day on which the principal chartered banks located in the City of Toronto are not open for business during normal banking hours.
- (h) **“Change in Applicable Law”** means:
 - (i) the enactment, introduction or tabling of any Canadian federal or provincial legislation (whether by statute, regulation, order in council, notice of ways and means motion or otherwise);
 - (ii) a ruling, order or decision of the OEB, including a ruling, order or decision of the OEB, relating to an electricity distribution utility other than the Corporation;
 - (iii) the issuance, modification or revision of the OEB’s existing Electricity Distribution Rate Handbook, or the issuance of any rule, procedure, code, policy or directive by the OEB; and
 - (iv) a directive, guideline or policy statement of a Governmental Authority;
- (i) **“City Lease”** has the meaning ascribed thereto in Section 6.5.
- (j) **“City Property”** has the meaning ascribed thereto in Section 6.5.
- (k) **“Claim”** means any demand, action, investigation, inquiry, suit, proceeding, claim, assessment, judgment or settlement or compromise relating thereto and includes any act, omission or state of fact actionable under or contrary to Applicable Law (including for clarity and without limitation, in contract, tort, or equity).

- (l) **“Closing”** means completion of the Transactions contemplated herein on the Closing Date and in accordance with the provisions of this Agreement.
- (m) **“Closing Date”** means the first date which is the last Business Day of a month and at least ninety (90) days following the date that the Required Approval has been obtained or such earlier or later date as may be agreed to by the Parties in writing provided that in no event shall any such date be on or after December 31, 2015.
- (n) **“Closing Date Financial Statements”** means audited financial statements for WHSI for the fiscal period ended on the Closing Date, prepared in accordance with GAAP, on the same basis as the Initial Financial Statements, consistently applied and consisting of a balance sheet as of such date and statements of operations, retained earnings, and cash flow for such period, together with notes thereto as at such date of WHSI’s auditors, addressed to the Vendor and the Woodstock Corporations and the Purchaser.
- (o) **“Closing Date NFA”** means the aggregate value of WHSI’s plant and equipment as provided in its Closing Date Financial Statements.
- (p) **“Closing Date Working Capital”** means the amount of Working Capital in the Closing Date Financial Statements.
- (q) **“Collective Agreement”** has the meaning ascribed thereto in Section 3.1(q)(i).
- (r) **“Common Shares”** means the common shares in the share capital of the Corporation.
- (s) **“Confidential Disclosure Schedule”** means that confidential disclosure schedule dated as of the Effective Date which the Vendor delivered to the Purchaser at the time this Agreement was signed.
- (t) **“Confidential Information”** has the meaning ascribed thereto in Subsection 6.13(b)(i).
- (u) **“Confidentiality Agreement”** means the confidentiality provisions in the Exclusivity Agreement between the Corporation, and the Purchaser dated October 8, 2013.
- (v) **“Corporation”** means Woodstock Hydro Holdings Inc.
- (w) **“Contract”** means any agreement, indenture, contract, lease, deed of trust, licence, option, instrument or other commitment, whether written or oral.
- (x) **“CTA”** means the *Corporations Tax Act* (Ontario) or the *Taxation Act, 2007* (Ontario) and any regulation made thereunder.
- (y) **“Current Rates”** means those Rates specified in the Rate Order, and as presented under the column entitled “2014” in Schedule 6.8 of this Agreement.
- (z) **“Daily Adjustment Value”** means the Five-Year Fixed Payment Amount divided by 1825.

- (aa) **"Data Room"** means the Woodstock Hydro Services Inc. data sites located at <https://extranet.blg.com/clients/WoodstockHydro> and <https://extranet.blg.com/clients/WoodstockHydroHoldingsInc> as at May 1, 2014.
- (bb) **"Decision Period Adjustment Factor"** means 1 minus the Rate Adjustment Factor.
- (cc) **"Decision Period Days"** means the number of days between the Closing Date and the Reduced Rate Effective Date.
- (dd) **"Deductible"** has the meaning ascribed thereto in Section 12.7(a)(i).
- (ee) **"Deposit"** has the meaning ascribed thereto in Section 2.3(a).
- (ff) **"Direct Claim"** has the meaning ascribed thereto in Section 12.3.
- (gg) **"Distribution Services Revenues"** means the revenues referred to as "distribution services revenues" in the statement of operations of WHSI.
- (hh) **"EA"** means the *Electricity Act, 1998* (Ontario), as amended from time to time.
- (ii) **"Easements"** means the right in perpetuity to use, traverse, enjoy or have access to, over, in or under any real property.
- (jj) **"Effective Date"** means the date of this Agreement as first stated above.
- (kk) **"Employee Fact Sheet"** has the meaning ascribed thereto in Section 3.1(r)(i).
- (ll) **"Employee Plans"** has the meaning attributed to that term in Section 3.1(p)(i).
- (mm) **"Employees"** has the meaning ascribed thereto in Section 3.1(r)(i).
- (nn) **"Encumbrance"** means any encumbrance, lien, charge, hypothec, pledge, mortgage, title retention agreement, security interest of any nature, adverse claim, exception, reservation, easement, right of occupation, any matter capable of registration against title, option, right of pre-emption, privilege or any Contract to create any of the foregoing.
- (oo) **"Environment"** means the environment or natural environment as defined in any Environmental Law and includes air, surface water, ground water, land surface, soil, sub-surface strata and sewer system.
- (pp) **"Environmental Approvals"** means all permits, certificates, licences, authorizations, consents, registrations, directions, instructions, waste generation numbers or approvals required pursuant to Environmental Laws with respect to Real Property or the operation of any of the Woodstock Corporations or their respective Business.
- (qq) **"Environmental Laws"** means all Applicable Law relating in whole or in part to the protection of the Environment or to public health and safety, and includes those

relating to the manufacture, processing, distribution, use, treatment, storage, disposal, discharge, transportation or handling of Hazardous Substances.

- (rr) **“Escrow Agreement”** means the form of escrow agreement attached hereto as Schedule 2.3.
- (ss) **“ETA”** means Part IX of the *Excise Tax Act* (Canada) and any regulation made thereunder.
- (tt) **“Five Year Fixed Payment Amount”** means \$330,000.
- (uu) **“Fixed Assets”** means fixed assets, furniture, furnishings, parts, tools, personal property fixtures, plants, buildings, structures, erections, improvements, appurtenances, machinery, equipment, computer hardware and software, substations, transformers, vaults, distribution lines, transmission lines, conduits, ducts, pipes, wires, rods, cables, fibre optic strands, devices, appliances, material, poles, pipelines, fittings and any other similar or related item of the Business.
- (vv) **“GAAP”** means the generally accepted accounting principles (including the methods of application of such principles and, as applicable International Financial Reporting Standards) accepted or recommended by the Canadian Institute of Chartered Accountants which are applicable in Canada as at the date on which any calculation made hereunder is to be effective.
- (ww) **“Governmental Authority”** means any domestic government, whether federal, provincial, territorial, local, regional, municipal, or other political jurisdiction, and any agency, authority, instrumentality, court, tribunal, board, commission, bureau, arbitrator, arbitration tribunal or other tribunal, or any quasi-governmental or other entity, insofar as it exercises a legislative, judicial, regulatory, administrative, expropriation or taxing power or function of or pertaining to government including the OEB.
- (xx) **“Guarantor”** means Hydro One Inc., a corporation incorporated under the laws of Ontario.
- (yy) **“Hazardous Substances”** means any hazardous substance or any pollutant or contaminant, toxic or dangerous waste, substance, or material as defined in or regulated by any Environmental Law including, without limitation, friable asbestos and poly-chlorinated biphenyls.
- (zz) **“HST”** means all taxes payable under Part IX of the ETA (including where applicable both the federal and provincial portion of those taxes) or under any provincial legislation imposing a similar value added or multi-staged tax.
- (aaa) **“Indemnified Party”** has the meaning ascribed thereto in Section 12.3.
- (bbb) **“Indemnifying Party”** has the meaning ascribed thereto in Section 12.3.

- (ccc) **“Independent Auditor”** has the meaning ascribed thereto in Section 2.4(d).
- (ddd) **“Initial Financial Statements”** means the consolidated and unconsolidated audited financial statements of each of the Woodstock Corporations as at December 31, 2013 prepared in accordance with GAAP, copies of which are attached at Schedule 1.1(ddd).
- (eee) **“Initial Long Term Debt”** means the Long Term Debt in the WHSI’s Initial Financial Statements.
- (fff) **“Initial NFA”** means the aggregate value of WHSI’s property and equipment as provided in its Initial Financial Statements.
- (ggg) **“Initial Working Capital”** means the Working Capital in WHSI’s Initial Financial Statements.
- (hhh) **“Leased Property”** has the meaning ascribed thereto in Subsection 3.1(l)(i).
- (iii) **“Licenses”** has the meaning ascribed thereto in Subsection 3.1(z).
- (jjj) **“Long Term Debt”** means long term debt as defined in the Closing Date Financial Statements. For greater certainty, Long Term Debt excludes the current portion of long term debt.
- (kkk) **“Long Term Debt Calculation”** means the difference between the Long Term Debt and the Initial Long Term Debt.
- (lll) **“Losses”** means any and all loss, liability, damage, cost, expense (including, reasonable legal fees, accountants’, investigators’, engineers’ and consultants’ fees and expenses, interest, penalties and amounts paid in settlements), charge, fine, penalty or assessment, suffered or incurred by the Person seeking indemnification, directly resulting from or arising out of any Claim, including the costs and expenses of any action, suit, proceeding, investigation, inquiry, arbitration award, grievance, demand, assessment, judgment, settlement or compromise relating thereto, including without limitation a gross-up to account for any tax payable or a reduction in the “cost amount”, as defined in subsection 248(1) of the *Income Tax Act* (Canada) of any property owned by the Purchaser or the Woodstock Corporations or a successor entity in the taxation year as a result of receiving the indemnification amount but: (i) excluding any contingent liability until it becomes actual; (ii) reduced by any net Tax benefit; (iii) reduced by any recovery, settlement or otherwise under or pursuant to any insurance coverage; or pursuant to any claim, recovery, settlement or payment by or against any other Persons; and (iv) excluding any incidental, indirect, special or consequential loss, liability or damage and loss of profits other than damages of a Third Party in respect of a Third Party Claim.
- (mmm) **“Material Adverse Effect”** means any change or effect that has a material adverse effect on the Property or obligations and liabilities of any of the Woodstock Corporations or the operations or results of operations of the Business of any of the Woodstock Corporations after taking into account any insurance which may be

available with respect to such a change or effect. For greater clarity, a Material Adverse Effect does not include a Change in Law.

- (nnn) **“Material Contract”** means any Contract for the supply of goods or services which has a value exceeding Fifty Thousand Dollars (\$50,000.00) in annual payments excluding any collective bargaining agreements.
- (ooo) **“Municipality”** means The Corporation of the City of Woodstock.
- (ppp) **“NFA”** means the aggregate value of WHSI’s plant, and equipment as provided in its financial statements.
- (qqq) **“Negative Rate Rider”** has the meaning ascribed thereto in Section 6.8(a)(i) of this Agreement.
- (rrr) **“NFA Calculation”** means the difference between the Closing Date NFA and the Initial NFA.
- (sss) **“NFA Index”** shall be equal to 1.5.
- (ttt) **“OBCA”** means the *Business Corporations Act* (Ontario), as in effect on the date hereof.
- (uuu) **“OEB”** means the Ontario Energy Board and its successors.
- (vvv) **“OEB Act”** means the *Ontario Energy Board Act, 1998*, as in effect on the date hereof.
- (www) **“OEB Approval”** means the approval of the OEB to the Transactions contemplated herein pursuant to the OEB Act.
- (xxx) **“OEB Percentage Rate Reduction”** means the percentage by which the arithmetic average of Reduced Rates is lower than the arithmetic average of Current Rates.
- (yyy) **“OMERS Plan”** means the Ontario Municipal Employees Retirement System Primary Pension Plan.
- (zzz) **“Partial Rate Rider”** means a negative rate rider that results in an average reduction in Current Rates of less than one percent (1%) across all Rate Classes.
- (aaaa) **“Party”** means a party to this Agreement, and **“Parties”** means both of them.
- (bbbb) **“Person”** means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or entity however designated or constituted.
- (cccc) **“PILs”** means payment in lieu of corporate taxes required to be made under Section 93 of the EA.

- (dddd) **“Property”** means the property and assets used by each of the Woodstock Corporations to conduct its respective Business, including without limitation, the Real Property, the Leased Property, the Easements, the Intellectual Property and Fixed Assets.
- (eeee) **“Purchase Price”** has the meaning ascribed thereto in Section 2.2.
- (ffff) **“Purchased Shares”** has the meaning ascribed thereto in Section 2.1.
- (gggg) **“Purchaser”** means 1908873 Ontario Inc., a corporation incorporated under the laws of Ontario.
- (hhhh) **“Purchaser’s Objection”** has the meaning ascribed thereto in Section 2.4(b).
- (iiii) **“Rate”** or **“Rates”** means the rate or rates for the distribution of electricity.
- (jjjj) **“Rate Adjustment Difference”** means a difference equal to one percent (1%) minus the OEB Percentage Rate Reduction.
- (kkkk) **“Rate Adjustment Factor”** means a factor equal to the Rate Adjustment Difference divided by one percent (1%).
- (llll) **“Rate Classes”** means those classes of Rates specified in Schedule 6.8 of this Agreement.
- (mmmm) **“Rate Freeze Period”** means the period commencing on the Closing Date and ending on the date which is five (5) years after the Closing Date.
- (nnnn) **“Rate Order”** means the order issued by the OEB approving the WHSI Rates in effect as at the Effective Date, and as set out in matter EB-2013-0182.
- (oooo) **“Real Property”** has the meaning ascribed thereto in Subsection 3.1(l).
- (pppp) **“Reduced Rate Effective Date”** means the effective date of a Negative Rate Rider or a Partial Rate Rider, as applicable and as approved by the OEB.
- (qqqq) **“Reduced Rates”** means the reduced Rates that result from the application of a Negative Rate Rider or a Partial Rate Rider to the Current Rates.
- (rrrr) **“Release”** has the meaning ascribed thereto in any Environmental Law and includes, without limitation, any presence, release, spill, leak, pumping, pouring, addition, emission, emptying, discharge, injection, escape, leaching, disposal, dispersal, migration, dumping, deposit, spraying, burial, abandonment, incineration, see page or placement.
- (ssss) **“Remedial Order”** means any complaint, direction, order or sanction issued, filed or imposed by any governmental authority pursuant to any Environmental Law and

includes any order requiring any remediation or clean-up of any Hazardous Substance or requiring that any Release or any other activity be reduced, modified or eliminated.

- (tttt) **“Representative”** means, with respect to any Party, its Affiliates and, if applicable, its and their respective directors, officers, employees, agents and other representatives and advisors.
- (uuuu) **“Required Approval”** has the meaning ascribed thereto in Section 7.1.
- (vvvv) **“Shareholder Declaration”** means the shareholder direction and unanimous shareholder declaration of the Vendor establishing certain principles of governance relating to the Corporation.
- (www) **“Statutory Plans”** means benefit plans that the Woodstock Corporations are required by domestic or foreign statutes to participate in or contribute to in respect of an employee, director or officer of the Woodstock Corporations or any beneficiary or dependent thereof, including the Canada Pension Plan, and plans administered pursuant to applicable health, Tax, workplace safety insurance, workers’ compensation and employment insurance legislation.
- (xxxx) **“Subsidiary”** has the meaning ascribed thereto in the OBCA.
- (yyyy) **“Tax”** or **“Taxes”** means the PILs payable pursuant to Section 93 of the EA and all domestic and foreign federal, provincial, municipal, territorial or other taxes, imposts, rates, levies, assessments and government fees, charges or dues lawfully levied, assessed or imposed against the applicable Woodstock Corporation including, without limitation, all income, capital gains, sales, excise, use, property, capital, goods and services, business transfer and value added taxes, all customs and import duties, workers’ compensation premiums, Canada Pension Plan premiums, Employment Insurance premiums, and special payments pursuant to Part VI of the EA together with all interest, fines and penalties with respect thereto.
- (zzzz) **“Tax Act”** means the *Income Tax Act* (Canada) and any regulations thereunder.
- (aaaa) **“Tax Return”** means all returns, information returns, declarations, designations, forms, schedules, elections, reports and other documents of every nature whatsoever (and includes related or supporting information) filed, or required to be filed with any Governmental Authority with respect to any Taxes, including those required pursuant to Part VI of the EA, or with respect to the administration of any Laws or administrative requirements relating to any Taxes and any amendments thereof.
- (bbbb) **“Third Party Claim”** has the meaning ascribed thereto in Section 12.3.
- (cccc) **“Time of Closing”** means 2:00 pm (Toronto time) on the Closing Date.
- (dddd) **“Transactions”** means the purchase and sale of the Purchased Shares and all other transactions contemplated by this Agreement.

- (eeeeee) **“Vendor”** means the Corporation of the City of Woodstock.
- (fffff) **“Vendor’s Counsel”** means Borden Ladner Gervais LLP.
- (ggggg) **“WHSI”** means Woodstock Hydro Services Inc., a corporation incorporated under the OBCA, licensed by the OEB to distribute electricity in Ontario, and a wholly-owned subsidiary of the Corporation.
- (hhhhh) **“Woodstock Corporations”** means the Corporation and WHSI.
- (iiii) **“Working Capital”** means the working capital of WHSI, which is the amount by which the net book value of the current assets, excluding cash, exceeds the net book value of the current liabilities. The current assets are the sum of trade receivables, unbilled revenue, payments in lieu of income tax receivable, prepaid expenses, deposits, inventory, other current Assets and current portion of loan receivable. The current liabilities are the sum of the accounts payable, payment in lieu of corporate income taxes payable, deferred income, advance payments, accrued liabilities, accrued payroll and vacation pay, current portion of customer deposits, current portion of Long Term Debt, net regulatory liabilities and other current liabilities. The calculation of the net book value of assets and liabilities will be based upon GAAP.
- (jjjj) **“Working Capital Calculation”** means the difference between the Initial Working Capital and the Closing Date Working Capital.

1.2 **Construction.** This Agreement has been negotiated by each Party with the benefit of legal representation, and any rule of construction to the effect that any ambiguities are to be resolved against the drafting party does not apply to the construction or interpretation of this Agreement.

1.3 **Certain Rules of Interpretation.** In this Agreement:

- (a) the division into Articles and Sections and the insertion of headings and the Table of Contents are for convenience of reference only and do not affect the construction or interpretation of this Agreement;
- (b) the expressions “hereof”, “herein”, “hereto”, “hereunder”, “hereby” and similar expressions refer to this Agreement and not to any particular portion of this Agreement; and
- (c) unless specified otherwise or the context otherwise requires:
 - (i) references to any Article, Section or Schedule are references to the Article or Section of, or Schedule to, this Agreement;
 - (ii) “including” or “includes” means “including (or includes) but is not limited to” and is not to be construed to limit any general statement preceding it to the specific or similar items or matters immediately following it;

- (iii) “the aggregate of”, “the total of”, “the sum of”, or a phrase of similar meaning means “the aggregate (or total or sum), without duplication, of”;
- (iv) references to Contracts are deemed to include all present amendments, supplements, restatements and replacements to those Contracts as of the date of this Agreement;
- (v) references to any legislation, statutory instrument or regulation or a section thereof are references to the legislation, statutory instrument, regulation or section as of the date of this Agreement;
- (vi) words in the singular include the plural and vice-versa and words in one gender include all genders.

1.4 **Knowledge.** In this Agreement, any reference to the knowledge of the Vendor means to the best of the knowledge, information and belief of the Vendor after making due inquiries regarding the relevant matter and of all relevant Representatives of the Woodstock Corporations and Vendor.

1.5 **Computation of Time.** In this Agreement, unless specified otherwise or the context otherwise requires:

- (a) a reference to a period of days is deemed to begin on the first day after the event that started the period and to end at 5:00 p.m. on the last day of the period, but if the last day of the period does not fall on a Business Day, the period ends at 5:00 p.m. on the next succeeding Business Day;
- (b) all references to specific dates mean 11:59 p.m. on the dates;
- (c) all references to specific times are references to Toronto time; and
- (d) with respect to the calculation of any period of time, references to “from” mean “from and excluding” and references to “to” or “until” mean “to and including”.

1.6 **Performance on Business Days.** If any action is required to be taken pursuant to this Agreement on or by a specified date that is not a Business Day, the action is valid if taken on or by the next succeeding Business Day.

1.7 **Calculation of Interest.** In calculating interest payable under this Agreement for any period of time, the first day of the period is included and the last day is excluded.

1.8 **Currency and Payment.** In this Agreement, unless specified otherwise:

- (a) references to dollar amounts or “\$” are to Canadian dollars;
- (b) any payment is to be made by an official bank draft drawn on a Canadian chartered bank, wire transfer or any other method (other than cash payment) that provides immediately available funds; and

- (c) except in the case of any payment due on the Closing Date, any payment due on a particular day must be received and available by 2:00 p.m. on the due date and any payment received and available after that time is deemed to have been made and received on the next succeeding Business Day.

1.9 **Schedules and Exhibits.** The following schedules are attached to and form part of this Agreement:

Schedule 1.1(ddd)	-	Initial Financial Statements
Schedule 2.3	-	Form of Escrow Agreement
Schedule 3.1(l)	-	Real Property, Leased Property and Easements
Schedule 3.1(m)	-	Intellectual Property
Schedule 3.1(n)	-	Contracts and Commitments
Schedule 3.1(o)	-	Material Contracts
Schedule 3.1(p)	-	Employee Plans
Schedule 3.1(q)	-	Collective Agreement
Schedule 3.1(s)	-	Insurance Policies
Schedule 3.1(u)	-	Vendor Litigation
Schedule 3.1(v)	-	Taxes
Schedule 3.1(x)	-	Permitted Encumbrances
Schedule 3.1(z)	-	Licences
Schedule 5.2	-	Permitted Disposition of Property
Schedule 5.6	-	Form of Hydro One Standard Vacant Land Lease
Schedule 6.2	-	Participation in Community Events
Schedule 6.5	-	Excluded City Property
Schedule 6.7	-	Capital Program
Schedule 6.8	-	Rate Classes
Schedule 6.9	-	Service Quality
Schedule 6.11	-	Access To Purchaser's Personnel
Schedule 9.1(c)	-	Required Approval (Purchaser)
Schedule 9.2(c)	-	Required Approval (Vendor)

ARTICLE II

PURCHASE AND SALE OF PURCHASED SHARES

2.1 **Purchase and Sale of Purchased Shares.** Subject to the terms and conditions hereof, the Vendor agrees to sell, assign and transfer to the Purchaser and the Purchaser agrees to purchase from the Vendor all of the issued and outstanding shares of the Corporation, as described in the table below (the "**Purchased Shares**"):

<u>Class of Shares</u>	<u>Issued</u>	<u>Shareholder</u>
Common Shares	95	Vendor

2.2 **Purchase Price.** The purchase price payable by the Purchaser to the Vendor for the Purchased Shares (the "**Purchase Price**") shall, subject to any adjustment in accordance with

Section 2.4, be the sum of twenty-nine million and two hundred thousand dollars (\$29,200,000).

2.3 **Payment of Purchase Price.**

The Purchase Price shall be payable as follows:

- (a) concurrently with the execution and delivery of this Agreement, the sum of two million dollars (\$2,000,000) delivered to the Vendor's Counsel, by certified cheque or immediately available funds by wire transfer in trust to the Vendor's Counsel, delivered by the Purchaser to the Vendor's Counsel shall hereinafter be referred to as the "**Deposit**", and such Deposit to be held by Vendor's Counsel in trust and released in accordance with the terms and conditions of this Agreement; and
- (b) the balance on Closing (net of accrued interest on the Deposit) in accordance with Section 2.7 twenty-seven million and two hundred thousand dollars (\$27,200,000) by wire transfer of immediately available funds to the Vendor; and if applicable, the amounts payable pursuant to Section 2.6 below.
- (c) if applicable, the amounts payable pursuant to Section 2.4(c) below.

2.4 **Adjustment to Purchase Price.**

- (a) Subject to Section 2.5, within ninety (90) days following the Closing Date, the Vendor shall cause the preparation and delivery of audited financial statements for the Corporation, the Closing Date Financial Statements together with the Working Capital Calculation, the NFA Calculation, and the Long Term Debt Calculation, to the Parties, all of which shall be audited by the Auditors, together with the Auditors' working papers. The Purchase Price contemplated in Section 2.2 shall be increased or decreased on a dollar for dollar basis as set out below:
 - (i) for the difference between the Working Capital in WHSI's Initial Financial Statements and the Working Capital in the Closing Date Financial Statements as shown in the Working Capital Calculation;
 - (ii) for an amount equal to the amount obtained when the NFA Index is multiplied by the difference between the Closing Date NFA and the NFA in WHSI's Initial Financial Statements as calculated in the NFA Calculation; and
 - (iii) For the difference between the Long Term Debt and the Initial Long Term Debt in WHSI's Initial Financial Statements as shown in the Long Term Debt Calculation.

The Purchaser shall pay the Vendor, as applicable, on a dollar for dollar basis (A) the amount by which the Closing Date Working Capital exceeds the Initial Working Capital; (B) an amount equal to the amount obtained when the NFA Index is multiplied by the amount by which the Closing Date NFA exceeds the Initial NFA; and (C) the amount by which the Initial Long Term Debt exceeds the Long Term

Debt. The Vendor shall pay the Purchaser, as applicable, on a dollar for dollar basis, (A) the amount by which the Initial Working Capital exceeds the Closing Date Working Capital; (B) an amount equal to the amount obtained when the NFA Index is multiplied by the amount by which the Closing Date NFA is less than the Initial NFA; and (C) the amount by which the Long Term Debt exceeds the Initial Long Term Debt.

- (b) The Purchaser shall have a period of thirty (30) Business Days from the later of (i) the receipt of the Closing Date Financial Statements, the Working Capital Calculation, the NFA Calculation, and the Long Term Debt Calculation; and (ii) the date on which the Purchaser is provided with access to the Auditor's working papers relating to the Closing Date Financial Statements, the Working Capital Calculation, the NFA Calculation, and the Long Term Debt Calculation within which to notify the Vendor in writing that it disputes any amounts contained in the Closing Date Financial Statements, the Working Capital Calculation, the NFA Calculation, and/or the Long Term Debt Calculation (the "**Purchaser's Objection**"), failing which the Purchaser shall be deemed to have accepted such amounts. The Purchaser's Objection shall set forth a specific description of the basis of the Purchaser's Objection and the adjustments to the Closing Date Financial Statements, the Working Capital Calculation, the NFA Calculation, and/or the Long Term Debt Calculation which the Purchaser believes should be made. Any items not specifically disputed during such thirty (30) Business Day period shall be deemed to have been accepted by the Purchaser.
- (c) Subject to Section 2.4(d), payment of the adjustment to the Purchase Price pursuant to Section 2.4(a) shall be made by the applicable Party within thirty (30) Business Days following the later of (i) the date that the Closing Date Financial Statements, the Working Capital Calculation, the NFA Calculation, and the Long Term Debt Calculation are received by the Purchaser; and (ii) the date on which the Purchaser is provided with access to the Auditor's working papers relating to the Closing Date Financial Statements, the Working Capital Calculation, the NFA Calculation, and the Long Term Debt Calculation.
- (d) If the Vendor and the Purchaser cannot agree on the adjustment of the Purchase Price pursuant to Section 2.4(a) within the time limit for payment of the adjustment to the Purchase Price pursuant to Section 2.4(b), the Vendor and the Purchaser will submit any unresolved matter within a further five (5) day period, to an independent, nationally recognized accounting firm selected by the Vendor and the Purchaser (the "**Independent Auditor**") for resolution or, failing agreement, as appointed by the Ontario Superior Court of Justice. The Independent Auditor will be given access to all materials and information reasonably requested by it for such purpose. The rules and procedures to be followed in the arbitration proceedings will be determined by the Independent Auditor in its discretion. The Independent Auditor will make its determination as soon as practicable and, in any case, within thirty (30) days of the matter being submitted to it. The Independent Auditor determination of all such matters will be final and binding on the Parties and will not be subject to appeal by any Party. The fees and expenses of the Independent Auditor will be borne equally

between the Vendor and the Purchaser. The Closing Date Financial Statements and amounts specified in Section 2.4(a) will be modified to the extent required to give effect to the Independent Auditor's determination and will be deemed to have been approved as of the date of such determination.

2.5 **Access.** Following the Closing, the Purchaser shall provide the Vendor and the Auditor with timely access to all books, records, documents, materials, and other information and Representatives of any of the Woodstock Corporations reasonably requested by the Vendor for purposes of preparation and delivery of the Closing Date Financial Statements together with the Working Capital Calculation, the NFA Calculation, and the Long Term Debt Calculation.

2.6 **Rate Reduction Adjustment.**

- (a) In the event the OEB does not approve the Negative Rate Rider, the Purchaser shall pay the Vendor, within five (5) Business Days after the Closing Date, a lump sum amount equal to the Five-Year Fixed Payment Amount in immediately available funds.
- (b) In the event that the OEB approves the Negative Rate Rider with an effective date occurring after the Closing Date the Purchaser shall pay the Vendor, within five (5) Business Days after the Closing Date, an amount equal to the Daily Adjustment Value times the Decision Period Days.
- (c) In the event that the OEB approves a Partial Rate Rider, the Purchaser will pay the Vendor, within five (5) Business Days after the Closing Date, an amount equal to the Five-Year Fixed Payment Amount times the Rate Adjustment Factor plus the Daily Adjustment Value times Decision Period Days times the Decision Period Adjustment Factor.

2.7 **Deposit.** The Deposit shall be held by the Escrow Agent in trust, and shall be invested in an interest bearing account with interest accruing to the Purchaser except as set forth below. On Closing, the Deposit shall be applied on account of the Purchase Price and any and all interest accrued thereon shall be paid to the Purchaser forthwith following Closing. Notwithstanding the foregoing, if the conditions set forth in Section 9.1 have not been satisfied or complied with and the Purchaser does not waive compliance therewith on such terms as may be agreed in writing, the Deposit, together with any interest earned thereon shall be refunded to the Purchaser in accordance with Section 9.1. If, however, the Transactions are not completed on the Closing Date and the conditions set forth in Section 9.1 have been satisfied, complied with or waived, the Deposit, together with any interest earned thereon, may be retained by the Vendor to the extent permitted under Section 9.2.

ARTICLE III REPRESENTATIONS AND WARRANTIES

3.1 **Representations and Warranties of the Vendor.** The Vendor represents and warrants to the Purchaser as follows and acknowledges that, except as otherwise expressly provided herein, the Purchaser is relying on such representations and warranties in connection with the transactions contemplated herein:

- (a) **Organization.** Each of the Woodstock Corporations is corporations duly incorporated and validly subsisting under the laws of the Province of Ontario and has the corporate power, capacity and authority to own or lease or dispose of its property and assets and to carry on the business presently carried on by it under the laws of the Province of Ontario. No proceedings have been instituted or are pending for the dissolution, winding up or liquidation of either of the Woodstock Corporations.
- (b) **Corporate Power of the Vendor and Due Authorization.** The Vendor has all requisite and statutory power, authority and capacity to enter into, and to perform its obligations under this Agreement and to transfer the legal and beneficial title and ownership of the Purchased Shares to the Purchaser free and clear of all Encumbrances. The Vendor has duly taken, or has caused to be taken, all action required to be taken by the Vendor to authorize the execution and delivery of this Agreement and any other agreement or document to be delivered pursuant hereto by the Vendor in the performance of its obligations hereunder.
- (c) **Binding Agreement.** This Agreement has been duly executed by the Vendor and will, upon delivery, constitute a valid and binding obligation of the Vendor, enforceable against it in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency and other Applicable Laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.
- (d) **Authorized and Issued Capital of the Corporation.** The authorized share capital of the Corporation consists of an unlimited number of Common Shares, of which only the Purchased Shares have been validly allotted and issued and are outstanding as fully paid and non-assessable shares, and will be the only outstanding shares of the Corporation at Closing.
- (e) **Ownership of Shares.**
- (i) The Vendor is the sole beneficial and registered owner of the Purchased Shares, with good and marketable title thereto, free and clear of all Encumbrances (other than the rights of the Purchaser hereunder) and has the exclusive right to dispose of the Purchased Shares as herein provided. Without limiting the generality of the foregoing, except for the Shareholder Declaration, none of the Purchased Shares is subject to any voting trust, shareholder agreement or voting agreement.
- (ii) The Corporation is the sole beneficial and registered owner of all of the shares of WHSI, with good and marketable title thereto, free and clear of all Encumbrances.
- (f) **Options.** No Person (other than the Purchaser under this Agreement) has the benefit of any Contract or any right or privilege (whether by Applicable Law, pre-emptive or contractual) binding upon or which may at any time in the future become binding upon

the Vendor to acquire or obtain in any other way an interest in any of the Purchased Shares or the shares of any of the Woodstock Corporations.

- (g) **Subsidiaries.** WHSI is the only Subsidiary of the Corporation and neither of the Woodstock Corporations owns or has any interest in any shares of any other corporation or have any interest in any partnership or other entity, except for the Corporation's ownership of WHSI.
- (h) **No Violations.** Neither the execution nor delivery of this Agreement nor the completion of the transactions herein contemplated will result in the violation of:
 - (i) any provision of the by-laws of the Vendor;
 - (ii) any Contract to which the Vendor or the Woodstock Corporations is a party or by which the Vendor, the Woodstock Corporations or any of their respective Properties is bound, which would have a material adverse effect on the Vendor's ability to perform its obligations under this Agreement; or
 - (iii) subject to the Required Approval, to the Vendor's knowledge, any Applicable Law or requirement of a Government Authority having jurisdiction over each of the Vendor and the Woodstock Corporations, which would have a material adverse effect on the Vendor's ability to perform its obligations under this Agreement.
- (i) **Consents and Approvals.** Other than the Required Approval, there is no requirement for the Vendor or the Woodstock Corporations to make any filing with, give any notice to or obtain any licence, permit, certificate, registration, authorization, consent or approval of, any Government Authority as a condition to the lawful consummation of the Transaction.
- (j) **Compliance with Applicable Law.** Each of the Woodstock Corporations has complied in all material respects with all Applicable Laws relating to its respective Business, the failure to comply would have a Material Adverse Effect. Neither Woodstock Corporation is in violation or default under, and to the Vendor's knowledge, no event has occurred which, with the lapse of time or the giving of notice or both, would result in the violation of or default under, the terms of any judgment, decree, order injunction or writ of any court or other Government Authority with respect to the Business, which would have a Material Adverse Effect.
- (k) **Corporate Records.** The corporate records and minute books of the Woodstock Corporations produced by the Vendor are in all material respects a complete and accurate record of the material business transacted at meetings of, and contain all resolutions passed by, the directors and the sole shareholder of the Woodstock Corporations held since the incorporation of each of the Woodstock Corporations. To the Vendor's knowledge, each and all such meetings were duly called and held and all such resolutions and by-laws were duly passed. The share certificate books, registers of shareholders, registers of transfers, registers of directors and other corporate registers of each are complete and accurate.

(l) **Real Property.**

- (i) To the Vendor's knowledge, Schedule 3.1(l) sets forth a list of lands owned in fee simple (the "**Real Property**") and property leased (the "**Leased Property**") by each of the Woodstock Corporations.
- (ii) To the Vendor's knowledge, neither of the Woodstock Corporations own real property or have rights under any leases, or has agreed to acquire or lease, any real property other than as listed in Part A of Schedule 3.1(l).
- (iii) Neither the Vendor nor any of the Woodstock Corporations, has received any, nor to the Vendor's knowledge are there any pending or threatened, notices of violation or alleged violation of any Applicable Laws against or affecting any Real Property or Leased Property.
- (iv) The Real Property, Leased Property and Easements provide the required rights of occupancy, possession, use, entry and exit, as applicable, as are reasonably necessary to carry on the Business.
- (v) Other than listed in Schedule 3.1(l), no Person has any right to purchase any of the Real Property and no Person other than the Woodstock Corporations is using or has any right to use, is in possession or occupancy, of any part of the Real Property.
- (vi) To the Vendor's knowledge there exists no option, right of first refusal, or other contractual rights with respect to any of the Real Property.
- (vii) Other than in respect of the City Property, neither the Vendor, nor either of the Woodstock Corporations, has entered into any contract to sell, transfer, encumber, or otherwise dispose of or impair the right, title and interest of the applicable Woodstock Corporation in and to Real Property, Leased Property or Easements.
- (viii) Neither the Vendor nor any of the Woodstock Corporations has received any notification of, nor are there any outstanding or incomplete work orders in respect of any Fixed Assets on such Real Property, Leased Property, Easements or of any current non-compliance (other than non-compliances which are legal non-conforming under relevant zoning by laws) with Applicable Law, including without limitation, building and zoning by laws and regulations, and no by-law which would reasonably be expected to have a Material Adverse Effect on the Business is currently being contemplated by the Vendor.
- (ix) All accounts for work and services performed or materials placed or furnished upon or in respect of the construction and completion of any Fixed Assets on Real Property, Leased Property or Easements have been fully paid and no Person is entitled to claim a lien under the *Construction Lien Act* (Ontario) or other similar legislation for such work.

- (x) To the Vendor's knowledge, there are no matters affecting the right, title and interest of the Woodstock Corporations, as applicable, in and to the real property used in its Business which would have Material and Adverse Effect on the ability of any of the Woodstock Corporations to carry on its Business thereon.
- (xi) Each Woodstock Corporation, as applicable, holds its interests in the Leased Property pursuant to valid leases described in Schedule 3.1(l), true copies of which have been provided to the Purchaser, which contain all of the rights and obligations of the parties related to the use and occupancy of each such property, have not been altered or amended and are in full force and effect and under which neither the landlord nor the tenant is in default, nor to the Vendor's knowledge are the circumstances which, but for the passing of time or giving of notice or both, would constitute a default by either party. Each Woodstock Corporation, as applicable, has not waived or omitted to take any action in respect of any material rights under any such lease.
- (xii) Neither the Vendor nor either of the Woodstock Corporations made an application for the rezoning of any Real Property or Leased Property and to the Vendor's knowledge there is no proposed or pending change to any zoning affecting the Real Property or Leased Property.
- (xiii) No part of the Real Property or Leased Property is subject to any building or use restriction which would prevent or limit its current use in the Business.
- (xiv) To the Vendor's knowledge, no Fixed Assets constituting a part of the Real Property, Leased Property or Easements encroaches on real property not forming part of the Real Property.
- (xv) No part of the Real Property has ever been used as a landfill or for the disposal of waste.
- (xvi) No asbestos, asbestos containing materials, polychlorinated biphenyls ("PCBs") and PCB wastes are used, stored or otherwise present in or on the Real Property except for PCBs contained in the electrical transformers which are in service and which form an integral part of, and are necessary for the operation of the Business. The Vendor has disclosed to the Purchaser all inspection reports received from the Ministry of the environment in connection with the handling, transportation and storage of PCBs by the Woodstock Corporations, as applicable; and
- (xvii) There are no Hazardous Substances in, on or under the real property owned or occupied by any of the Woodstock Corporations, used in the Business or concerning the condition of which a Woodstock Corporation is otherwise responsible and there are no underground storage tanks on the Property and any underground storage tanks formerly on the Property have been removed and any affected soil, surface water or ground water has been remediated in

compliance with all Applicable Law including, without limitation, Environmental Law.

- (m) **Intellectual Property.** Schedule 3.1(m) sets forth and describes all trade secrets and any licensed property or technology used in whole or in part by each of the Woodstock Corporations' respective Business, and all material trademarks, trade names, service marks, brand names, patents, copyrights, industrial designs and other industrial property rights, and all applications therefor, in each case specifying whether the item is owned by each of the Woodstock Corporations or is used by each of the Woodstock Corporations under a licence agreement or arrangement from another Person. Each of the Woodstock Corporations has valid rights to use such intellectual property in the Business.
- (n) **Contracts and Commitments.** Except as set forth in Schedule 3.1(n), none of the Woodstock Corporations is party to or bound by any of the following:
 - (i) any offer letter, employment or consulting Contract or any other written Contract with any officer, employee or consultant, including any agreements or arrangements relating to compensation, other than oral Contracts of indefinite hire terminable by the employer without cause on reasonable notice;
 - (ii) any agreement, contract or commitment limiting the freedom of the Woodstock Corporations to engage in any line of business or to compete with another Person; or
 - (iii) any Material Contract.
- (o) **Material Contracts.** The Vendor has previously delivered by placing them in the Data Room, true and complete copies of all Material Contracts, all of which are in full force and effect and unamended and no material default exists under such Material Contracts on the part of the respective Woodstock Corporations or, to the knowledge of the Vendor on the part of any other party to such Contracts, and there are no current or pending negotiations with respect to the renewal, repudiation or amendment of any such Material Contract.
- (p) **Employee Plans.**
 - (i) Except as set forth and described in Schedule 3.1(n) and Schedule 3.1(p), none of the Woodstock Corporations are party to, bound by, subject to or have any liability or contingent liability, either as purchaser or supplier, relating to any employment agreement or any agreement or arrangement relating to information provided under Section 3.1(n), salary, wages, deferred compensation, bonus, incentive or other compensation, commission, fee, profit-sharing, severance, termination pay, supplementary employment insurance, vacation entitlements, insurance, health, welfare, disability, pension, retirement, hospitalization, medical, prescription drug, dental, eye care, arrangements for personal use of any corporate assets based on past practice and other similar benefits, plans or arrangements, including as may be included

in any Collective Agreement (the “**Employee Plans**”), whether funded or unfunded, formal or informal, written or unwritten, that is maintained, contributed to, or required to be maintained or contributed to, by the Woodstock Corporations, or to which the Woodstock Corporations is a party, for the benefit of the Employees and their respective beneficiaries and dependents, other than Statutory Plans.

- (ii) Other than the OMERS Plan, the Purchaser has been provided access to a true and complete copy of each Employee Plan (as amended to date) together with true and complete copies of all material documents relating to each such Employee Plan excluding OMERS, including, as applicable, all booklets, summaries, notices or manuals prepared for or circulated to Employees generally concerning each such Employee Plan excluding OMERS.
- (iii) All obligations of the Woodstock Corporations due prior to Closing under the Employee Plans and the Statutory Plans (whether pursuant to the terms thereof or any Applicable Law) have been or will be satisfied in all material respects.
- (iv) Other than the OMERS Plan, with respect to which the Vendor makes no representation, and other than any grievance that has been resolved or settled, as applicable, all Employee Plans are, and have been, established, registered (where required), and administered, in material compliance with (i) the terms thereof; (ii) all Applicable Law; and (iii) applicable Collective Agreements and neither the Vendor, nor any of the Woodstock Corporations has received, in the last four (4) years, any notice from any Person questioning or challenging such compliance (other than in respect of any claim related solely to that Person), nor does the Vendor, have any knowledge of any such notice from any Person questioning or challenging such compliance beyond the last four (4) years. Except as disclosed in Schedule 3.1(p) and other than the OMERS Plan or as set out in the Collective Agreement, there are no promised improvements, increases or changes to, the benefits provided under any Employee Plan, nor does any Employee Plan provide for benefit increases or the acceleration of funding obligations that are contingent upon or will be triggered by the execution of this Agreement or the Closing.
- (v) Except as disclosed in Schedule 3.1(p), no Employee Plan, other than the OMERS Plan, provides benefits beyond retirement or other termination of service to employees or former employees of the Corporation or to the beneficiaries or dependants of such employees or former employees. Other than the OMERS Plan, with respect to which the Vendor makes no representation, no Employee Plan requires or permits a retroactive increase in premiums or payments.
- (vi) All employee data necessary to administer the Woodstock Corporations’ participation in the Employee Plans is in the possession of the relevant Woodstock Corporation and is complete, correct and in a form which is sufficient for the proper administration of the Woodstock Corporations’

participation in the OMERS Plan and the other Employee Plans in accordance with the terms thereof and all Applicable.

- (vii) OMERS is the only pension or retirement plan or arrangement in which employees or former employees of the Woodstock Corporations participate and/or to which each Woodstock Corporation contributes as a participating employer.
- (viii) All obligations of the relevant Woodstock Corporation to or under OMERS (whether pursuant to the terms thereof or Applicable Law) have been satisfied, and there are no outstanding defaults or violations thereunder by either Woodstock Corporation or by any predecessor thereof.
- (ix) There are no obligations of any Woodstock Corporation with respect to unfunded actuarial liabilities, past service unfunded liabilities or solvency deficiencies respecting each Woodstock Corporation's participation in OMERS.

(q) **Labour Matters.**

- (i) Except as set forth in Schedule 3.1(q) (the "**Collective Agreement**") the Woodstock Corporations are not a party to or bound by or subject to any agreement or arrangement with any labour union or employee association and has not made any commitment to or conducted any negotiation or discussion with any labour union or employee association with respect to any future agreement or arrangement.
- (ii) There is no strike or lockout occurring or affecting, or to the Vendor's knowledge threatened against, any of the Woodstock Corporations.

(r) **Employees.**

- (i) The Purchaser has been provided with a complete and accurate confidential list of the names of all individuals who are employees (the "**Employees**") of the Woodstock Corporations specifying title, compensation, years of service, whether they are union or non-union, and the benefits under the Employee Plans to which they are entitled (the "**Employee Fact Sheet**").
- (ii) Except as disclosed in the Employee Fact Sheet, no Employee is on long term disability leave, extended absence or receiving benefits pursuant to the *Workplace Safety and Insurance Act* (Ontario).
- (iii) Each of the Woodstock Corporations has been operated in material compliance with all Applicable Laws relating to employees, including employment standards and all laws relating to full or in part to the protection of employee health and safety, human rights, labour relations and pay equity. Except as disclosed in the Employee Fact Sheet:

- (A) there have been no Claims nor, to the Vendor's knowledge, are there any threatened complaints, under such laws against any of the Woodstock Corporations;
 - (B) to the Vendor's knowledge, nothing has occurred which might lead to a Claim or complaint against any of the Woodstock Corporations, under any such laws; and
 - (C) there are no outstanding decisions or settlements or pending settlements which place any obligation upon any of the Woodstock Corporations to do or refrain from doing any act with respect to its Employees.
- (iv) All assessments under the *Workplace Safety and Insurance Act* (Ontario) in relation to the Business of any of the Woodstock Corporations have been paid or accrued and none of the Woodstock Corporations is subject to any special or penalty assessment under such legislation which has not been paid.
- (s) **Insurance.** Schedule 3.1(s) sets forth all insurance policies, other than those already disclosed in the Schedule 3.1(o), (specifying the insurer, the amount of the coverage, the type of insurance, the policy number and any pending claims thereunder, maintained by each of the Woodstock Corporations on its Property or personnel, including former personnel) of the Business. The Corporation, and not WHSI is the subscriber to the MEARIE Reciprocal Agreement.
- (t) **Environmental.**

To the knowledge of the Vendor and except as disclosed in the Confidential Disclosure Schedule:

- (i) the Business conducted on or at the Real Property and Leased Property while occupied or used by the Woodstock Corporations, has been and is now in compliance in all material respects with all applicable Environmental Laws. Any Release by the Woodstock Corporations, of any Hazardous Substance into the Environment complied and complies in all material respects with all applicable Environmental Laws, and not in a manner that could reasonably be expected to have a Material Adverse Effect;
- (ii) the Woodstock Corporations have obtained all requisite Environmental Approvals, which Environmental Approvals are valid and in full force and effect, have been and are being complied with in all material respects and there have been and are no proceedings commenced or threatened to revoke or amend any Environmental Approvals in a manner that could reasonably be expected to have a Material Adverse Effect. The Confidential Disclosure Schedule lists all of the Environmental Approvals held by the Woodstock Corporations;
- (iii) the Woodstock Corporations have not been and are not now the subject of any Remedial Order nor, is any investigation or evaluation threatened or commenced as to whether any such Remedial Order is necessary;

- (iv) None of the Woodstock Corporations has ever been prosecuted for or convicted of any offence under Environmental Laws, nor has either been found liable in any proceeding to pay any damages, fine or judgment to any Person as a result of any Release or threatened Release of any Hazardous Substance into the Environment or as the result of any breach of any Environmental Laws. No notice has been received by the Vendor or by the Woodstock Corporations of any investigation or evaluation by any Governmental Authority or of any Claims, pending or threatened, and there are no investigations or evaluations threatened or commenced as to whether any offence by any of the foregoing has occurred. There are no Claims that have been threatened or commenced against either of the Woodstock Corporations as a result of any Release or threatened Release of any Hazardous Substance into the Environment or as the result of the breach of any Environmental Laws.
- (u) **Litigation.** Except as set out in Schedule 3.1(u), there are no Claims (whether or not purportedly on behalf of any of the Woodstock Corporations) pending or, to the Vendor's knowledge, threatened against or affecting, any of the Woodstock Corporations at law or in equity, or before or by any Governmental Authority, or by or before an arbitrator or arbitration board which, either individually or in the aggregate, would have a Material Adverse Effect or prevent the Vendor from fulfilling any of its obligations set out in, or arising in connection with, this Agreement.
- (v) **Taxes.**
- (i) Each of the Woodstock Corporations is exempt from Tax under the Tax Act and the CTA but is required to make PILS payments under the EA in an amount equal to the Tax that it would be liable to pay under the Tax Act and CTA if it were not exempt from Tax under those statutes.
- (ii) Each of the Woodstock Corporations has filed in the prescribed manner and within the prescribed times all Tax Returns required to be filed by it in all applicable jurisdictions with respect to taxation periods ended on or before the Closing Date. All such Tax Returns are complete and correct and disclose all Taxes required to be paid for the periods covered thereby. None of the Woodstock Corporations have ever been required to file any Tax Returns with, and has never been liable to pay or remit Taxes to, any Governmental Authority outside Ontario or Canada. Each of the Woodstock Corporations has paid in full when due all Taxes and all instalments of Taxes due on or before the Closing Date. There are no liens for unpaid Taxes on any of the Woodstock Corporations' Property. Without restricting the generality of the foregoing, all Taxes shown on all Tax Returns or on any assessments or reassessments in respect of any such Tax Returns have been paid in full when due. The Vendor has furnished to the Purchaser true, complete and accurate copies of all Tax Returns and any amendments thereto filed by the Corporation since 2006 and all notices of assessment and reassessment and all correspondence with Governmental Authorities relating thereto as well as true, complete and accurate copies of all tax returns and any amendments filed at any time with

respect to a taxation year that is not statute barred, and all notices of assessment and reassessment and all correspondence with Governmental Authorities or tax advisors relating thereto. The provision for taxes in the Initial Financial Statement constitutes an adequate provision for the payment of all unpaid Taxes in respect of all periods up to and including the period to which the Initial Financial Statement relates.

- (iii) Assessments under the EA have been issued to each of the Woodstock Corporations covering all periods up to and including its fiscal year ended December 31, 2012.
- (iv) There are no audits, assessments, reassessments or other Claims in progress or, to the knowledge of the Vendor, threatened against any of the Woodstock Corporations, in respect of any Taxes and, in particular, there are no currently outstanding reassessments or written enquiries which have been issued or raised by any Governmental Authority relating to any such Taxes except for those items listed in Schedule 3.1(v). The Vendor is not aware of any contingent liability of any of the Woodstock Corporations for Taxes or any grounds that could prompt an assessment or reassessment for Taxes, and none of the Woodstock Corporations have received any indication from any Governmental Authority that any assessment or reassessment is proposed with respect to taxation periods ended on or before the Closing Date.
- (v) None of the Woodstock Corporations have entered into any agreements, waivers or other arrangements with any Governmental Authority providing for an extension of time with respect to the issuance of any assessment or reassessment, the filing of any Tax Return, or the payment of any Taxes by or in respect of any of the Woodstock Corporations. None of the Woodstock Corporations is a party to any agreements or undertakings with respect to Taxes.
- (vi) Each of the Woodstock Corporations is a registrant for purposes of the ETA, and the HST registration numbers are as follows:

Corporation	86248 6123
WHSI	89909 5012

All input tax credits claimed by the Woodstock Corporations pursuant to the ETA have been proper, correctly calculated and documented. The Woodstock Corporations have collected and remitted when due all Taxes, including GST/HST and RST, as required by tax legislation.

- (vii) The Vendor is not a non-resident for the purposes of the Tax Act.
- (viii) Each Woodstock Corporation maintains its books and records in compliance with section 230 of the Tax Act.

- (ix) The Vendor has provided to the Purchaser true, complete and accurate copies of all Canadian federal and Ontario income Tax Returns of each Woodstock Corporation for the last four (4) completed taxation years and all related communications to or from all Governmental Authorities. Canadian federal and provincial income, sales (including goods and services and harmonized sales and provincial or territorial sales) and capital tax assessments have been issued to each Woodstock Corporation for all taxation years or periods up to and including its taxation year ended as of Closing Date. No notices of determination of loss from the Canada Revenue Agency for any of the Woodstock Corporations has been requested by or issued to a Woodstock Corporation.
- (x) No Woodstock Corporation is a party to, or bound by or obligated by contract or otherwise, any undertaking regarding any Tax allocation, indemnity or sharing contract or arrangement, and neither is it liable for the Taxes of any other Person as a transferee or successor.
- (xi) The value of consideration paid or received by each of the Woodstock Corporations for the acquisition, sale, transfer or provision of property (including intangibles) or the provision of services (including financial transactions) from or to any Person with which it was not dealing at arm's length at the relevant time was the fair market value of such property acquired, provided or sold or services purchased or provided.
- (xii) The cost amount, as defined in the Tax Act, of the assets of each of the Woodstock Corporations is accurately reflected on the applicable Woodstock Corporation's Tax Returns and has not materially and adversely changed since the date of such Tax Returns.
- (xiii) No Woodstock Corporation has filed or been party to any election, designation or similar filing relating to Taxes.
- (w) **Withholding.** Each of the Woodstock Corporations has deducted, withheld, collected and remitted when due to each Governmental Authority, all Taxes which it is required to deduct, withhold, collect and remit. Without limiting the generality of the foregoing, each of the Woodstock Corporations has withheld from each amount paid or credited or deemed to have been paid or credited, and each taxable benefit conferred upon or dividend or distribution paid or deemed to have been paid to any of its past or present employees, officers or directors, and to any non-resident of Canada, the amount of all Taxes and other deductions required to be withheld therefrom, including without limitation, all employee and employer portions for Workers' Compensation, Canada Pension Plan, Employer Health Tax and Employment Insurance and has paid the same to the proper tax or other receiving officers within the time required under any applicable legislation. Each of the Woodstock Corporations has remitted to the appropriate tax authority when required by law to do so all amounts collected by it on account of sales taxes including goods and services tax and harmonized sales tax. No Woodstock Corporation has received any requirement, demand or request from any

Governmental Authority pursuant to section 224 of the Tax Act or any similar provision of Applicable Law that remains unsatisfied in any respect.

- (x) **Ownership of Property.** The Woodstock Corporations are the sole legal and beneficial, and where interests are registerable, the sole registered owner, of all of the Property used in connection with, directly or indirectly, ancillary to, or reasonably necessary for the operation of their respective Business with good and valid title thereto (with good and marketable title to the Real Property in fee simple) free and clear of all Encumbrances other than minor easements for the supply of utilities, and those permitted Encumbrances listed in Schedule 3.1(x). All of the Fixed Assets used in connection with, directly or indirectly, ancillary to, or reasonably necessary for the operation of their respective Business are in good working order, condition and repair subject to reasonable wear and tear, have been properly and regularly maintained and are in material compliance with all Applicable Laws. There has been no assignment, subletting or granting of any licence (of occupation or otherwise) of or in respect of any such Property or any granting of any contract or right capable of becoming a Contract or option for the purchase of any of such Property other than pursuant to the provisions of, or as disclosed in, this Agreement.
- (y) **Financial Statements.** The Initial Financial Statements were prepared and the Closing Date Financial Statements will be prepared in accordance with GAAP applied on a basis consistent with that of the preceding period and present, or will present (in the case of the Closing Date Financial Statements), fairly:
 - (i) in the case of the Initial Financial Statements, all of the assets, liabilities and financial position of the Woodstock Corporations as at December 31, 2013, and the sales, earnings, results of operation and changes in financial position of the Woodstock Corporations for the 12-month period then ended; and
 - (ii) in the case of the closing date financial statements for the Corporation and the Closing Date Financial Statements, the assets and liabilities of the Woodstock Corporations as at the Time of Closing.
- (z) **Licenses.** Schedule 3.1(z) sets out a complete list of all licenses, permits, approvals, consents, certificates, registrations and authorizations ("**Licenses**") held by or granted to each of the Woodstock Corporations, and there are no other licences, permits, approvals, consents, certificates, registrations or authorizations necessary to carry on their respective Business. Each Licence is valid, subsisting and in good standing and none of the Woodstock Corporations are set in default or in breach of any Licence and, to the Vendor's knowledge, no proceeding is threatened or pending to revoke or limit any Licence.
- (aa) **Bank Accounts.** The Confidential Disclosure Schedule sets forth a complete list of every financial institution in which each of the Woodstock Corporations maintains any depository account, trust account or safety deposit box and the names of all persons authorized to draw on or who have access to such accounts or safety deposit box.

- (bb) **Absence of Guarantees.** Neither of the Woodstock Corporations has given, agreed to give or shall give, or is a party or bound by, any guarantee or indemnity in respect of indebtedness, or other obligations, of any Person, or any other commitment by which the relevant Woodstock Corporation is, or is contingently, responsible for such indebtedness or other obligations.
- (cc) **By-Laws.** Other than by-laws of general application, no by-law of the Municipality exists which materially adversely affects the Woodstock Corporations or their respective Business. Other than by-laws of general application, no by-law which would materially adversely affect any of the Woodstock Corporations or their respective Business is currently being contemplated by the Vendor or, to the Vendor's Knowledge, has been proposed by any Person.
- (dd) **Limitation.** The Vendor makes no representation or warranty to the Purchaser except as specifically set forth in this Agreement and this Agreement contains all representations and warranties of the Vendor relating to the Purchased Shares and the Transaction.
- (ee) **Effect of Disclosure.** All disclosure contained in a particular representation and warranty set forth in this Agreement (or any Schedule referred to therein) shall be deemed for the purposes of this Agreement to have been made with respect to all of the representations and warranties in this Section 3.1 to which such disclosure might be applicable. Notwithstanding anything else contained herein, the Vendor shall have no liability to the Purchaser with respect to any failure by it to disclose the existence of any matter, document or thing, or to make any other disclosure in the context of a particular representation and warranty set out in this Section 3.1 where the existence of such matter, document or thing has been disclosed as part of another representation or warranty contained in this Agreement or in any Schedule annexed hereto.

3.2 **Representations and Warranties of the Purchaser.** The Purchaser represents and warrants to the Vendor as follows and acknowledges that the Vendor is relying on such representations and warranties in connection with the transactions contemplated herein:

- (a) **Organization.** The Purchaser is a corporation duly incorporated and validly subsisting corporation under the laws of Ontario and has the corporate power to own or lease its property and assets and to carry on the business presently carried on by it.
- (b) **Corporate Power of the Purchaser and Due Authorization.** The Purchaser has all requisite corporate power, authority and capacity to enter into, and to perform its obligations under this Agreement. The Purchaser has duly taken, or has caused to be taken, all corporate action required to be taken by the Purchaser to authorize the execution and delivery of this Agreement by the Purchaser in the performance of its obligations hereunder and has the financial ability to complete the Purchase and pay the Purchase Price.
- (c) **Binding Agreement.** This Agreement has been duly executed by the Purchaser and will, upon delivery, constitute a valid and binding obligation of the Purchaser,

enforceable against it in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.

- (d) **No Violations.** Neither the execution nor delivery of this Agreement nor the completion of the transactions herein contemplated will result in the violation of:
 - (i) any provision of the constating documents, by-laws or any unanimous shareholder agreement of the Purchaser;
 - (ii) any Contract to which the Purchaser is a party or by which the Purchaser or any of its property or assets is bound, which would have a material adverse effect on the Purchaser's ability to perform its obligations under this Agreement; or
 - (iii) subject to obtaining the regulatory approvals set forth in Article VII, any terms or provisions of any Applicable Law of any authority having jurisdiction over the Purchaser which would have a materially adverse effect on the Purchaser's ability to perform its obligations under this Agreement.
- (e) **Investment Canada Act.** The Purchaser is not a "non-Canadian" within the meaning of the *Investment Canada Act* (Canada). The Purchaser is not a "non-resident" for tax purposes.
- (f) **Financial Capability.** The Purchaser has sufficient funds in place to pay the Purchase Price on the Closing Date on the terms and conditions contained in this Agreement.
- (g) **Consents and Approvals.** Except for the Required Approval, there is no requirement for the Purchaser to make any filing with, give any notice to or obtain any licence, permit, certificate, registration, authorization, consent or approval of, any governmental or regulatory authority as a condition to the lawful consummation of the transactions contemplated by this Agreement.
- (h) **Litigation.** There is no legal proceeding in progress, pending, threatened against or affecting the Purchaser and, to the best of the knowledge and belief of the Purchaser, there are no grounds on which any such legal proceeding might be commenced with any reasonable likelihood of success and no judgment, decree, injunction, ruling, order or award of any tribunal outstanding against or affecting the Purchaser which, in any such case, might adversely affect the ability of the Purchaser to enter into this Agreement or to perform its obligations hereunder.
- (i) **Crown Corporation.** The Purchaser is a crown corporation as described in paragraph 149(1)(d) or (d.2) of the Tax Act.
- (j) **Limitation.** The Purchaser makes no representation or warranty to the Vendor except as specifically set forth in this Section 3.2 and this Agreement contains all representations and warranties of the Purchaser relating to the transactions contemplated hereby.

- (k) **Effect of Disclosure.** All disclosure contained in a particular representation and warranty set forth in this Agreement (or any Schedule referred to therein) shall be deemed for the purposes of this Agreement to have been made with respect to all of the representations and warranties in this Section 3.2 to which such disclosure might be applicable. Notwithstanding anything else contained herein, the Purchaser shall not have any liability to the Vendor with respect to any failure by it to disclose the existence of any matter, document or thing, or to make any other disclosure in the context of a particular representation and warranty set out in this Section 3.2 where the existence of such matter, document or thing has been disclosed as part of another representation or warranty contained in this Agreement or in any Schedule annexed hereto.

ARTICLE IV SURVIVAL OF REPRESENTATIONS AND WARRANTIES

4.1 Survival of Representation and Warranties.

- (a) The representations and warranties of the Vendor set out in Section 3.1 shall survive the Closing and, notwithstanding such Closing or any investigation made by or on behalf of the Purchaser with respect thereto, shall continue in full force and effect for the benefit of the Purchaser provided, however, that no Claim in respect thereof shall be valid unless it is made within a period of one (1) year from the Closing Date and, upon the expiry of such limitation period, the Vendor shall have no further liability to the Purchaser with respect to the representations and warranties referred to in such section, except in respect of Claims which have been made by the Purchaser to the Vendor in writing prior to the expiration of such period.
- (b) The representations and warranties of the Purchaser set out in Section 3.2 shall survive the Closing and, notwithstanding such Closing or any investigation made by or on behalf of the Vendor with respect thereto, shall continue in full force and effect for the benefit of the Vendor provided, however, that no Claim in respect thereof shall be valid unless it is made within a period of one (1) year from the Closing Date and, upon the expiry of such limitation period, the Purchaser shall have no further liability to the Vendor with respect to the representations and warranties referred to in such section, except in respect of Claims which have been made by the Vendor to the Purchaser in writing prior to the expiration of such period.

ARTICLE V COVENANTS OF THE VENDOR

5.1 **Access to the Corporation.** The Vendor shall forthwith make available to the Purchaser and its authorized Representatives in the Data Room copies of all title documents, Contracts, financial statements, policies, plans, reports, licences, orders, permits, books of account, accounting records and all other material documents, information and data, relating to the Business in the possession or control of the Woodstock Corporations. The Vendor shall afford the Purchaser and its authorized Representatives access to the Property of the Woodstock Corporations upon written request and at least five (5) Business Days' prior written notice during

the Woodstock Corporations' normal business hours and provided that the Purchaser and its Representatives shall not impede the day-to-day operation of the Business. The Purchaser shall not undertake any drilling or subsurface investigations under any of the Property except with the prior approval of the Vendor in the discretion of the Vendor. The Vendor and the Purchaser shall co-operate in good faith in arranging any confidential meetings as the Purchaser should reasonably request with senior executives of the Woodstock Corporations employed in the Business.

5.2 Conduct of Business Prior to Closing. During the period from the date of the Initial Financial Statements to the Closing Date, the Vendor has caused and shall cause the Business of the Woodstock Corporations to be conducted in the ordinary course substantially consistent with past practice (except as may be otherwise required or contemplated by the provisions of this Agreement), and shall not permit or authorize the Woodstock Corporations to sell or otherwise dispose of any of its Property, other than sales or dispositions of Property in the ordinary course not exceeding two hundred and fifty thousand dollars (\$250,000) in the aggregate. Other than those dispositions listed in Schedule 5.2, the Vendor shall obtain Purchaser's prior written consent, which consent may be unreasonably withheld, to any Material Contract contemplated to be entered into following the Effective Date. During such period there shall be no change in the Business, operation, affairs, personnel and/or financial condition of any of the Woodstock Corporations, except for changes occurring in the ordinary course of business which in aggregate would not reasonably be expected to have a Material Adverse Effect. The Parties further expressly acknowledge that, notwithstanding anything herein contained, during the period from execution of this Agreement to the Closing Date, the Woodstock Corporation shall be permitted to declare and pay dividends to the Vendor out of cash on hand.

5.3 Delivery of Books and Records.

- (a) At Closing, the Vendor shall cause to be delivered to the Purchaser all of the books and records of and relating to the Woodstock Corporations and the Business; and
- (b) Notwithstanding Section 5.3(a), the Vendor shall be entitled to retain copies of any documents or other data delivered to the Purchaser pursuant to Section 5.3(a) provided that those documents are reasonably required by the Vendor to perform its obligations hereunder or under Applicable Law.

5.4 Resignation of Directors. The Vendor shall cause all of the directors of the Woodstock Corporations to resign in favour of nominees of the Purchaser, such resignation to be effective at Closing and releases from such individuals of all claims they may have against any of the Woodstock Corporations (other than in respect of unpaid salaries and accrued vacation pay).

5.5 Transfer of Purchased Shares. The Vendor shall take, and shall cause the Corporation to take, all necessary steps and proceedings to permit the Purchased Shares to be duly and validly transferred to the Purchaser and to have such transfers duly and validly recorded on the books of the Corporation so that the Purchaser is entered onto the books of the Corporation as the holder of the Purchased Shares and to issue share certificates to the Purchaser representing the Purchased Shares.

5.6 **Nellis Street Material/Pole Storage Yards.** WHSI uses the facility situated on Nellis Street as a material and pole yard on lands owned by the County of Oxford. At this time, there is no lease in place and there is no cost to WHSI to use these lands. The Vendor will use its best efforts to obtain sufficient rights from the County of Oxford to permit Vendor to lease the lands to Purchaser (or its assignee) which Vendor covenants to do upon successful Closing, on the terms of Schedule 5.6 for a lease term of three (3) years with five consecutive options to extend the term by one (1) year each, at no cost to Purchaser. If Vendor is unable to secure such rights 30 days or more prior to Closing, then the Vendor will make available similar lands, suitable for the purpose, at no cost to Purchaser, for the same term, and otherwise in accordance with Hydro One Networks Inc.'s standard form vacant land lease.

5.7 **Real Property Excluded.** Vendor covenants to indemnify and save harmless the Purchaser and the Corporation from all Claims associated with the Corporation's title to or operations on the City Property prior to Closing.

5.8 **Non-Assignable Assets.** The Vendor will use its best efforts to transfer any Property held by the Vendor to the applicable Woodstock Corporation (including obtaining any required third party consents) and in the absence of any such consent or effective transfer, Vendor shall hold such asset in trust for the benefit of the applicable Woodstock Corporation or as it may direct.

5.9 **Tax Bump.** The Vendor covenants and agrees that, between the date of this Agreement and the Closing Time, the Vendor shall not, and shall cause its Subsidiaries to not, transfer or acquire any Property unless (i) it is Property acquired from, or transferred to, a person dealing at arm's length with the Vendor and its Subsidiaries in the ordinary course of business, or (ii) it is the Excluded City Property.

ARTICLE VI COVENANTS OF THE PURCHASER

6.1 **Employment and Location Guarantees.** The Purchaser hereby covenants and agrees that for a period of at least one (1) year following the Closing Date, it will, subject to its rights to dismiss for just cause, guarantee the continued employment with the Purchaser, Hydro One Networks Inc. ("**HONI**") or other Affiliate of the Purchaser in the City of Woodstock, of each Employee who is an active Employee of the Woodstock Corporations on the Closing Date on terms and conditions, including Employee Plans calculated on the same basis as provided to employees hired by HONI, except that service with the Corporation will be recognized as service with the Purchaser and HONI for seniority purposes in Woodstock, Ontario. The foregoing shall not prohibit the relocation of Employees with their prior consent. From and after the date on which the Purchaser integrates the Business within Hydro One Networks Inc. ("**HONI**"), Employees may apply for positions within the Purchaser and its Affiliates and will be considered for such positions on a fair and equal basis with other employees of the Purchaser and its Affiliates, with credit for their seniority and service with the applicable Woodstock Corporation.

6.2 **Participation in Community Events.** After Closing, the Purchaser shall or the Purchaser shall cause Woodstock Corporations to provide community assistance to the Vendor specified in Schedule 6.2.

6.3 **Advisory Committee.** The Purchaser shall establish an advisory committee (the “**Advisory Committee**”) as soon as practicable on an ongoing basis after Closing to provide a forum for communication between the Purchaser and the Vendor. In establishing the Advisory Committee, the Purchaser shall select one (1) senior officials and one (1) local official as its Representatives, in consultation with officials of the Vendor. The Vendor has the right to appoint at least three (3) Representatives to the Advisory Committee.

6.4 **Employee Related Matters.** The Purchaser acknowledges that from and after Closing, it shall be responsible for all obligations owing to present and former employees, and the employees’ respective beneficiaries of the Woodstock Corporations and their predecessors and of the Business relating to such employment, including all obligations and liabilities relating to wages, severance pay, notice of termination of employment or pay in lieu of such notice, damages for wrongful dismissal or other employee benefits or claims, including vacation pay, and Employee Plans (but excluding in respect of or in connection with OMERS) regardless of whether these arose before or after Closing. From and after the Time of Closing the Purchaser shall indemnify and save harmless the Vendor from and against any and all losses, damages, expenses, liabilities, claims and demands whatsoever made or brought against the Vendor by any person or Employee, association or trade union or by any Governmental Authority or any other Person or body which in any way pertains to or arises out of such liability including, without limiting the generality of the foregoing, any and all losses, damages, expenses, liabilities, claims and demands whatsoever with respect to wages, severance pay, notice of termination of employment or pay in lieu of such notice, damages for wrongful dismissal or other employee benefits or claims, including vacation pay, and Employee Plans and including any interest, award, judgment or penalty relating thereto and any costs or expenses incurred by the Vendor in defending any such claim or demand.

6.5 **Real Property Excluded.** The Purchaser acknowledges and agrees that the real property (“**City Property**”) set out in Schedule 6.5 and all associated obligations will be transferred by the applicable Woodstock Corporation to the Vendor on or before Closing.

6.6 **Continued Pole Access.** For purposes of municipal attachments on hydro poles in the Municipality, the Vendor will enter into a joint use agreement with the Purchaser in accordance with the terms of the Purchaser’s applicable standard document, Agreement for Licensed Occupancy of Power Utility Distribution Poles+.

6.7 **Capital Program.** The Purchaser acknowledges and agrees that the aggregate capital expenditure budget and forecast for the Business is as set out in Schedule 6.7 hereto (“**CapEx**”), and agrees to use commercially reasonable efforts to meet such CapEx.

6.8 **Rate Harmonization.**

(a) Notwithstanding Section 2.6, the Purchaser acknowledges, agrees and covenants to:

- (i) within the time frame specified in Section 7.1 and as part of the Required Approval, seek OEB approval for a negative rate rider (“**Negative Rate Rider**”) to reduce Current Rates by 1% across all Rate Classes; and

- (ii) the Reduced Rates shall:
 - (A) be effective as of the Closing Date; and
 - (B) be maintained without change during the Rate Freeze Period.
- (b) If the OEB does not approve the Negative Rate Rider in accordance with subsection 6.8(a), and does not approve a Partial Rate Rider, the Purchaser acknowledges, agrees and covenants to maintain Rates at Current Rates during the Rate Freeze Period. For greater clarity, this subsection 6.8(b) shall not affect the obligations of the Purchaser under Section 2.6 which are in addition to the Purchaser's obligations under this Section 6.8(b).

6.9 Service Quality and Service Levels. The Purchaser will meet or exceed service levels as measured for reliability and customer service as follows:

- (a) If three (3) years after Closing, the three-year average for reliability within the Corporation's current service territory, for any of the Reliability metrics described in Schedule 6.9, is lower than the average reported by the Corporation to the OEB for each Reliability metric for the three years prior to Closing; or
- (b) If three (3) years after the Corporation's electricity customers are integrated into the Purchaser's billing system, the three (3) year average customer service score measured using the Customer Service Standards metrics described in Schedule 6.9 is lower than the average reported by the Corporation to the OEB for each such metric for the three years prior to Closing,
- (c) then, upon the occurrence of either (a) or (b) above, the Purchaser shall make a single payment to the Vendor in the amount of two hundred thousand (\$200,000) dollars to be used for community purposes including charities.

6.10 Smart Grid, Conservation and Demand Management. Following Closing, the Purchaser will place continued importance on smart grid development and conservation and demand management initiatives in the operations of WHSI or any successor by, without limitation, integrating such matters into the capital program contemplated in Section 6.7 and performance of Service Standards contemplated in Section 6.9.

6.11 Access to Purchaser's Personnel. The Purchaser agrees to provide the Vendor with the services of senior personnel as described in Schedule 6.11 following the Closing Date on an ongoing basis.

6.12 Books and Records. The Purchaser shall preserve the books and records delivered by the Vendor to it pursuant to Section 5.3 for a period of eight (8) years from the Closing Date, or for such longer period as is required by any Applicable Law, and will permit the Vendor or its authorized Representatives reasonable access thereto in connection with the affairs of the Vendor relating to its matters.

6.13 **Confidentiality.**

- (a) Each Party hereby covenants and agrees that it shall keep confidential and not use (except for the purposes of the Transaction) or disclose except as required by Applicable Law, any and all information received by it from the other Party leading up to or in connection with the execution of this Agreement and completion of the transactions contemplated hereby, whether or not received prior to or after the Effective Date, concerning the business and affairs of the other Party or its Affiliates.
- (b) In the event that this Agreement is terminated in accordance with the provisions hereof,
 - (i) the Purchaser hereby covenants and agrees that it, and its Affiliates, shall keep confidential, in accordance with the terms of the Confidentiality Agreement, any and all information and trade secrets received by the Purchaser from the Vendor, whether or not received prior to or after the date of this Agreement, concerning the business and affairs of the Vendor and/or the Woodstock Corporations (the “**Confidential Information**”).
 - (ii) the Purchaser shall:
 - (A) promptly return to the Vendor all documents, computer disks, other forms of electronic storage or other materials furnished by the Vendor, or the Woodstock Corporations or by any of their respective Representatives to the Purchaser or its Representatives constituting Confidential Information, together with all copies and summaries thereof in the possession or under the control of the Purchaser or its Representatives and materials generated by the Purchaser or its Representatives that include or refer to any part of the Confidential Information, without retaining a copy of any such material; or
 - (B) alternatively, provided that the prior written consent of the Vendor has been obtained, promptly destroy all documents or other matters constituting Confidential Information in the possession or under the control of the Purchaser or its Representatives;and the Purchaser shall confirm such return and/or destruction of Confidential Information to the Vendor in writing and certified by two senior officers of the Purchaser;
 - (iii) the Purchaser shall promptly destroy the portion of the Confidential Information which consist of analyses, compilations, forecasts, studies, other material or documents prepared by the Purchaser or its Representatives and shall confirm such destruction in writing and certified by two senior officers of the Purchaser;
 - (iv) any oral or visual Confidential Information will continue to be subject to the terms of the Confidentiality Agreement and the terms of this Section 6.13; and

- (v) the Purchaser shall not, directly, use for its own purposes, any Confidential Information discovered or acquired by the Purchaser's Representatives as a result of the Vendor, or the Woodstock Corporations making available to them any Confidential Information.

6.14 **Survival.** The covenants contained in this Article VI shall survive the Closing Date.

ARTICLE VII REQUIRED APPROVAL

7.1 **OEB Approval.** Each of the Purchaser and the Vendor shall as promptly as practicable after the execution of this Agreement (but in no event later than forty-five (45) days after the execution of this Agreement), file or cause to be filed with the OEB an application required to be made under Subsection 86(1) and Subsection 86(2) of the OEB Act in respect of the OEB Approval as it relates to the sale of the Corporation to the Purchaser and the acquisition from the Purchaser of all or substantially all of WHSI's assets by Hydro One Networks Inc. (the "**Required Approval**"). Each of the Purchaser and the Vendor shall use their best efforts (which shall not be less than commercially reasonable efforts) to co-operate and assist the other, so that the Required Approval can be obtained as soon as reasonably possible, and in any event prior to the Closing Date. All the costs and expenses incurred by the Parties in connection with the application for the OEB Approval shall be borne each Party.

7.2 **Ontario Minister of Finance Notice.** The Vendor shall as promptly as practicable after the execution of this Agreement (but in no event later than the day before the Closing Date), file or cause to be filed with the Ontario Minister of Finance the notification required under Subsection 4(2) of Ontario Regulation 124/99 made under the EA. If necessary, the Vendor will also file or cause to be filed with the Ontario Minister of Finance such notification as required by Section 7 of Ontario Regulation 124/99 within thirty (30) days after the Closing Date. The Purchaser shall be responsible for the costs incurred by it in connection with the Ontario Minister of Finance Notice.

ARTICLE VIII TAX MATTERS

8.1 **Preparation and Filing of Tax Returns.** The Vendor shall cause the Woodstock Corporations to prepare and submit all Tax Returns that are not due for filing until after the Closing Date to the Purchaser for approval at least thirty (30) Business Days before the filing due date thereof except for the debt retirement charge and sales tax returns, which shall be prepared and submitted to the Purchaser for approval at least seven (7) Business Days before the filing due-date thereof. The Purchaser shall provide the Vendor and its Representatives access to such Books and Records of the Woodstock Corporations relating to the period preceding Closing as the Vendor reasonably request for purposes of preparing those Tax Returns. After the Purchaser has approved those Tax Returns, the Vendor shall, on a timely basis, cause the Woodstock Corporations to file the Tax Returns, and provide a copy with proof of filing to the Purchaser.

8.2 **Books and Records Relating to Taxes.** Within thirty (30) Business Days after the Closing Date, the Vendor shall deliver to the Purchaser the copies of all documents relating to

Taxes of the Woodstock Corporations in respect of the period preceding Closing that the Vendor retained pursuant to Section 5.3(b) and all working papers, correspondence and other documents prepared after the Closing Date which relate to Taxes for such periods.

8.3 Notification Requirements. The Purchaser shall promptly forward to the Vendor all written notifications and other written communications from any Governmental Authority received by the Purchaser or the Woodstock Corporations relating to Taxes of the Woodstock Corporations for all periods preceding Closing, and shall promptly inform the Vendor of any audit proposed to be undertaken and any adjustment proposed in writing to be made by any Governmental Authority in respect of a Pre-Closing Period. Notwithstanding the obligation of the Purchaser to give prompt notice as required above, the failure of the Purchaser to give that prompt notice shall not relieve the Vendor of its obligations under this Article VIII except to the extent (if any) that the Vendor shall have been prejudiced thereby.

8.4 Vendor Indemnification. From and after the Closing Date, the Vendor shall be responsible for and shall indemnify and save harmless the Purchaser for all Taxes payable by the Woodstock Corporations for all periods preceding or ending as of Closing, less any Tax refunds and credits received by the Woodstock Corporations after the Closing Date and where such Tax refunds and credits relate to periods preceding or ending as of Closing to the extent that the amount is not reflected in the Closing Date Financial Statements.

8.5 Purchaser's Contest Rights. Subject to Section 8.6, the Purchaser shall have the sole right to control, defend, settle, compromise, or prosecute in any manner an audit, examination, investigation, and other proceeding with respect to any Tax Return of the Woodstock Corporations. The Purchaser shall keep the Vendor duly informed of any proceedings in connection with any matter for which the Purchaser may have a right to indemnification pursuant to this Article VIII or Article XII and promptly provide the Vendor with copies of all correspondence and documents relating to those proceedings. The Vendor shall execute or cause to be executed such documents and shall take such action as reasonably requested by the Purchaser to enable the Purchaser to take any action the Purchaser deems appropriate with respect to any proceedings in respect of which the Purchaser has contest rights under this Agreement.

8.6 Vendor's Contest Rights.

- (a) The Vendor may at any time by written notice to the Purchaser elect to control, defend, settle, compromise or prosecute in any manner an audit, examination, investigation, or other proceeding with respect to Taxes or Tax issues related to any matter in respect of which the Purchaser may have a right of indemnification pursuant to this Article VIII or Article XII, except that:
 - (i) the Vendor shall deliver to the Purchaser a written agreement that the Purchaser is entitled to indemnification for all Losses arising out of that audit, examination or other proceeding and that the Vendor shall be liable for the entire amount of those Losses;

- (ii) the Vendor may not, without the written consent of the Purchaser, settle or compromise Taxes or Tax issues related to any matter which may affect Tax liabilities of the Purchaser or the Woodstock Corporations for a period following Closing; and
 - (iii) the Vendor shall pay to the Purchaser the amount of all Taxes (including, for greater certainty, interest and penalties) specified in the notice of assessment or other Claim from the Governmental Authority which are due and payable and to which the Purchaser's indemnity Claim relates within 10 Business Days before the amount is required to be paid to the Governmental Authority or within 10 Business Days after the Purchaser has forwarded to the Vendor a Claim for indemnity.
- (b) If the consent of the Purchaser to a settlement or compromise arranged by the Vendor is not obtained for any reason, the indemnification liability of the Vendor shall be limited to the proposed settlement amount. The Purchaser and/or the Woodstock Corporations, as applicable, shall execute or cause to be executed such documents or take such action as reasonably requested by the Vendor to enable the Vendor to take any action it deems appropriate with respect to any proceedings in respect of which the Vendor has contest rights under this Agreement. In addition:
- (i) the Vendor shall keep the Purchaser duly informed of any proceedings in connection with any matter which may affect the Taxes payable by the Purchaser or the Woodstock Corporations; and
 - (ii) the Purchaser shall be promptly provided with copies of all correspondence and documents relating to those proceedings and may, at its option and its own expense, participate in those proceedings through counsel of its choice.

8.7 Indemnification Procedures. Except to the extent expressly provided to the contrary in this Article VIII, the general procedures regarding notice and pursuit of indemnification Claims set forth in Article XII shall apply to all Claims for indemnification made under this Article VIII, except that notwithstanding any provision of Article XII to the contrary, if a Claim for indemnification involves any matter covered in this Article VIII, then the contest provisions of Sections 8.5 and 8.6, as applicable, shall control regarding the defence and handling of any such third-party Claim that could give rise to an indemnification obligation on the part of the Vendor. Notwithstanding Article IV, there shall be no limit on the time period during which a Claim for indemnification may be made under this Article VIII. Claims for indemnification regarding Tax matters shall not be subject to the limits set out in Article XII.

ARTICLE IX CONDITIONS OF CLOSING

9.1 Conditions of Closing in Favour of the Purchaser. The Transaction including sale and purchase of the Purchased Shares are subject to the following conditions for the exclusive benefit of the Purchaser, to be fulfilled or performed at or prior to Closing:

- (a) **Representations and Warranties.** The representations and warranties of the Vendor contained in this Agreement which are qualified as to materiality shall be true and correct and those not qualified as to materiality shall be true and correct in all material respects at Closing, with the same force and effect as if such representations and warranties were made at and as of such time, and a certificate of the Mayor, and the Clerk or the Deputy Clerk of the Vendor dated the Closing Date to that effect shall have been delivered to the Purchaser.
- (b) **Covenants.** All of the obligations, covenants and agreements contained in this Agreement to be complied with or performed by the Vendor at or prior to Closing shall have been complied with or performed, and a certificate from the Mayor, and the Clerk or the Deputy Clerk of the Vendor dated the Closing Date to that effect shall have been delivered to the Purchaser.
- (c) **Consents and Required Approval.** There shall have been obtained, from all appropriate Persons such consents as listed in Schedule 9.1(c), as may be required in connection with the completion of the Transaction, including without limitation, the Required Approval.
- (d) **No Action to Restrain.** No order of any court of competent jurisdiction or administrative agency shall be in existence and, no action or proceeding shall be pending or threatened in writing by any Person, to restrain or prohibit:
 - (i) the purchase and sale of the Purchased Shares; or
 - (ii) any of the Woodstock Corporations from carrying on the Business as the Business is being carried on as at the date hereof.
- (e) **Material Adverse Effect.** There shall not have occurred any Material Adverse Effect since the date of this Agreement.
- (f) **Resignation of Directors.** All directors of the Woodstock Corporations shall have tendered their resignations and each such individual and the Vendor shall have duly executed and delivered comprehensive releases of all their claims (other than in respect of unpaid salaries and accrued vacation pay and rights to indemnity) respectively against the Woodstock Corporations.

If any of the conditions contained in this Section 9.1 shall not be performed or fulfilled at or prior to the Time of Closing or any other timeframe specified above to the satisfaction of the Purchaser, acting reasonably, the Purchaser may, by notice to the Vendor, terminate this Agreement and the obligations of the Vendor and the Purchaser under this Agreement and in such event the Purchaser shall be released from all obligations hereunder except those set forth in Section 6.13 and in the Confidentiality Agreement and the Vendor shall direct the Escrow Agent (as defined in the Escrow Agreement) to refund the Deposit and all accrued interest thereon to the Purchaser and Purchaser shall be released from all obligations hereunder. Any such condition may be waived in whole or in part by the Purchaser without prejudice to any claims it may have for breach of such condition.

9.2 **Conditions of Closing in Favour of the Vendor.** The purchase and sale of the Purchased Shares is subject to the following terms and conditions for the exclusive benefit of the Vendor, to be fulfilled or performed at or prior to the Time of Closing:

- (a) **Representations and Warranties.** The representations and warranties of the Purchaser contained in this Agreement which are qualified as to materiality shall be true and correct and those not qualified as to materiality shall be true and correct in all material respects at Closing, with the same force and effect as if such representations and warranties were made at and as of such time, and a certificate of two (2) senior officers of the Purchaser dated the Closing Date to that effect shall have been delivered to the Purchaser.
- (b) **Covenants.** All of the obligations, covenants, and agreements contained in this Agreement to be complied with or performed by the Purchaser at or prior to the Time of Closing shall have been complied with or performed, and a certificate of a senior officers of the Purchaser dated the Closing Date to that effect shall have been delivered to the Vendor.
- (c) **Consents and Required Approval.** There shall have been obtained, from all appropriate Persons such consents as listed in Schedule 9.2(c), as may be required in connection with the completion of the Transaction, including without limitation, the Required Approval.
- (d) **No Action to Restrain.** No order of any court of competent jurisdiction or administrative agency shall be in existence and, no action or proceeding shall be pending or threatened in writing by any Person, to restrain or prohibit the purchase of the Purchased Shares.

If any of the conditions in this Section 9.2 shall not be performed or fulfilled at or prior to Closing to the satisfaction of the Vendor, acting reasonably, the Vendor may, by notice to the Purchaser, terminate this Agreement and the obligations of the Vendor and the Purchaser under this Agreement, and in such event the Vendor shall be released from all obligations hereunder except those set forth in the Confidentiality Agreement and the Vendor shall be entitled to the Deposit and accrued interest thereon only in circumstances resulting in termination for failure of performance or fulfillment by the Purchaser of the conditions listed in Section 9.2(a) and 9.2(b), as its sole and exclusive remedy for all matters arising out of this Agreement and Purchaser shall be released from all obligations hereunder. In the event of termination for failure of any other condition in Section 9.2, the Purchaser shall be entitled to the Deposit and accrued interest as if there was a failure of a condition in Section 9.1. Any such condition may be waived in whole or in part by the Vendor without prejudice to any Claims it may have for breach of such condition.

ARTICLE X CLOSING ARRANGEMENTS

10.1 **Place of Closing.** The closing shall take place at the Time of Closing at the offices of Borden Ladner Gervais LLP, the Vendor's Counsel, at Toronto, Ontario.

10.2 **Transfer.** At the Time of Closing, upon fulfilment of all the conditions set out in Article IX that have not been waived in writing by the Purchaser or the Vendor, the Vendor shall deliver to the Purchaser certificates representing all the Purchased Shares, duly endorsed in blank for transfer and will cause transfers of such shares to be duly and regularly recorded in the name of the Purchaser whereupon, subject to all other terms and conditions hereof being complied with, payment of the Purchase Price shall be paid and satisfied in the manner provided in Article II.

ARTICLE XI ARBITRATION

11.1 Arbitration.

- (a) Any dispute, controversy or claim arising out of or in connection with, or relating to, this Agreement, including the Confidentiality Agreement, or the performance, breach, termination or validity thereof, shall be finally settled by arbitration. Either Party may initiate arbitration within a reasonable time after any such dispute, controversy or claim has arisen, by delivering a written demand for arbitration upon the other Party. The arbitration shall be conducted in accordance with the Ontario *Arbitration Act*, S.O., 1991, c.17. The arbitration shall take place in Toronto, Ontario, and shall be conducted in English.
- (b) The arbitration shall be conducted by a single arbitrator having no financial or personal interest in the outcome of the arbitration. The arbitrator shall be appointed jointly by agreement of the Parties. In the event the Parties are unable to agree on the appointment of the arbitrator within ten (10) days after notice of a demand for arbitration is given by either Party, then either Party shall be free to apply to the Superior Court of Ontario for an Order appointing the arbitrator. Absent agreement or an award in the arbitration to the contrary, the arbitration fees and expenses shall be paid by the Parties jointly.
- (c) The arbitrator shall have the authority to award any remedy or relief that a court could order or grant in accordance with this Agreement, including, without limitation, specific performance of any obligation created under this Agreement, the issuance of an interim, interlocutory or permanent injunction, or the imposition of sanctions for abuse or frustration of the arbitration process.
- (d) The arbitral award shall be in writing, stating the reasons for the award and be final and binding on the Parties with no rights of appeal. The award may include an award of costs, including reasonable legal fees and disbursements and fees and expenses of the arbitrator. Judgment upon the award may be entered by any court having jurisdiction thereof or having jurisdiction over the relevant Party or its assets.

ARTICLE XII INDEMNIFICATION

12.1 **Indemnification by the Vendor.** Subject to the limitations contained in Section 4.1 respecting survival of the representations and warranties of the Parties and to Sections 12.5 and

12.7, the Vendor covenants and agrees to indemnify and save harmless the Purchaser and the Woodstock Corporations effective as and from the Closing Time, from all Losses suffered by the Purchaser as a result of all Claims which may be made or brought against the Purchaser (or made or brought by the Purchaser against the Vendor pursuant to this Agreement) or the Woodstock Corporations as a result of or arising directly or indirectly out of or in connection with:

- (a) any breach by the Vendor of or any inaccuracy of any representation or warranty contained in this Agreement or in any agreement, instrument, certificate or other document delivered pursuant hereto;
- (b) any breach or non-performance by the Vendor of any covenant to be performed by it that is contained in this Agreement or in any agreement, certificate or other document delivered pursuant hereto; and
- (c) any Claim in connection with any of the Woodstock Corporations or the Business to the extent the circumstances giving rise to the Claim arose prior to Closing

12.2 **Indemnification by the Purchaser.** Subject to the limitations contained in Section 4.1 respecting survival of the representations and warranties of the Parties and to Section 12.5 and 12.7, the Purchaser agrees to indemnify and save harmless the Vendor from all Losses suffered or incurred by the Vendor as a result of or arising directly or indirectly out of or in connection with any Claim relating to:

- (a) any breach by the Purchaser of or any inaccuracy of any representation or warranty contained in this Agreement or in any agreement, instrument, certificate or other document delivered pursuant hereto;
- (b) any breach or non-performance by the Purchaser of any covenant to be performed by it that is contained in this Agreement or in any agreement, certificate or other document delivered pursuant hereto; and
- (c) the operations of the Business and the ownership of the Purchased Shares in respect of the period after the Time of Closing.

12.3 **Notice of Claim.** In the event that a Party (the “**Indemnified Party**”) shall become aware of any Claim in respect of which the other Party (the “**Indemnifying Party**”) agreed to indemnify the Indemnified Party pursuant to this Agreement, the Indemnified Party shall promptly give written notice thereof to the Indemnifying Party. Such notice shall specify whether the Claim arises as a result of a claim by a third party (a “**Third Party**”) against the Indemnified Party (a “**Third Party Claim**”) or whether the Claim does not so arise (a “**Direct Claim**”), and shall also specify with reasonable particularity (to the extent that the information is available):

- (a) the factual basis for the Claim; and
- (b) the amount of the Claim, if known.

If, through the fault of the Indemnified Party, the Indemnifying Party does not receive notice of any Claim in time to effectively contest the determination of any liability susceptible of being contested, the Indemnifying Party shall be entitled to set off against the amount claimed by the Indemnified Party the amount of any Losses incurred by the Indemnifying Party resulting from the Indemnified Party's failure to give such notice on a timely basis.

12.4 Direct Claims. With respect to any Direct Claim, following receipt of notice from the Indemnified Party of the Claim, the Indemnifying Party shall have 30 days to make such investigation of the Claim as is considered necessary or desirable. For the purpose of such investigation, the Indemnified Party shall make available to the Indemnifying Party the information relied upon by the Indemnified Party to substantiate the Claim, together with all such other information as the Indemnifying Party may reasonably request. If both parties agree at or prior to the expiration of such 30-day period (or any mutually agreed upon extension thereof) to the validity and amount of such Claim, the Indemnifying Party shall immediately pay to the Indemnified Party the full agreed upon amount of the Claim, failing which the matter shall be referred to binding arbitration in such manner as the parties may agree or shall be determined by a court of competent jurisdiction.

12.5 Third Party Claims. With respect to any Third Party Claim, the Indemnifying Party shall have the right, at its expense, to participate in or assume control of the negotiation, settlement or defence of the Claim and, in such event, the Indemnifying Party shall reimburse the Indemnified Party for all the Indemnified Party's out-of-pocket expenses as a result of such participation or assumption. If the Indemnifying Party elects to assume such control, the Indemnified Party shall have the right to participate in the negotiation, settlement or defence of such Third Party Claim and to retain counsel to act on its behalf, provided that the fees and disbursements of such counsel shall be paid by the Indemnified Party unless the Indemnifying Party consents to the retention of such counsel or unless the named parties to any action or proceeding include both the Indemnifying Party and the Indemnified Party and a representation of both the Indemnifying Party and the Indemnified Party by the same counsel would be inappropriate due to the actual or potential differing interests between them (such as the availability of different defences). If the Indemnifying Party, having elected to assume such control, thereafter fails to defend the Third Party Claim within a reasonable time, the Indemnified Party shall be entitled to assume such control and the Indemnifying Party shall be bound by the results obtained by the Indemnified Party with respect to such Third Party Claim. If any Third Party Claim is of a nature such that the Indemnified Party is required by applicable Law to make a payment to any Third Party with respect to the Third Party Claim before the completion of settlement negotiations or related legal proceedings, the Indemnified Party may make such payment and the Indemnifying Party shall, forthwith after demand by the Indemnified Party, reimburse the Indemnified Party for such payment. If the amount of any liability of the Indemnified Party under the Third Party Claim in respect of which such a payment was made, as finally determined, is less than the amount that was paid by the Indemnifying Party to the Indemnified Party, the Indemnified Party shall, forthwith after receipt of the difference from the Third Party, pay the amount of such difference to the Indemnifying Party.

12.6 Settlement of Third Party Claims. If the Indemnifying Party fails to assume control of the defence of any Third Party Claim, the Indemnified Party shall have the exclusive right to contest, settle or pay the amount claimed. Whether or not the Indemnifying Party assumes

control of the negotiation, settlement or defence of any Third Party Claim, the Indemnifying Party shall not settle any Third Party Claim without the written consent of the Indemnified Party, which consent shall not be unreasonably withheld or delayed; provided, however, that the liability of the Indemnifying Party shall be limited to the proposed settlement amount if any such consent is not obtained for any reason.

12.7 Limitation on Claims.

- (a) Subject to Section 8.7 and notwithstanding Sections 12.1 and 12.2 or any other provision in this Agreement:
 - (i) no Claim for indemnification hereunder may be made by the Purchaser against the Vendor, except for breach of a covenant contained in Article V, until the aggregate amount of Claims in respect of which the Purchaser may so claim exceeds three million dollars (\$3,000,000) (the “**Deductible**”), and then only for the amount of any Claims exceeding the Deductible;
 - (ii) the maximum aggregate amount of indemnification exceeding the Deductible which may be payable by the Vendor under this Agreement for matters other than breach of covenant contained in Article V, shall not exceed an aggregate of three million dollars (\$3,000,000), for any reason whatsoever; and
 - (iii) if any payment made pursuant to this Article XII is subject to HST (or other applicable Tax) or is deemed by Applicable Law to be inclusive of HST (or other applicable Tax), the Indemnifying Party shall pay to the Indemnified Party an amount equal to the HST (or other applicable Tax) in connection with the payment and any additional amount hereunder.
- (b) Neither Party shall be required to indemnify or save harmless the other Party in respect of any breach or inaccuracy of any representation or warranty made under Article III unless notice is provided by the Indemnified Party to the Indemnifying Party in accordance with Section 12.3 on or prior to the expiration of the applicable time period related to such representation and warranty as set out in Article XII.
- (c) The Indemnifying Party shall only be liable for Losses suffered by the Indemnified Party in respect of a Claim after taking into account:
 - (i) insurance proceeds received by the Indemnified Party in respect of the occurrence giving rise to the Claim; and
 - (ii) Tax benefits accruing to the Indemnified Party relating to the actions taken by the Indemnified Party in respect of the Claim.

12.8 Exclusivity. The provisions of this Article XII shall apply, subject to Article VIII, to any Claim for or in respect of any breach of any covenant, representation, warranty, indemnity or other provision of this Agreement or any agreement, certificate or other document delivered pursuant to this Agreement (other than a claim for specific performance or injunctive relief) with

the intent that all such Claims shall be subject to the limitations and other provisions contained in this Article XII.

ARTICLE XIII MISCELLANEOUS

13.1 **Further Assurances.** Each Party to this Agreement covenants and agrees that, from time to time subsequent to the Closing Date, it will, at the request and expense of the requesting Party, execute and deliver all such documents, including, without limitation, all such additional conveyances, transfers, consents and other assurances and do all such other acts and things as any other party hereto, acting reasonably, may from time to time request be executed or done in order to better evidence or perfect or effectuate any provision of this Agreement or of any agreement or other document executed pursuant to this Agreement or any of the respective obligations intended to be created hereby or thereby.

13.2 **Announcements.** The Parties shall make a joint public announcement with respect to this Agreement and the transactions herein contemplated, at such time and in such manner as may be mutually agreed upon by the Parties. Except as required by law, no other public announcement, press release, notices, statements and communications to third parties shall be made by either Party hereto without the prior consent and approval of the other Party, provided that the Parties hereby acknowledge that the Parties may be compelled to disclose details of this Agreement and the Transactions contemplated herein in respect of the OEB Approval and that the Vendor or the Purchaser may be compelled to disclose details of this Agreement and the Transactions herein contemplated pursuant to the *Municipal Freedom of Information and Protection of Privacy Act (Ontario)*.

13.3 **Brokerage, Commissions, etc.** It is understood and agreed that no broker, agent or other intermediary has acted for the Vendor, the Corporation or the Purchaser, in connection with the transaction herein contemplated. The Vendor agrees to indemnify and save harmless the Purchaser from and against any claim for commission or other remuneration payable or alleged to be payable to any broker, agent or other intermediary who purports to act or to have acted for the Vendor in connection with the transactions herein contemplated. The Purchaser agrees to indemnify and save harmless the Vendor from and against any claim for commission or other remuneration payable or alleged to be payable to any broker, agent or other intermediary, who purports to act or to have acted for the Purchaser in connection with the transactions herein contemplated.

13.4 **Notices.**

(a) Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be delivered in person, transmitted by telecopy or sent by registered mail, charges prepaid, addressed as follows:

- (i) if to the Vendor: City of Woodstock
500 Dundas Street
PO Box 1539
Woodstock ON N4S 0A7

Canada

Attention: David Creery

Fax No.: (519) 539-3275

(ii) if to the Purchaser: Hydro One Inc.
483 Bay Street
Toronto, ON M5G 2P5

Attention: General Counsel

Fax No.: (416) 345-6056

- (b) Any such notice or other communication shall be deemed to have been given and received on the day on which it was delivered or transmitted (or, if such day is not a Business Day, on the next following Business Day) or, if mailed, on the third Business Day following the date of mailing; provided, however, that if at the time of mailing or within three Business Days thereafter there is or occurs a labour dispute or other event that might reasonably be expected to disrupt the delivery of documents by mail, any notice or other communication hereunder shall be delivered or transmitted by telecopy as aforesaid.
- (c) Either Party may at any time change its address for service from time to time by giving notice to the other parties in accordance with this Section 13.4

13.5 **Best Efforts.** The Parties acknowledge and agree that, for all purposes of this Agreement, an obligation on the part of the Party to use its best efforts (which shall not be less than commercially reasonable efforts) to obtain any waiver, consent, approval, permit, licence or other document shall not require such Party to make any payment to any person for the purpose of procuring the same, other than payments for amounts due and payable to such person, payments for incidental expenses incurred by such person and payments required by any applicable law or regulation.

13.6 **Costs and Expenses.** Except as otherwise provided for herein, all costs and expenses (including, without limitation, the fees and disbursements of legal counsel) incurred in connection with this Agreement and the transactions herein contemplated shall be paid by the Party incurring such costs and expenses.

13.7 **Counterparts.** This Agreement may be executed in counterparts, each of which shall constitute an original and all of which taken together shall constitute one and the same instrument.


13.8 **Guarantee.** Hydro One Inc. guarantees the full and prompt payment and performance by Purchaser of Purchaser's obligations hereunder.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF this Agreement has been executed by the Parties.

THE CORPORATION OF THE CITY OF WOODSTOCK

By: 
Name: Pat Sobeski
Title: Mayor

By: 
Name: Louise Gartshore
Title: City Clerk

HYDRO ONE INC.

By: 
Name: Carmine Marcello
Title: President and Chief Executive Officer

1908873 ONTARIO INC.

By: 
Name:
Title: President


SCHEDULE 1.1(DDD) – INITIAL FINANCIAL STATEMENTS

SCHEDULE 2.3 – FORM OF ESCROW AGREEMENT

ESCROW AGREEMENT

THIS AGREEMENT dated this 21st day of May, 2014 (the “**Effective Date**”).

BETWEEN:

THE CORPORATION OF THE CITY OF WOODSTOCK

As Vendor

1908873 ONTARIO INC.

- and -

HYDRO ONE INC.

As Purchaser

- and -

BORDEN LADNER GERVAIS LLP

As Escrow Agent

RECITALS:

- A. The Vendor and the Purchaser entered into a purchase agreement (the “**Purchase Agreement**”) dated May 21, 2014 providing for the purchase and sale of all of the issued and outstanding shares of Woodstock Hydro Holdings Inc. (the “**Corporation**”).
- B. Pursuant to Section 2.3(a) of the Purchase Agreement, concurrently with the execution and delivery of the Purchase Agreement, the Purchaser shall deliver the Deposit to the Escrow Agent in trust and in accordance with the terms of this Agreement.

- C. The preceding recitals and statements of fact are made by the Vendor and the Purchaser and not by the Escrow Agent.

IN CONSIDERATION of the mutual covenants and agreements contained in this Agreement and for other good and valuable consideration (the receipt and adequacy of which are acknowledged), the Parties agree as follows:

ARTICLE 1 INTERPRETATION

- 1.1 **Definitions.** In this Agreement, including the Recitals to this Agreement, capitalized terms not otherwise defined herein shall have the meaning ascribed thereto under the Purchase Agreement:

- (i) **“Agreement”** means this escrow agreement as amended, supplemented, restated and replaced from time to time in accordance with its provisions.
- (ii) **“Escrow Agent”** means Borden Ladner Gervais LLP, a limited liability partnership duly constituted under the laws of the Province of Ontario.
- (iii) **“Parties”** means collectively the Vendor, the Purchaser and the Escrow Agent, and **“Party”** means any of them.
- (iv) **“Purchaser”** means Hydro One Inc., a corporation incorporated under the laws of Ontario.
- (v) **“Purchase Agreement”** has the meaning attributed to that term in the Recitals.
- (vi) **“Vendor”** means The Corporation of the City of Woodstock, a municipal corporation incorporated under the laws of Ontario.

- 1.2 **Certain Rules of Interpretation.** In this Agreement:

- (a) the division into Articles and Sections and the insertion of headings are for convenience of reference only and do not affect the construction or interpretation of this Agreement;
- (b) the expressions “hereof”, “herein”, “hereto”, “hereunder”, “hereby” and similar expressions refer to this Agreement and not to any particular portion of this Agreement; and
- (c) unless specified otherwise or the context otherwise requires:
 - (i) references to any Article, Section or Schedule are references to the Article or Section of, or Schedule to, this Agreement; and
 - (ii) words in the singular include the plural and vice-versa and words in one gender include all genders.

- 1.3 **Performance on Business Days.** If any action is required to be taken pursuant to this Agreement on or by a specified date that is not a Business Day, the action is valid if taken on or by the next succeeding Business Day.
- 1.4 **Currency and Payment.** In this Agreement, unless specified otherwise references to dollar amounts or “\$” are to Canadian dollars.

ARTICLE 2 ESCROW

- 2.1 **Appointment of Escrow Agent.** The Vendor hereby appoints, and the Purchaser hereby concurs in the appointment of, the Escrow Agent to act as escrow agent, in accordance with the terms and conditions set out in this Agreement and the Escrow Agent hereby accepts that appointment.
- 2.2 **Delivery of Deposit into Escrow.** The Purchaser shall deliver the Deposit to the Escrow Agent on the date of this Agreement. The Escrow Agent shall hold and dispose of the Deposit in accordance with, and subject to the terms and conditions, of this Agreement.
- 2.3 **Interest on Deposit.** The Escrow Agent shall invest and retain the Deposit in its name, in a daily interest bearing account with any Canadian chartered bank listed on Schedule 1 of the *Bank Act* (Canada). All interest accruing on the Deposit (the “**Interest**”) shall be paid together with the Deposit by the Escrow Agent to the applicable party in accordance with the Share Purchase Agreement.
- 2.4 **Release of Escrow Property and Interest.** The Escrow Agent shall retain the Deposit and Interest until the Time of Closing and upon the occurrence of this event, the Escrow Agent shall release the Deposit and Interest in accordance with the terms of the Purchase Agreement.
- 2.5 **Termination of Escrow.** Upon the release and disbursement by the Escrow Agent of the all of the Deposit and Interest in accordance with the terms of this Agreement, this Agreement will terminate and be of no further force and effect, except to the extent necessary in order for Sections 3.3, 3.5, 3.6 and 3.7 to continue to be of full force and effect, and the Escrow Agent will be automatically released from all of its duties and liabilities under this Agreement.

ARTICLE 3 CONCERNING THE ESCROW AGENT

- 3.1 **Duties and Liability of Escrow Agent.**
- (a) The Escrow Agent has no duties other than those duties expressly set forth in this Agreement. The Escrow Agent will not refer to, and is not bound by, the provisions of any agreement other than the terms of this Agreement and no implied duties or obligations of the Escrow Agent may be read into this Agreement.

- (b) Notwithstanding anything contained in the Purchase Agreement to the contrary, the Escrow Agent has no duty to determine the performance or non-performance of any term or provision of the Purchase Agreement, has no obligation or responsibility to determine any dispute or evaluate any equities between the parties regardless of any knowledge or any fact that the Escrow Agent may have or receive, and has no obligations, responsibilities or liability arising under any other agreement to which the Escrow Agent is not a party, even though reference to such other agreement may be made in the Purchase Agreement.
 - (c) Nothing in this Agreement is to be construed as creating a relationship of trust between the Escrow Agent and the Vendor and Purchaser or either of them. The Vendor and the Purchaser understand and agree that the duties of the Escrow Agent under this Agreement are purely ministerial in nature and that the Escrow Agent is not liable for any error, judgement, or for any act done or step taken or omitted by it in good faith, or for any mistake of fact or law, or for anything which it may do or refrain from doing in connection herewith, except for its own fraud, gross negligence or wilful misconduct.
 - (d) The Escrow Agent is not under any duty to give the Deposit held by it under this Agreement any greater degree of care than it gives its own similar property. The Escrow Agent's duties with respect to delivery of the Deposit under this Agreement will be fully performed by delivering the Deposit and any Interest accrued thereon in accordance with Section 2.4.
 - (e) The appointment of the Escrow Agent is a personal one and the duty of the Escrow Agent is only to the other Parties, their successors and assigns, and to no other Person whomsoever.
- 3.2 **Legal Counsel.** The Escrow Agent has the right to consult with counsel of its own choice and is not be liable for any action taken, suffered or omitted to be taken by it if the Escrow Agent acts in accordance with the advice of such counsel.
- 3.3 **Indemnity.** The Purchaser and the Vendor hereby jointly and severally indemnify and shall save harmless the Escrow Agent from and against any and all actions, causes of action, claims, losses, demands, damages, expenses, costs, liabilities, penalties and expenses whatsoever and to reimburse the Escrow Agent for any legal or related expenses, including those of its own partners and associates (collectively, the "**Claims**") which the Escrow Agent, its partners, associates, employees and agents may suffer or incur in connection with its acting as Escrow Agent under this Agreement, other than Claims arising as a result of the fraud, gross negligence or wilful misconduct of the Escrow Agent in the performance of its duties under this Agreement. The Escrow Agent, its partners, associates, employees and agents will in no event be liable for any loss, Claim or indirect, consequential, incidental or punitive damages to either the Vendor or the Purchaser, regardless of whether or not such losses, claims or damages were reasonably foreseeable by the Escrow Agent.
- 3.4 **Reliance.**

- (a) The Escrow Agent may:
 - (i) act in reliance on any writing or instrument or signature which it, in good faith, believes to be genuine;
 - (ii) assume the validity and accuracy of any statement or assertion contained in such a writing or instrument; and
 - (iii) assume that any Person purporting to give any written notice, advice or instructions on behalf of any of the other Parties in connection with the provisions of this Agreement has been duly authorized to do so.

The Escrow Agent is not, as such, liable in any manner for the sufficiency or correctness as to form, execution, or validity of any document, nor as to the identity, authority, or right of any Person executing the document.

- (b) Nothing in this Agreement makes the Escrow Agent responsible, or liable in any manner for the sufficiency, correctness, genuineness or validity of any document forming part of the Deposit.
- (c) The Escrow Agent is not required to make any determination or decision with respect to the validity of any claim made by any Party, or of any denial thereof but is entitled to rely conclusively on the terms of this Agreement and the documents tendered to it in accordance with the terms of this Agreement.

3.5 **Disputes.** If there is any dispute as to whether the Escrow Agent is obligated to deliver the Deposit and Interest, the Escrow Agent shall hold such Deposit and Interest until receipt of an authorization in writing executed by each of the Vendor and the Purchaser directing the delivery thereof, or in the absence of such authorization, the Escrow Agent may hold the Deposit and Interest until the final determination of the rights of the Parties in an appropriate court proceeding. If such written authorization is not given, or proceedings for such determination have not begun and been diligently continued, the Escrow Agent may bring, but is not required to bring, an appropriate action or proceeding pursuant to Section 3.6 for leave to deposit the Deposit and Interest in court, pending such determination. If a judicial proceeding is instituted by the Escrow Agent, the Escrow Agent will be entitled to reasonable solicitor's fees.

3.6 **Interpleader.** Without limiting Section 3.5, if:

- (a) any action is threatened or instituted against the Escrow Agent;
- (b) any dispute arises, or any action is threatened or instituted, concerning the entitlement of a Party to the Deposit and/or Interest; or
- (c) if at any time the Escrow Agent is uncertain as to its obligations under this Agreement,

the Escrow Agent may apply to a court of competent jurisdiction in the Province of Ontario for clarification or directions with respect to its obligations under this Agreement, and in such event, or if any other person should apply to a court of competent jurisdiction (which must be in the Province of Ontario) on any matter affecting the obligations of the Escrow Agent under this Agreement or otherwise relating to the Deposit and/or Interest, the Escrow Agent may and is hereby authorized to release, deliver or otherwise deal with the Deposit and Interest in accordance with the directions, order, judgment or decree of such court.

3.7 **Court Orders.**

- (a) The Escrow Agent is hereby authorized, in its sole discretion, to comply with all writs, orders or decrees entered or issued, whether with or without jurisdiction, which purport to:
 - (i) attach, garnish or be levied on any part of the Deposit and Interest;
 - (ii) stay or enjoin the disbursement, payment or delivery of any part of the Deposit and Interest; or
 - (iii) affect any part of the Deposit and Interest in any way.

The Escrow Agent is not liable to any of the other Parties or to any other Person because it obeys or complies with any such writ, order or decree, even if such writ, order or decree is subsequently reversed, modified, annulled, set aside or vacated.

3.8 **No Disqualification.** Each of the Vendor and the Purchaser acknowledges that the Escrow Agent:

- (a) acts as counsel to the Vendor and may continue to act as counsel to Vendor in all matters including any matters in dispute between the Vendor and the Purchaser and any issue arising out of or in connection with this Agreement or the Deposit and Interest; and
- (b) in so acting, is not disqualified from acting as Escrow Agent under this Agreement and is deemed not to be in conflict by reason of performing its duties under this Agreement.

3.9 **Resignation, Removal and Replacement of Escrow Agent.** The Escrow Agent may resign by notice to the other Parties. Upon the effective date of such resignation, the Escrow Agent shall deliver the Deposit and Interest then held by it under this Agreement to such Person as may be jointly designated in writing by the Vendor and the Purchaser as the new escrow agent (the “**Successor Escrow Agent**”). If the Vendor and the Purchaser fail to deliver such a written designation, the Escrow Agent will not resign its position until such designation is delivered or until the Deposit then held are delivered to the control of a court of competent jurisdiction. Upon the delivery of the Deposit to the Successor Escrow Agent or to the control of a court of competent jurisdiction, all of the Escrow Agent’s obligations as escrow agent under this Agreement will cease and terminate.

ARTICLE 4 GENERAL

- 4.1 **Time of Essence.** Time is of the essence of this Agreement.
- 4.2 **Amendment.** This Agreement may be supplemented, amended, restated or replaced only by a written agreement signed by each Party.
- 4.3 **Waiver of Rights.** Any waiver of, or consent to depart from, the requirements of any provision of this Agreement is effective only if it is in writing and signed by the Party giving it, and only in the specific instance and for the specific purpose for which it has been given. No failure on the part of any Party to exercise, and no delay in exercising, any right under this Agreement operates as a waiver of such right. No single or partial exercise of any such right precludes any other or further exercise of such right or the exercise of any other right.
- 4.4 **Jurisdiction.** Each Party irrevocably and unconditionally attorns to the exclusive jurisdiction of the courts of the province of Ontario.
- 4.5 **Governing Law.** This Agreement and any dispute arising from or in relation to this Agreement is governed by, and interpreted and enforced in accordance with, the law of the Province of Ontario and the laws of Canada applicable in that Province, excluding the choice of law rules of that Province.
- 4.6 **Entire Agreement.** This Agreement and any related agreement referencing this Agreement constitutes the entire agreement between the Parties pertaining to the subject matter of this Agreement and supersedes all prior correspondence, agreements, negotiations, discussions and understandings, written or oral. There are no representations, warranties, conditions or other agreements or acknowledgements, whether direct or collateral, express or implied, written or oral, statutory or otherwise, that form part of or affect this Agreement (except for any related agreement referencing this Agreement) or which induced any Party to enter into this Agreement. No reliance is placed on any representation, warranty, opinion, advice or assertion of fact made either prior to, concurrently with, or after entering into, this Agreement by any Party to this Agreement to any other Party, except to the extent the representation, warranty, opinion, advice or assertion of fact has been reduced to writing and included as a term in this Agreement or any related agreement referencing this Agreement and none of the Parties has been induced to enter into this Agreement or any amendment or supplement by reason of any such representation, warranty, opinion, advice or assertion of fact. There is no liability, either in tort or in contract, assessed in relation to the representation, warranty, opinion, advice or assertion of fact, except as contemplated in this Section.
- 4.7 **Notices.**
- (a) Any notice, demand or other communication (in this Section 4.7, a “**notice**”) required or permitted to be given or made under this Agreement must be in writing and is sufficiently given or made if:

- (i) delivered in person and left with a receptionist or other responsible employee of the relevant Party at the applicable address set forth below;
- (ii) sent by prepaid courier service or (except in the case of actual or apprehended disruption of postal service) mail; or
- (iii) sent by facsimile transmission, with confirmation of transmission by the transmitting equipment (a “**Transmission**”);

in the case of a notice to the Vendor addressed to it at:

City of Woodstock
500 Dundas Street
PO Box 1539
Woodstock, ON N4S 0A7

Attention: David Creery
Fax No.: (519) 539-3275

and in the case of a notice to the Purchaser, addressed to it at:

Hydro One Inc.
483 Bay Street
Toronto, ON M5G 2P5

Attention: General Counsel
Fax No.: (416) 345-6056

and in the case of a notice to Escrow Agent, addressed to it at:

Borden Ladner Gervais LLP
Scotia Plaza, 40 King Street West
Toronto, Ontario, Canada, M5H 3Y4

Attention: J. Mark Rodger, Partner
Fax No.: 416.361.7088

- (b) Any notice sent in accordance with this Section 4.7 shall be deemed to have been received:
 - (i) if delivered prior to or during normal business hours on a Business Day in the place where the notice is received, on the date of delivery;
 - (ii) if sent by mail, on the fifth Business Day in the place where the notice is received after mailing, or, in the case of disruption of postal service, on the fifth Business Day after cessation of such disruption;

- (iii) if sent by facsimile during normal business hours on a Business Day in the place where the transmission is received, on the same day that it was received by Transmission, on production of a Transmission report from the machine from which the facsimile was sent which indicates that the facsimile was sent in its entirety to the relevant facsimile number of the recipient; or
- (iv) if sent in any other manner, on the date of actual receipt;

except that any notice delivered in person or sent by Transmission not on a Business Day or after normal business hours on a Business Day, in each case in the place where the notice is received, shall be deemed to have been received on the next succeeding Business Day in the place where the notice is received.

(c) Any Party may change its address for notice by giving notice to the other Parties.

- 4.8 **Assignment.** No Party may assign or transfer, whether absolutely, by way of security or otherwise, all or any part of its rights or obligations under this Agreement to any Person without the prior written consent of the other Parties.
- 4.9 **Further Assurances.** Each Party shall, at the expense of another Party, promptly do, execute, deliver or cause to be done, executed or delivered all further acts, documents and matters in connection with this Agreement that such other Party may reasonably require, for the purposes of giving effect to this Agreement.
- 4.10 **Successors and Assigns.** This Agreement is binding on, and enures to the benefit of, the Parties and their respective heirs, administrators, executors, successors and permitted assigns.
- 4.11 **Counterparts.** This Agreement may be executed in any number of counterparts, each of which is deemed to be an original and all of which taken together constitutes one agreement. To evidence the fact that it has executed this Agreement, a Party may send a copy of its executed counterpart to all other Parties by Transmission and the signature transmitted by Transmission is deemed to be its original signature for all purposes.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on the Effective Date.

HYDRO ONE INC.

By: _____
Name: _____
Title: _____

1908873 ONTARIO INC.

By: _____
Name: _____
Title: _____

THE CORPORATION OF THE CITY OF WOODSTOCK

By: _____
Name: Pat Sobeski
Title: Mayor

By: _____
Name: Louise Gartshore
Title: City Clerk










































BORDEN LADNER GERVAIS LLP

By: _____
Name: J. Mark Rodger
Title: Partner

SCHEDULE 3.1(L) – REAL PROPERTY, LEASED PROPERTY AND EASEMENTS

	Description	Year
A.	Real Property	
1.	19 Graham St., Rear Studio 9 - Pt. Lot 11, B1kA, Plan 207 (Belt Lane) - PIN: 00116-0092 (LT)	
2.	11 Light St., Rear Capitol Theatre - Pt. Lot 2, Plan 10 - PIN: 00116-0075 (LT)	
3.	25 Burtch St. - Pt. Lot 13, Plan 208 - PIN: 00105-0208 (LT)	
4.	55 Springbank Ave S. - PIN: 00108-0020	
5.	968 Devonshire Ave. - Lot 1 Plan 642 - PIN: 00124-0001 (LT)	
6.	625 Parkinson Rd. - Pt. Lot 42, Plan 212 - PIN: 00093-0087 & 00093-0090	
7.	760 Springbank Ave - PIN: 00134-1387	
	Leases	
1.	Rental Agreement between Woodstock Hydro Services Inc. and Jack Grewal	Effective August 1, 2010

B.	Easements	
<ul style="list-style-type: none"> Alice St H-Bill Ltd Plan 41R-8750 Altadore, Victoria, Brant Bell Canada Easement PUC Attachment (26E) Anderson Canrobert St L198408 (3L) Anderson Street Lots 2, 3, 4, & 5 Arthur & Hughson UG Hydro (80E) Athlone #645 Bay - South of Henry Baycourt Manor Developments (113E) Burch & CNR (137E) Bytham Park - Hydro (E130) Cantebury to Ingersoll Av Hydro Conestoga, Lot At West End Hydro (133E) Devonshire (635) Hydro Devonshire (1023) Hydro (132E) Document General Notice of Claim RE 40 Year Period (1E) Duke, Dundas & Chuckwagon (146E) Dundas - Bank of Montreal Hydro Easement for Switching Unit Dundas - East of Firestone (17E) Dundas - East of Springbank Hydro (125E) Dundas - Line East of MS 8 (61E) Dundas (912) & Clarke Catholic School Board Dundas & Firestone NW (1 2) Lot #15, Con. #1 Dundas & Firestone/Watermain & Hydro Lines on Dundas St Dundas 1344 - HVM Holdings, Inc. (62E) Dundas Orthodontist 630 (48) Dundas St Transformer In Front of Zehrs (66E) Dundas St. 889 Pin 00112-0234 (123A) Dundas St. 889 Pin 00112-0234 (125A) Durham, Leinster UG Hydro (75E) Easenebt Sales to Mill UG Hydro East Park & School Property UG Hydro Elmwood #47 (E103E) Elmwood #23 & #27 (68E) Elmwood, #31 (67E) Elmwood, Alice, Sunset, Winston Short, Lincoln-Hydro Ferguson Drive Part lot 10 Plan 1613 and Part block 26, Plan 41M104 Graham St and William St B9324 Hunter - Central School Hydro (143E) Industrial - Teledyne Canada Hydro Industrial - Timberjack (131E) Juliana & Lindsay Hydro Kabar over Part 82, Plan 41M-238, as Part 1 on Plan 41R-8069, Halifax Rd & Munich Blvd (6E) 	<ul style="list-style-type: none"> Karn, Cross, Pavey UG Hydro (73E) Lane At Rear of 717 Peel Street (Q2) Leinster, Gladstone, and Devonshire Lot 12 (south of Main Street), Block F, Plan 52 Low Tension Line Watson Lot #17, Con. #1 Low Tension Line, Franklin Lot #19, Con. #1 Low Tension Line, Meikle Lot #44, Con. #1 Low Tension Line, Monk Lot #18, Con. #1 Low Tension Line, Norwich Rideau To Parkinson Nellis & Zehr's Property Easement & Quit Claim Nellis Friendly City Ford Hydro (E118) Nellis, E of McKenzie - Hydro (29E) Nellis, Power Line (78E) Nelson & Mailboro - Hydro (2E) Nesbitt, Vanier, Nellis and Springbank Norwich (484-486) (99E) Nova Scotia, Cabot Lane Hydro Ontario Hydro to WPUC Re Annexation (48E) Opera House Lane MS # 38 Right-Of-Way Oxford Home Guild Inc Oxford Self Storage Unit - Dundas St Plan 41R-7701 (8C) Park Row 88 Park Row 88 Part of Lot 7 (South of Park Row), Plan 86 Parkinson - Fyfe To Norwich Pole (64E) Parkinson & MS 10 Hydro Pattullo Near Franklin's Hydro (140E) Rideau - Hydro Ridgeway Circle Part lot 19, Plan 1654 South Side Park Conc. 1 Part Lot 20 S.W. Corner (59E) Springbank & Cree Springbank & Mohican Hydro (148E) Springbank S. Conestoga (136E) Springbank S. of Nellis Hydro (96E) Springbank S. of Nellis Hydro (122E) Stafford S. of James Hydro Sutherland & Moose Lodge (100E) Teeple & James (88E) Teeple Lot #7 Teeple Near Goff Towers (81E) Teeple, Food Basics - Hydro Transfer From Hydro One (4C) 	<ul style="list-style-type: none"> Universal - Water & Hydro (35E) Warwick Power Lines Lot 79 Reg Plan 1051 (72E) Warwick, Belgrave, Greenleaf, Benwick UG Hydro (95E) Wilson and Chapel, Lane Btwn Woodstock Chrysler (55D) Wood Pole Line CNR Burch - Revell (133A) Woodstock T.S. Easements for Access To and Across Young - Hydro Young (Pneuvoyor Systems) Hydro (102E) *HONI - Oxford East 635.06-3763

-  11 Riddell St
-  44 MAUD ST
-  69 Light St
-  88 Park Row
-  152 & 154 Mill St
-  201 Universal Drive
-  415 Norwich Ave (Starbanks)
-  485 LEINSTER
-  575 WATER ST
-  609 Durham Crescent
-  820-852 Alice Street (H-Bill Limited)
-  864 GROVESENR
-  889 Dundas St; PIN 00112-0284
-  1000 Dundas St
-  1002 Nesbitt Crescent Encroachment Agreement (A73514)
-  1310 Dundas St
-  Brant - Ingersoll Ave (KING)
-  Brick Pond
-  C011788
-  CAYUGA MATERIALS
-  CNR Severance Aug. 6, 2009
-  Halifax Rd (south of 312 Munnoch Blvd)
-  KELSEY-HAYES
-  LP00081 - Athlone Ave. (New Hospital)
-  LP00091 - Burtch & Wilson Ally (south of Dundas St)
-  LP00091 - Dundas & Wilson Commercial Site (Rexall)
-  LP00103 - Condo's at NW corner of Finkle & Alberta
-  LT098408
-  LT098409
-  MARY ANEE INNES
-  Mitsui Auto Steel
-  Parkinson Rd between Fyfe Ave and Norwich Ave
-  Parkinson-Commerce Way (Universal Rd); Part 2
-  RailRoad Crossings
-  WOODINGFORD LODGE
-  Zehr's Cow Monument Easement
-  415 Norwich Ave (Starbanks)_prelim.dwg
-  560 Parkinson Rd - Sample.doc
-  City of Woodstock Cow Monument- Unregistered Easements - Sample.doc
-  HONI - Oxford East 635.06-3763.pdf
-  HONI -Oxford (On-Thames) 632.16-4722.pdf

SCHEDULE 3.1(M) – INTELLECTUAL PROPERTY

NIL.

SCHEDULE 3.1(N) – CONTRACTS AND COMMITMENTS

	Description	Year
A.	General	
1.	Execulink Telecom Billing Summary	As at December 1, 2012
2.	MTS Allstream Billing Summary	As at December 1, 2012
3.	Oxford County Fibre Billing Summary	As at December 31, 2012
4.	Rogers Billing Summary	As at December 31, 2012
5.	Southwest Ontario Utility Buying Group 2011 Hardware Material Tender Terms and Conditions	February 17, 2011, extended to March 31, 2014
6.	Southwest Ontario Utility Buying Group 2011 Wire Tender Terms and Conditions	February 11, 2011, extended to March 1, 2014
7.	Model Agreement for Licensed Attachment to Woodstock Hydro Services Inc. by Execulink Telecom Inc.	Effective January 1, 2006
8.	Letter from MTS Allstream providing notice to extend the attached Telecommunications Cable Support Structure Agreement between Woodstock Hydro Services Inc. and MTS Allstream Inc.	March 25, 2011
9.	Local Distribution Company User Access Form to gain access to PCMIS	October 9, 2013
10.	Electrical Contractor Registration Agency Electrical Contractor Licence for Woodstock Hydro Services	December 31, 2010
11.	Transmission Connection Agreement between Woodstock Hydro Services Inc. and Hydro One Networks Inc.	March 2, 2007
12.	Termination Agreement between Hydro One Networks Inc. and Woodstock Hydro Services Inc. terminating the Transmission Connection Agreement dated December 10, 2001	March 2, 2007
13.	Addendum to the Bell Mobility Corporate Account Agreement between Woodstock Hydro Services Inc. and Bell Mobility Inc.	January 31, 2012

14.	Bell Mobility Corporate Account Agreement between Woodstock Hydro Services Inc. and Bell Mobility Inc.	February 1, 2012
15.	ISP Contract between Execulink Telecom and Woodstock Hydro Services Inc.	Effective date November 1, 2012
16.	Ontario One Call Service Agreement between Woodstock Hydro Services Inc. and Ontario One Call	September 4, 2012
17.	Service Provider Agreement with Oxford County and Woodstock Hydro Services Inc.	June 27, 2012
18.	Maintenance Agreement between Woodstock Hydro Services Inc. and Johns Janitorial Service	July 2, 2008
19.	Maintenance Agreement between Woodstock Hydro Services Inc. and Modern Niagara HVAC Services Toronto Inc.	Commencing June 1, 2013
20.	Proposal to Prepare SR&ED Claims for Woodstock Hydro Services Inc. for the Taxation Years Ended December 21, 2011, December 31, 2012, December 31, 2013 and December 31, 2014	December 18, 2012
21.	Rental Agreement between Woodstock Hydro Services Inc. and Jack Grewal	Effective August 1, 2010
22.	Bill of Sale between Woodstock Hydro Services Inc. and Hydro One Networks Inc.	September 5, 2013
23.	Completed Request for Proposal to supply one 2013 Terex C-6060-TM complete with Freightliner Cab and Chassis and Fiberglass Body by Wajax Industries Ltd	June 19, 2012
24.	Connection and Cost Recovery Agreement for Commerce Way TS between Woodstock Hydro Services Inc. and Hydro One Networks Inc.	January 6, 2011
25.	Woodstock Hydro Services Inc. and Hydro One Networks Inc. LTLT Annual Status Report for Eliminating Existing Load Transfer Arrangements	November 28, 2012
26.	Purchase Order for Terex C-6060-TM and 2013 Freightliner M2-102 from Wajax Industries Ltd	August 24, 2012

27.	Requisition pursuant to a tender from Woodstock Hydro Services Inc. to Wajax Industries Ltd for a 42' aerial device mounted onto a Freightliner Cab	July 2, 2013
28.	Letter from Guelph Utility Pole Company Limited outlining the pricing for SW COOP requirements for 2012 and 2013	December 12, 2011
29.	Statement of Work from NorthStar Utilities Solutions prepared for Woodstock Hydro Services Inc. for NorthStar Version 6.4 Upgrade	Valid until December 3, 2013
B.	Technology Contracts and Commitments	
1.	Small Utility Enterprise License Agreement between Woodstock Hydro Services Inc., ESRI Canada Limited and Environmental Systems Research Institute, Inc.	June 12, 2009
2.	Amendment One to the EnergyAxis Supply Contract between Elster Canada Meter Company Inc. and Woodstock Hydro Services Inc.	As of May 12, 2010
3.	Amendment Two to the EnergyAxis Supply Contract between Elster Canada Meter Company Inc. and Woodstock Hydro Services Inc.	As of August 17, 2010
4.	Myhydroeye Agreement between Whitecap Canada Inc. and Woodstock Hydro Services Inc.	March 4, 2011
5.	Small Utility Enterprise License Agreement between Woodstock Hydro Services Inc., ESRI Canada Limited and Environmental Systems Research Institute, Inc.	June 18, 2012
6.	SmartVU One Time License fee from Survalent Technology	August 22, 2013
7.	Software Licence and Consulting Agreement between Advanced Utility Systems Corporation and Woodstock Public Utility Commission	April 15, 1998
8.	Assignment Agreement between Woodstock Public Utility Commission and Woodstock Hydro Services Inc. concerning Software Licence and Consulting Agreement between Advanced Utility Systems Corporation and Woodstock Public Utility Commission dated April 15, 1998	November 1, 2000

9.	Quote for License, Services, and Maintenance for Meter Data Management Solution – MeterSense presented to Woodstock Hydro Services Inc, by MeterSense Solutions	March 26, 2012
10.	Quotation for Remote Alarm Annunciation from Survalent Technology	August 26, 2013
11.	Statement of Work for MeterSense MDM Server Migration from MeterSense Solutions	June 15, 2012
C.	IESO Contracts and Commitments	
1.	Smart Metering Agreement for Distributors between Woodstock Hydro Services Inc. and Independent Electricity System Operator	April 9, 2013
D.	Financial Contracts and Commitments	
1.	Financing Agreement between Ontario Infrastructure Projects Corporation and Woodstock Hydro Services Inc.	December 18, 2009
2.	Debenture from Woodstock Hydro Services Inc. to Ontario Infrastructure Projects Corporation	Due September 1, 2025
3.	Credit Agreement between Ontario Infrastructure and Lands Corporation and Woodstock Hydro Services Inc.	August 1, 2012
4.	Promissory Note from Woodstock Hydro Services Inc. to Ontario Infrastructure and Lands Corporation	December 3, 2012
5.	Pari Passu Priority Agreement between Canadian Imperial Bank of Commerce and Ontario Infrastructure and Lands Corporation and Woodstock Hydro Services Inc.	October 19, 2012
6.	Promissory Note from Woodstock Hydro Services Inc. to Ontario Infrastructure and Lands Corporation	July 15, 2013
7.	CIBC GICs, Deposits & Payments Services Agreement for Cash Management Services	January 24, 2011
8.	Amendment to Standby Letter of Credit with CIBC Trade Finance Centre decreasing the standby letter of credit	August 23, 2007

9.	Customer Acknowledgement and Agreement Stop Payments Addendum between CIBC and Woodstock Hydro Services Inc.	May 26, 2009
10.	2002 Master Swap Agreement between Canadian Imperial Bank of Commerce and Woodstock Hydro Services Inc.	July 8, 2008
11.	Commercial Service Agreement for Non-Hazardous Waste between Waste Management of Canada Corporation and Woodstock Hydro Services Inc.	Effective August 6, 2013
12.	Customer Service Agreement between Waste Management of Canada Corporation and Woodstock Hydro Services Inc.	November 10, 2011
E.	microFIT	
1.	microFIT Contract # FIT-MDEFEWG (55 Springbank Ave. South, Woodstock, ON)	April 16, 2012 to April 16, 2032
F.	Service Agreements	
1.	Service Agreement between Direct Energy Marketing Limited and Woodstock Hydro Services Inc.	Undated
2.	Service Agreement between Just Energy Ontario L.P. Limited and Woodstock Hydro Services Inc.	Undated
3.	Service Agreement between Snell Energy North America (Canada) Inc. and Woodstock Hydro Services Inc.	Undated
4.	Service Agreement between ECNG Energy LP and Woodstock Hydro Services Inc.	Undated
5.	Service Agreement between Canada Energy Wholesalers Ltd and Woodstock Hydro Services Inc.	Undated
6.	Service Agreement between Aagent Energy Advisors Inc. and Woodstock Hydro Services Inc.	Undated
7.	Service Agreement between Constellation NewEnergy Canada Inc. and Woodstock Hydro Services Inc.	Undated
8.	Service Agreement between Ag Energy Co-operative Ltd. and Woodstock Hydro Services Inc.	Undated

9.	Service Agreement between The SPi Group Inc. and Woodstock Hydro Services Inc.	Undated
10.	Service Agreement between Summitt Energy Management Inc. and Woodstock Hydro Services Inc.	Undated
11.	Service Agreement between Planet Energy (Ontario) Corp. and Woodstock Hydro Services Inc.	Undated
12.	Service Agreement between Superior Energy Management Electricity LP and Woodstock Hydro Services Inc.	Undated
13.	Service Agreement between Active Energy Inc. and Woodstock Hydro Services Inc.	Undated
14.	Service Agreement between Blue Power Distributed Energy Corporation and Woodstock Hydro Services Inc.	Undated
15.	Service Agreement between Local Authority Services Limited and Woodstock Hydro Services Inc.	Undated
16.	Service Agreement between Hudson Energy Canada Corp. and Woodstock Hydro Services Inc.	Undated
17.	Service Agreement between Bruce Power Inc. and Woodstock Hydro Services Inc.	Undated
18.	Service Agreement between Sunwave Gas & Power Inc. and Woodstock Hydro Services Inc.	Undated
19.	Service Agreement between Canadian RiteRate Energy Corporation and Woodstock Hydro Services Inc.	Undated

SCHEDULE 3.1(O) – MATERIAL CONTRACTS

	Description	Year
A.	General	
1.	Southwest Ontario Utility Buying Group 2011 Hardware Material Tender Terms and Conditions	February 17, 2011, extended to March 31, 2014
2.	Southwest Ontario Utility Buying Group 2011 Wire Tender Terms and Conditions	February 11, 2011, extended to March 1, 2014
3.	Transmission Connection Agreement between Woodstock Hydro Services Inc. and Hydro One Networks Inc.	March 2, 2007
4.	Proposal to Prepare SR&ED Claims for Woodstock Hydro Services Inc. by KPMG for the Taxation Years Ended December 21, 2011, December 31, 2012, December 31, 2013 and December 31, 2014	December 18, 2012
5.	Software Licence and Consulting Agreement between Advanced Utility Systems Corporation and Woodstock Public Utility Commission	April 15, 1998
6.	Financing Agreement between Ontario Infrastructure Projects Corporation and Woodstock Hydro Services Inc.	December 18, 2009
7.	Credit Agreement between Infrastructure Ontario and Woodstock Hydro Services Inc.	August 1, 2012
8.	2002 ISDA Master Agreement between Canadian Imperial Bank of Commerce and Woodstock Hydro Services Inc.	July 8, 2008

SCHEDULE 3.1(P) – EMPLOYEE PLANS

	Description	Year
A.	General	
1.	Dion Durrell Post-Retirement Non-Pension Benefit Plan	
2.	Benefits Administration Agreement between MEARIE Management Inc. and Woodstock Hydro Services Inc.	Signed November 22, 2010

SCHEDULE 3.1(Q) – COLLECTIVE AGREEMENT

	Description	Year
A.	General	
1.	Collective Agreement between Woodstock Hydro Services Inc. and Local 636 of the International Brotherhood of Electrical Workers A.F. of L., C.I.O., C.L.C. representing the “Inside Workers”	Term from August 1, 2011 to August 3, 2014

SCHEDULE 3.1(S) – INSURANCE POLICIES

	Description	Year
A.	General	
1.	<p>2013 MEARIE Insurance in the name of Woodstock Hydro Holdings Inc. and Woodstock Hydro Services Inc. (respectively) covering:</p> <ul style="list-style-type: none"> - Property, - Liability - Crime, - Vehicle (renewed January 1, 2014), and - Board Member 	2013
2.	Chartis Insurance Company of Canada Special Risk – Occupational Policy # SRG 9139852 for Woodstock Hydro Services Inc.	

SCHEDULE 3.1(U) – VENDOR LITIGATION

NIL.

SCHEDULE 3.1(V) – TAXES

	Description	Year
Woodstock Hydro Services Inc.		
1.	2010 T2 Tax Return	2010
2.	2011 T2 Tax Return	2011
3.	2012 T2 Tax Return	2012
4.	Canadian Revenue Agency Notice of Assessment 2010	2010
5.	Canadian Revenue Agency Notice of Assessment 2011	2011
6.	Canadian Revenue Agency Notice of Assessment 2012	2012
7.	Ontario Ministry of Revenue Notice of Assessment 2010	2010
8.	Ontario Ministry of Revenue Notice of Re-Assessment 2011	2011
9.	Ontario Ministry of Revenue Notice of Re-Assessment 2011	2011
10.	Ontario Ministry of Revenue Notice of Assessment 2012	2012
11.	Ontario Ministry of Revenue Debt Retirement Charge Audit	April 1, 2007 to March 31, 2011
12.	Ontario Ministry of Finance Regulated Price Plan Audit	January 1, 2005 to October 31, 2011
13.	Letter to the Ontario Ministry of Finance from Woodstock Hydro Services Inc. concerning Regulated Price Plan Audit	December 29, 2011
14.	2008 Amended T2 Tax Return	2008
15.	2009 Amended T2 Tax Return	2009
16.	2010 Amended T2 Tax Return	2010
17.	Scientific Research and Experimental Development	2011

	Expenditures Claim	
18.	Letter from KPMG attaching 2011 SR&ED Expenditures Claim, Amended Schedule 1, Amended Schedule 5, Schedule 31 and Schedule 508	2011
19.	Scientific Research and Experimental Development Expenditures Claim	2012
20.	Property Valuation from Cowan Insurance for Woodstock Hydro Holdings Inc. and Woodstock Hydro Services Inc.	2012
21.	Municipal Property Assessment Corporation Property Assessment Notice for the 2013-2016 property tax years	2013
Woodstock Hydro Holdings Inc.		
1.	Canada Revenue Agency Corporation Notice of Assessment 2010	2010
2.	Canada Revenue Agency Corporation Notice of Assessment 2011	2011
3.	Ontario Ministry of Revenue Notice of Assessment 2010	2010
4.	Ontario Ministry of Revenue Notice of Assessment 2011	2011
5.	Ontario Ministry of Revenue Notice of Assessment 2012	2012
6.	2010 T2 Tax Return	2010
7.	2011 T2 Tax Return	2011
8.	2012 T2 Tax Return	2012

SCHEDULE 3.1(X) – PERMITTED ENCUMBRANCES

NIL.

SCHEDULE 3.1(Z) – LICENCES

	Description	Year
A.	General	
1.	Small Utility Enterprise License Agreement between Woodstock Hydro Services Inc., ESRI Canada Limited and Environmental Systems Research Institute, Inc.	June 12, 2009
2.	Myhydroeye Agreement between Whitecap Canada Inc. and Woodstock Hydro Services Inc.	March 4, 2011
3.	Small Utility Enterprise License Agreement between Woodstock Hydro Services Inc., ESRI Canada Limited and Environmental Systems Research Institute, Inc.	June 18, 2012
4.	SmartVU One Time License fee from Survalent Technology	August 22, 2013
5.	Software Licence and Consulting Agreement between Advanced Utility Systems Corporation and Woodstock Public Utility Commission	April 15, 1998
6.	Quote for License, Services, and Maintenance for Meter Data Management Solution – MeterSense presented to Woodstock Hydro Services Inc, by MeterSense Solutions	March 26, 2012
7.	Electrical Contractor Registration Agency Electrical Contractor Licence for Woodstock Hydro Services	December 31, 2010

SCHEDULE 5.2 – PERMITTED DISPOSITION OF PROPERTY

1. 16 Graham Street, Woodstock, Ontario
 - microFIT-MT87M4B
2. 374 Main Street, Woodstock, Ontario
 - microFIT-MMUEQ17
3. MS4, Former PCB Storage, 200 Ingersoll Ave., Pt. Lot 7, Plan 10, Woodstock, Ontario
 - microFIT Project FIT-MIZK9XU
4. MS5 Substation, 682 Sutherland Drive, Pt. Lot 9, Plan 278682, Woodstock, Ontario
 - microFIT Project FIT-MZUMF7N
5. MS11 Substation, 390 Springbank Avenue South, Woodstock, Ontario
 - microFIT Project FIT-MU6GPHX

SCHEDULE 5.6 – FORM OF STANDARD VACANT LAND LEASE

This Lease Agreement made pursuant to the short Form of Leases Act this _____ day of _____, 2014:

BETWEEN:

THE CORPORATION OF THE CITY OF WOODSTOCK

(hereinafter referred to as “**Landlord**”)

AND:

HYDRO ONE NETWORKS INC.

(hereinafter referred to as the “**Tenant**”)

WHEREAS the Landlord is the owner of certain lands in the City of Woodstock, Province of Ontario known municipally as Nellis Street, Woodstock, Woodstock, Ontario (the “**Lands**”).

AND WHEREAS the Tenant wishes to lease a portion of the Lands from the Landlord on certain terms and conditions.

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the rents, covenants and agreements hereinafter reserved and contained on the part of the said Tenant, to be paid, observed and performed, (the receipt and sufficiency of which is hereby acknowledged) the Tenant covenants and agrees with the said Landlord, its successors and assigns, as follows:

(d) **GROSS LEASE**

The Landlord and Tenant acknowledge and agree that:

- (a) it is intended that this Lease is a gross lease to the Tenant, except as expressly herein set out; and
- (b) any amount and any obligation which is not expressly declared in this Lease to be the responsibilities of the Tenant shall be the responsibility of the Landlord to be paid or performed by or at the Landlord’s expense.

(e) **PREMISES**

The Tenant hereby leases a portion of the Lands comprising approximately •acres more or less of the lands and known municipally as Nellis Street, Woodstock, Ontario and outlined in red on Schedule “A” attached hereto (the “**Premises**”).

(f) **USES**

The Premises shall be used only for the following purposes: for storage of material and equipment including wood and steel utility poles for the installation and maintenance of the electrical system within Tenant's service area.

(g) **TERM [NTD – COMMENCEMENT DATE TO BE INSERTED ONCE DETERMINED]**

The Lease shall be for a term of three (3) years commencing on the • (the "**Commencement Date**") and terminating three (3) years from the Commencement Date (the "**Term**").

(h) **RENT**

The rent for the term shall be two dollars, the receipt of which is acknowledged by the Landlord.

(i) **RENEWAL**

(a) Provided the Tenant is not then in default of any covenants within the Lease, the Tenant shall be entitled to renew this Lease five (5) times for an additional term of one (1) years each. Each option to renew will be exercised on written notice to the Landlord given not less than two (2) months prior to the expiry of the Term or the renewal term thereof and shall be upon the same terms and conditions as the original terms and conditions contained herein, including rent payable, save to the right to renew.

(b) Provided that the Tenant is not in default of any of the covenants herein, the Tenant shall have the right upon giving two (2) months prior written notice to the Landlord to terminate this Lease at any time during either renewal term.

(j) **RENT**

(a) Gross rent payable by the Tenant to the Landlord during the Term shall be an amount determined, prior to the Commencement Date, to be an amount equal to the then current Fair Market Rent Value (the "**Rent**").

(b) The Tenant covenants and agrees to pay the Rent together with applicable Harmonized Sales Tax in monthly installments in advance on the first day of each and every month during the Term and any renewal thereof.

(c) The Landlord shall pay all realty taxes, building insurance, maintenance and landscaping with respect to the Premises.

(d) The Tenant shall be responsible for snow plowing of the Premises

(k) **LEASEHOLD IMPROVEMENTS**

- (a) The Tenant may with the Landlord's prior written approval, which approval shall not be unreasonably withheld, make changes, alterations, additions or improvements in the Premises which do not affect the sprinkler system, heating, ventilating, air-conditioning, plumbing, electrical or mechanical system, structural elements (the "**Leasehold Improvements**") or affect the basic décor of the building.
- (b) The Tenant shall have the right during the Term, or any renewal thereof, when not in default to install, replace and remove trade fixtures of the type usual for its business provided that such trade fixtures shall be installed or removed without damage to or impairment of the heating, ventilating, air-conditioning, electrical or mechanical systems of the Premises.
- (c) The Tenant shall have the right, if not in default, at the termination of this Lease to remove its trade fixtures, but may not remove any lights, lighting fixtures, floor coverings and plumbing facilities.

(l) **SIGNS**

The Tenant may install one sign on the exterior of the building, which sign the Tenant may remove upon expiration of the Lease, provided that all damage caused shall be repaired. This sign must be approved in writing by the Landlord, which consent will not be unreasonably withheld; however, all signs must conform with all municipal and local by-laws.

(m) **REPAIRS AND MAINTENANCE**

The Landlord shall be responsible for all repairs to the building, including those to the roof, unless occasioned by the fault of the Tenant or those for whom the Tenant is responsible in law, in which case the Tenant is responsible for such repairs. The Landlord agrees to professionally maintain the overall condition of the Premises, including the roof, plumbing, heating, air-conditioning, electrical, drainage, lighting and all systems contained therein during the Term and any renewal thereof.

(n) **ASSIGNMENT AND SUBLETTING**

The Tenant shall not assign or sublet or part with possession of any part of the Premises. Notwithstanding anything to the contrary, the Tenant may sublet, assign or transfer its interest in this Lease to any of its affiliates (within the meaning of the Business Corporations Act, R.S.O. 1990, c. B.16) without the consent of the Landlord. Any sublet, assignment or transfer of this Lease shall relieve the Tenant from its obligations under this Lease.

(o) **CONDITION OF PREMISES**

The Landlord represents and warrants that as at the Commencement Date, the Premises is free of any material structural defect, and the roof, plumbing, heating, air-conditioning, electrical, drainage, lighting and, in general, all systems contained therein are in good working condition and fully operational.

(p) **ENVIRONMENTAL**

- (a) The Landlord represents and warrants that on the Commencement Date, there are no outstanding work orders relating to the Premises from any competent authority in respect of the environmental condition of the Premises. The Landlord further acknowledges that if in the future, such a work order should be issued in respect of the Premises due to contamination occasioned by previous tenants; the Landlord will hold the Tenant free of any expense associated with the remedial works necessary to bring the Premises into compliance with the appropriate environmental regulations.
- (b) Any environmental conditions, including but not limited to any type of environmental contamination, with respect to the Premises or environmental contamination to properties adjacent to the Premises as a result of any environmental contamination to the Premises that existed prior to the commencement of the term of the Lease are not the Tenant's responsibility. The Landlord shall indemnify and save harmless the Tenant, its successors and assigns, directors, officers, employees, agents, contractors, subcontractors, representatives and servants, from and against all actions, causes of action, proceedings, suits, claims, demands, losses, damages, penalties, fines, costs, expenses, obligations and liabilities in connection therewith arising out of, resulting from any such pre-existing environmental condition to the Premises or the properties adjacent to the Premises.
- (c) The Landlord shall indemnify and save harmless the Tenant, its successors and assigns, directors, officers, employees, agents, contractors, subcontractors, representatives and servants, from and against all actions, causes of action, proceedings, suits, claims, demands, losses, damages, penalties, fines, costs, expenses, obligations and liabilities in connection therewith arising out of, resulting from any breach of and/or non-compliance with any statute, or government authority, including but not limited to any remedial orders for any breach or non-compliance which occurred prior to the commencement of the Term.
- (d) The Landlord shall bear the burden of proving that any environmental conditions existing at the end of the term of the Lease, or any renewal thereof or the termination of the Lease, for any reason, was not a pre-existing condition and has not resulted from any breach of the Tenant's obligations herein which the Tenant is liable to remediate at its sole cost.

(q) **INSURANCE**

[NTD – INSURANCE PROVISIONS TO BE FINALIZED PRIOR TO EXECUTION OF LEASE]

- (a) During the Term of this Lease and any renewal thereof, the Landlord shall maintain with respect to the Premises, insurance coverage insuring against liability for bodily injury or death or property damage sustained by third parties. Such insurance to be maintained by the Landlord shall be in such reasonable amounts and with such reasonable deductibles as would be carried by a prudent owner. The Landlord shall not be in default of this obligation to maintain insurance if the Landlord elects to self-insure and such insurance coverage shall be in place without any requirement to provide insurance certificates.
- (b) The Tenant agrees that it shall maintain during the Term of this Lease and any renewal thereof, such insurance as would be carried by a prudent tenant for a similar operation, including public liability and property damage insurance in the amount of \$2,000,000.00 per occurrence. The Tenant shall not be in default of this obligation to maintain insurance if the Tenant elects to self-insure and such insurance coverage shall be in place without any requirement to provide insurance certificates.

(r) **NOTICES: Any notice in writing or otherwise is to be given to:**

Landlord:

Attention:

Phone:

Fax:

Tenant: Hydro One Networks Inc.
Real Estate Services
P.O. Box 4300
Markham, Ontario L3R 5Z5

Attention: A.G. (Tony) Seravalle

Phone: (905) 946-6170

Fax: (905) 946-6242

A faxed notice will be deemed to be received on the date of the fax if received before 4 p.m. or on the next business day if received after 4 p.m. Notices sent by courier or registered mail shall be deemed to have been received on the date indicated on the

delivery receipt. Notices delivered by hand, shall be upon receipt. The designation of the person to be so notified or the address of such person may be changed at any time by either party by written notice on the delivery receipt. The designation of the person to be so notified or the address of such person may be changed at any time by either party by written notice.

(s) **REPRESENTATION**

It is understood and agreed that there are no covenants, representations, agreements, warranties, or conditions in any way relating to the subject matter of this Lease, whether expressed or implied, collateral or otherwise, except those set forth herein.

(t) **COUNTERPARTS AND FACSIMILE**

The parties agree that a) this Lease may be signed in counterparts, and b) that the signing or initialing of an electronically transmitted facsimile copy of this Lease shall have the same effect as the signing or initialing of an original copy.

(u) **GOVERNING LAW**

This Lease shall be construed in accordance with, and governed by, the laws of the Province of Ontario. The parties agree that the courts of Ontario have jurisdiction to determine any matter arising hereunder.

(v) **TIME OF THE ESSENCE**

Time is of the essence of this Lease and every part hereof, except as otherwise provided herein.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed by the signatures of their proper officers duly authorized in that behalf.

**THE CORPORATION OF THE CITY OF
WOODSTOCK**

Per: _____
Name:
Title:

Per: _____
Name:
Title:

We/I have the authority to bind the Corporation

HYDRO ONE NETWORKS INC.

Per: _____
Name:
Title:

We/I have the authority to bind the Corporation

SCHEDULE "A"

The Premises outlined in red.

SCHEDULE 6.2 – PARTICIPATION IN COMMUNITY EVENTS

- 1 Community Events: The Purchaser shall introduce itself to the community by working with the Advisory Committee to determine the optimum community events to participate in over a three year transition period from closing. These events could include Cowapolooza, the Canadian Energy Expo at Canada's Outdoor Farm Show, the BIA's Summer Streetfest, and the Woodstock Fair. The Purchaser will also look for an opportunity to bring its mobile Electricity Discovery Centre to one or more of these events. Following the transitional period, sponsorship and participation at community events will become part on the Purchaser's on-going community relations program.
- 2 Community Promotion / Economic Development: The Purchaser shall make available to the Vendor, at no cost, space on distribution poles in prominent commercial areas for the installation of vertical banners promoting tourism, community events or other messages approved by the Vendor. To participate in this initiative, the Vendor shall sign the Purchaser's municipal attachments agreement and accept responsibility and the terms and conditions for such attachments, and the location of such vertical banners and the associated hardware to install them must be pre-approved by the Purchaser.
- 3 Community "Ribbon-Cutting" event at the Purchaser's new Woodstock Operations Centre: The Purchaser commits to holding a special customer appreciation event to celebrate the opening of its new Operations Centre, which would give customers the opportunity to speak with local staff about their work, see specialized work equipment, receive information on energy conservation and electrical safety, including electrical safety demonstrations and give-aways for children.
- 4 School Electrical Safety Presentations: The Purchaser will integrate all Woodstock publicly-funded schools into its rotational schedule for Electrical Safety Presentations targeted at Grade 5 students.
- 5 School Tree Planting Event and Environmental Talk: As part of its annual Arbour week school educational talks and tree planting events, the Purchaser commits to holding one event each year at a Woodstock school for a minimum of three years following Closing.
- 6 In addition to the above, the Vendor and community charitable and non-profit organizations will have access to the Purchaser's community investment programs, including:
 - Sponsorship of community-based events organized by parties other than the Vendor
 - Employee Volunteer Grant Program of up to \$1000 per employee for employees who volunteer 50 or more hours in a year with a charitable or non-profit organization. This program is available for all employees to apply on an annual basis. The grants are paid directly to the charitable or non-profit organization.

- Annual Charity Campaign contributions to local United Ways and Hydro One Employees' and Pensioners' Charity Campaign contributions to over 800 charities of their choice across Ontario (over \$1,242 million raised in the 2013 campaign). All employees can designate any local registered charity for payroll deduction.
- PowerPlay Donations Program, up to \$50,000 for capital projects to build or renovate community centres, arenas, playground or other facilities that are open and accessible to all members of the community for recreational use. Applications are reviewed twice a year.

SCHEDULE 6.5 – EXCLUDED CITY PROPERTY

1. 16 Graham Street, Woodstock, Ontario
 - microFIT-MT87M4B
2. 374 Main Street, Woodstock, Ontario
 - microFIT-MMUEQ17
3. MS4, Former PCB Storage, 200 Ingersoll Ave., Pt. Lot 7, Plan 10, Woodstock, Ontario
 - microFIT Project FIT-MIZK9XU
4. MS5 Substation, 682 Sutherland Drive, Pt. Lot 9, Plan 278682, Woodstock, Ontario
 - microFIT Project FIT-MZUMF7N
5. MS11 Substation, 390 Springbank Avenue South, Woodstock, Ontario
 - microFIT Project FIT-MU6GPHX

SCHEDULE 6.7 – CAPITAL PROGRAM

	2015	2016	2017	2018	2019
Capex (\$M)	2.9	3.2	1.8	9.5	1.8

SCHEDULE 6.8 – RATE CLASSES

Rate Class	Dx Charges	2014 (Approved)	2015	2016	2017	2018	2019	2020
Residential	Sr Chg (\$ / month)	12.98						
	VarChg (\$ / kWh)	.0222						
	LV Chg (\$ / kWh)	Not applicable						
GS < 50 kW	Sr Chg (\$ / month)	25.19						
	VarChg (\$ / kWh)	.0145						
	LV Chg (\$ / kWh)	Not applicable						
GS > 50k kW	Sr Chg (\$ / month)	Not applicable						
	VarChg (\$ / kW)	Not applicable						
	LV Chg (\$ / kW)	Not applicable						
GS>50-999kW	Sr Chg (\$ / month)	139.96						
	VarChg (\$ / kW)	2.5777						
	LV Chg (\$ / kW)	Not applicable						
GS>1,000kW	Sr Chg (\$ / month)	518.85						
	VarChg (\$ / kW)	2.7398						
	LV Chg (\$ / kW)	Not applicable						

SCHEDULE 6.9 – SERVICE QUALITY

Customer Service Standards

* OEB Metrics (including high volume customer transactions)

1. Low Voltage Connections (time to connect)
2. Telephone Accessibility (% of calls answered expediently)
3. Appointments Met (meeting customers commitments)

Reliability

* OEB Metrics

1. System Average Interruption Duration Index (SAIDI)
2. System Average Interruption Frequency Index (SAIFI)
3. Customer Average Interruption Duration Index (CAIDI)

SCHEDULE 6.11 – ACCESS TO PURCHASER’S PERSONNEL

- 1 The Purchaser will provide timely access to the services of the Customer Operations Manager (“COM”), who will be the single point of contact for all affairs. The COM will reach out to all other Purchaser resources, as required. The COM will attend and arrange for such matters as, Distribution planners to attend yearly municipal planning meetings, presentations to city council when requested, arrange for local industry to have educational sessions on conservation and demand management programs.

SCHEDULE 9.1(C) – REQUIRED APPROVAL (PURCHASER)

1. Required Approval
2. OEB has not issued a notice of review under Section 80(a) of the OEB Act or shall have provided the Purchaser with its approval under Section 80(b) and Section 82 of the OEB Act.

SCHEDULE 9.2(C) – REQUIRED APPROVAL (VENDOR)

1. Required Approval
2. Consent obtained from the Canadian Imperial Bank of Commerce 2002 ISDA Master Agreement between Canadian Imperial Bank of Commerce and Woodstock Hydro Services Inc.
3. OEB has not issued a notice of review under Section 80(a) of the OEB Act or shall have provided the Purchaser with its approval under Section 80(b) and Section 82 of the OEB Act.

**HYDRO ONE INC.
MANAGEMENT'S REPORT**

The Consolidated Financial Statements, Management's Discussion and Analysis (MD&A) and related financial information 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 United States Generally Accepted Accounting Principles 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 13, 2014.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. 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, management has assessed the design and operating effectiveness of the Company's internal control over financial reporting in accordance with the criteria set forth in Internal Control – Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2013. The effectiveness of these internal controls and findings is reported to 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 Shareholder. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with United States Generally Accepted Accounting Principles. The Independent Auditors' Report 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 findings.

The President and Chief Executive Officer and the Chief Administration Officer and Chief Financial Officer have certified Hydro One's annual Consolidated Financial Statements and annual MD&A, related disclosure controls and procedures and the design and effectiveness of related internal controls over financial reporting.

On behalf of Hydro One Inc.'s management:



Carmine Marcello
President and Chief Executive Officer



Sandy Struthers
Chief Administration Officer and Chief Financial Officer

HYDRO ONE INC.

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, 2013 and December 31, 2012, the consolidated statements of operations and comprehensive income, changes in shareholder's equity 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 United States 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 judgement, 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 consolidated financial position of Hydro One Inc. as at December 31, 2013 and December 31, 2012, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with United States Generally Accepted Accounting Principles.



Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 13, 2014

HYDRO ONE INC.**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****For the years ended December 31, 2013 and 2012**

<i>Year ended December 31 (millions of Canadian dollars, except per share amounts)</i>	2013	2012
Revenues		
Distribution (includes \$160 related party revenues; 2012 – \$155) (Note 20)	4,484	4,184
Transmission (includes \$1,517 related party revenues; 2012 – \$1,482) (Note 20)	1,529	1,482
Other	61	62
	6,074	5,728
Costs		
Purchased power (includes \$2,500 related party costs; 2012 – \$2,409) (Note 20)	3,020	2,774
Operation, maintenance and administration (Note 20)	1,106	1,071
Depreciation and amortization (Note 5)	676	659
	4,802	4,504
Income before financing charges and provision for payments in lieu of corporate income taxes	1,272	1,224
Financing charges (Note 6)	360	358
Income before provision for payments in lieu of corporate income taxes	912	866
Provision for payments in lieu of corporate income taxes (Notes 7, 20)	109	121
Net income	803	745
Other comprehensive income	–	1
Comprehensive income	803	746
Basic and fully diluted earnings per common share (dollars) (Note 18)	7,850	7,280
Dividends per common share declared (dollars) (Note 19)	2,000	3,523

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS
At December 31, 2013 and 2012

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Assets		
Current assets:		
Cash and cash equivalents <i>(Note 13)</i>	565	195
Accounts receivable (net of allowance for doubtful accounts – \$36; 2012 – \$23) <i>(Note 8)</i>	923	845
Due from related parties <i>(Note 20)</i>	197	154
Regulatory assets <i>(Note 11)</i>	47	29
Materials and supplies	23	23
Deferred income tax assets <i>(Note 7)</i>	18	18
Derivative instruments <i>(Note 13)</i>	6	–
Investment <i>(Notes 13, 20)</i>	251	–
Other	28	22
	2,058	1,286
Property, plant and equipment <i>(Note 9)</i> :		
Property, plant and equipment in service	23,820	22,650
Less: accumulated depreciation	8,615	8,145
	15,205	14,505
Construction in progress	1,078	1,055
Future use land, components and spares	148	147
	16,431	15,707
Other long-term assets:		
Regulatory assets <i>(Note 11)</i>	2,636	3,098
Investment <i>(Notes 13, 20)</i>	–	251
Intangible assets (net of accumulated amortization – \$252; 2012 – \$305) <i>(Note 10)</i>	313	267
Goodwill	133	133
Deferred debt costs	36	34
Derivative instruments <i>(Note 13)</i>	6	19
Deferred income tax assets <i>(Note 7)</i>	11	14
Other	1	2
	3,136	3,818
Total assets	21,625	20,811

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (continued)
At December 31, 2013 and 2012

<i>December 31 (millions of Canadian dollars, except number of shares)</i>	2013	2012
Liabilities		
Current liabilities:		
Bank indebtedness (Note 13)	31	42
Accounts payable	62	140
Accrued liabilities (Notes 7, 15, 16)	733	578
Due to related parties (Note 20)	230	261
Accrued interest	100	95
Regulatory liabilities (Note 11)	85	40
Long-term debt payable within one year (includes \$506 measured at fair value; 2012 – \$0) (Notes 12, 13)	756	600
	1,997	1,756
Long-term debt (includes \$256 measured at fair value; 2012 – \$769) (Notes 12, 13)	8,301	7,879
Other long-term liabilities:		
Post-retirement and post-employment benefit liability (Note 15)	1,488	1,416
Deferred income tax liabilities (Note 7)	1,129	944
Pension benefit liability (Note 15)	845	1,515
Environmental liabilities (Note 16)	239	227
Regulatory liabilities (Note 11)	163	181
Net unamortized debt premiums	20	23
Asset retirement obligations (Note 17)	14	15
Long-term accounts payable and other liabilities	14	25
	3,912	4,346
Total liabilities	14,210	13,981
<i>Contingencies and commitments (Notes 22, 23)</i>		
Preferred shares (authorized: unlimited; issued: 12,920,000) (Notes 18, 19)	323	323
Shareholder's equity		
Common shares (authorized: unlimited; issued: 100,000) (Notes 18, 19)	3,314	3,314
Retained earnings	3,787	3,202
Accumulated other comprehensive loss	(9)	(9)
Total shareholder's equity	7,092	6,507
Total liabilities, preferred shares and shareholder's equity	21,625	20,811

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

HYDRO ONE INC.**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY****For the years ended December 31, 2013 and 2012**

<i>Year ended December 31, 2013</i> <i>(millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholder's Equity
January 1, 2013	3,314	3,202	(9)	6,507
Net income	—	803	—	803
Other comprehensive income	—	—	—	—
Dividends on preferred shares	—	(18)	—	(18)
Dividends on common shares	—	(200)	—	(200)
December 31, 2013	3,314	3,787	(9)	7,092

<i>Year ended December 31, 2012</i> <i>(millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholder's Equity
January 1, 2012	3,314	2,827	(10)	6,131
Net income	—	745	—	745
Other comprehensive income	—	—	1	1
Dividends on preferred shares	—	(18)	—	(18)
Dividends on common shares	—	(352)	—	(352)
December 31, 2012	3,314	3,202	(9)	6,507

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2013 and 2012

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Operating activities		
Net income	803	745
Environmental expenditures	(16)	(18)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	597	589
Regulatory assets and liabilities	3	12
Deferred income taxes	(2)	(9)
Other	8	6
Changes in non-cash balances related to operations (<i>Note 21</i>)	11	(31)
Net cash from operating activities	1,404	1,294
Financing activities		
Long-term debt issued	1,185	1,085
Long-term debt retired	(600)	(600)
Dividends paid	(218)	(370)
Change in bank indebtedness	(11)	3
Other	(5)	(1)
Net cash from financing activities	351	117
Investing activities		
Capital expenditures (<i>Note 21</i>)		
Property, plant and equipment	(1,333)	(1,373)
Intangible assets	(79)	(90)
Other	27	19
Net cash used in investing activities	(1,385)	(1,444)
Net change in cash and cash equivalents	370	(33)
Cash and cash equivalents, beginning of year	195	228
Cash and cash equivalents, end of year	565	195

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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. The electricity rates of these businesses are regulated by the Ontario Energy Board (OEB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

These 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 Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) and in Canadian dollars. Certain comparative figures have been reclassified to conform to the presentation of these Consolidated Financial Statements (see Note 21 – Consolidated Statements of Cash Flows). In the opinion of management, these Consolidated Financial Statements include all adjustments that are necessary to fairly state the financial position and results of operations of Hydro One as at, and for the year ended December 31, 2013.

Hydro One performed an evaluation of subsequent events through to February 13, 2014, the date these Consolidated Financial Statements were issued, to determine whether any events or transactions warranted recognition and disclosure in these Consolidated Financial Statements. See Note 25 – 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, expenses, gains and losses during the reporting periods. Management evaluates these estimates on an ongoing basis based upon: historical experience; current conditions; and assumptions believed to be reasonable at the time the assumptions are made with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, pension benefits, post-retirement and post-employment benefits, asset retirement obligations (AROs), goodwill and asset impairments, contingencies, unbilled revenues, allowance for doubtful accounts, derivative instruments, 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 Company's Transmission Business includes the separately regulated transmission business of Hydro One Networks. The Company's consolidated Distribution Business includes Hydro One Brampton Networks, Hydro One Remote Communities, as well as the separately regulated distribution business of Hydro One Networks.

The OEB has approved the use of US GAAP for rate setting and regulatory accounting and reporting by Hydro One Networks' transmission and distribution businesses, as well as by Hydro One Remote Communities, beginning with the year 2012. Hydro One Brampton Networks currently uses Canadian GAAP for its distribution rate-setting purposes.

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Transmission

In May 2010, Hydro One Networks filed a cost-of-service application with the OEB for 2012 transmission rates. The OEB approved a revenue requirement of \$1,418 million for 2012, along with new 2012 uniform transmission rates, with an effective date of January 1, 2012. In May 2012, Hydro One Networks filed a cost-of-service application with the OEB for 2013 transmission rates, seeking approval for a 2013 revenue requirement of \$1,465 million. In December 2012, the OEB approved a revenue requirement of \$1,438 million for 2013. The reduced approved revenue requirement included reductions to proposed operation, maintenance and administration costs, and capital expenditures.

Distribution

In 2010, the OEB approved a revised 2011 revenue requirement of \$1,218 million and 2011 distribution rates. Hydro One Networks elected to retain the same distribution rates for 2012 as approved by the OEB for the 2011 rate year. In June 2012, Hydro One Networks filed an Incentive Regulation Mechanism (IRM) application with the OEB for 2013 distribution rates. In December 2012, the OEB approved an increase in average distribution rates of approximately 1.3%, with an effective date of January 1, 2013.

In September 2011, Hydro One Brampton Networks filed an IRM application with the OEB for 2012 distribution rates. In January 2012, the OEB approved a reduction in distribution rates of approximately 13.2%, with an effective date of January 1, 2012. These rate reductions were primarily due to OEB-approved adjustments to depreciation rates. In August 2012, Hydro One Brampton Networks filed an IRM application with the OEB for 2013 distribution rates. In December 2012, the OEB approved an increase in average distribution rates of approximately 0.3%, with an effective date of January 1, 2013.

In November 2011, Hydro One Remote Communities filed an IRM application with the OEB for 2012 rates. In March 2012, the OEB approved an increase of approximately 1.1% to basic rates for the distribution and generation of electricity, with an effective date of May 1, 2012. In September 2012, Hydro One Remote Communities filed a cost-of-service application with the OEB for 2013 rates, seeking approval for a 2013 revenue requirement of \$53 million. In June 2013, the OEB approved a revenue requirement of \$51 million for 2013.

Regulatory Accounting

The OEB has the general power to include or exclude revenues, costs, gains or losses in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been 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 future 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less.

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 electricity 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 electricity purchases

HYDRO ONE INC.
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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.

Revenues are recorded net of indirect taxes.

Accounts Receivable and Allowance for Doubtful Accounts

Billed accounts receivable are recorded at the invoiced amount, net of allowance for doubtful accounts. Unbilled accounts receivable are estimated and recorded based on wholesale electricity purchases. 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 billed 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 110 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.

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% 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 judgement 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 their corresponding tax bases.

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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 tax asset to report the net 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 realized.

The Company records regulatory assets and liabilities associated with deferred income taxes that will be included in the rate-setting process.

The Company uses the flow-through method to account for investment tax credits (ITCs) earned on eligible scientific research and experimental development expenditures, and apprenticeship job creation. Under this method, only non-refundable ITCs are recognized as a reduction to income tax expense.

Materials and Supplies

Materials and supplies represent consumables, small spare parts and construction materials held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost, net of customer contributions received in aid of construction and any accumulated impairment losses. The cost of additions, including betterments and replacement asset components, is included on the Consolidated Balance Sheets as property, plant and equipment.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized financing costs, asset retirement costs, and direct and indirect overheads that are related to the capital project or program. Indirect overheads include a portion of corporate costs such as finance, treasury, human resources, information technology and executive costs. Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

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.

HYDRO ONE INC.
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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 land access rights.

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), consulting, engineering, overheads and attributable capitalized 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.

Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of property, plant and equipment or development of intangible assets. The financing 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.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of constructed assets that are not yet complete 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, except for 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 OEB approval of 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, 2013. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average	Range	Rate (%)
	Service Life		Average
Transmission	57 years	1% – 2%	2%
Distribution	42 years	1% – 20%	2%
Communication	19 years	1% – 15%	5%
Administration and service	15 years	3% – 20%	6%

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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 10%.

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 such gain or loss 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 that is in excess of the fair value of the net identifiable assets acquired at the acquisition date. Goodwill is not included in rate base.

Goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require. The Company performs a qualitative assessment to determine whether it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount. If the Company determines, as a result of its qualitative assessment, that it is not more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, no further testing is required. If the Company determines, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, a goodwill impairment assessment is performed using a two-step, fair value-based test. The first step compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the carrying amount of the applicable reporting unit exceeds its fair value, a 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.

For the year ended December 31, 2013, based on the qualitative assessment performed as at September 30, 2013, the Company has determined that it is not more-likely-than-not that the fair value of each applicable reporting unit assessed is less than its carrying amount. As a result, no further testing was performed, and the Company has concluded that goodwill was not impaired at December 31, 2013.

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 most of Hydro One's long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is 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 December 31, 2013, no asset impairment had been recorded for assets within either the Company's regulated or unregulated businesses.

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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 such amounts 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 within financing charges in the Consolidated Statements of Operations and Comprehensive Income. 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 amortization of net unamortized hedging losses on the Company's discontinued cash flow hedges, and the change in fair value on the 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. Hydro One presents net income and OCI 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; 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 and amounts due from related parties, which are measured at the lower of cost or fair value. Accounts receivable and amounts due from related parties are classified as loans and receivables. The Company considers the carrying amounts of accounts receivable and amounts due from related parties to be reasonable estimates 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 13 – Fair Value of Financial Instruments and Risk Management.

The Company's 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.

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 hedging relationships.

The accounting guidance for derivative instruments 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 on the Consolidated Balance Sheets. For derivative instruments that qualify for hedge accounting, the Company may elect to designate such derivative instruments 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.

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For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated OCI (AOCI) and is 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 derivative instruments 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 and had no embedded derivatives at December 31, 2013 or 2012.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where the Company has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on a quarterly 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 plans 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 plans are considered to be underfunded when the projected benefit obligation exceeds the fair value of the plan assets. Liabilities are recognized on 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 on the Consolidated Balance Sheets. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets.

Pension benefits

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 recorded on an accrual basis for financial reporting purposes. 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. 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 fair valued at the end of each year.

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Hydro One records a regulatory asset equal to the net underfunded projected benefit obligation for its pension plan. The regulatory asset for the net underfunded projected benefit obligation for the pension plan, in the absence of regulatory accounting, would be recognized in AOCI. A regulatory asset is recognized because management considers it to be probable that pension benefit costs will be recovered in the future through the rate-setting process. The pension regulatory assets are remeasured at the end of each year based on the current status of the pension plan.

All future pension 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.

Post-retirement and post-employment benefits

Post-retirement and post-employment benefits are recorded and included in rates 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.

Hydro One records a regulatory asset equal to the incremental net unfunded projected benefit obligation for post-retirement and post-employment plans recorded at each year end based on annual actuarial reports. The regulatory asset for the incremental net unfunded projected benefit obligation for post-retirement and post-employment plans, in the absence of regulatory accounting, would be recognized in AOCI. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process.

For post-retirement benefits, 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. The post-retirement benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

For post-employment obligations, the associated regulatory liabilities representing actuarial gains on transition to US GAAP are amortized to results of operations based on the "corridor" approach. Post transition, the actuarial gains and losses on post-employment obligations that are incurred during the year are recognized immediately to results of operations. The post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

All post-retirement and post-employment 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), a multiemployer, contributory, defined benefit public sector pension fund. OMERS provides retirement pension payments based on members' length of service and salary. Both participating employers and members are required to make plan contributions. The OMERS plan assets are pooled together to provide benefits to all plan participants and the plan assets are not segregated by member entity. OMERS is registered with the Financial Services Commission of Ontario under Registration #0345983. At December 31, 2012, OMERS had approximately 429,000 members, with approximately 283 members being current employees of Hydro One Brampton Networks.

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 obligation, the fair value of plan assets or the related current service cost applicable to Hydro One Brampton Networks' employees. Hydro One recognizes its contributions to the OMERS plan 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.

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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 judgements 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. Where the loss amount is recoverable in future rates, a regulatory asset is also recorded. 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 judgements 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 where the projection period is lengthy. A significant upward or downward trend in the number of claims filed, the nature of the alleged injuries, and the average cost of resolving each claim could change the estimated provision, as could any substantial adverse or favourable verdict at trial. A federal or provincial legislative outcome or structured settlement could also change the estimated liability. 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 contaminated land assessment and remediation (LAR) 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. Where an asset is no longer in service when an ARO is recorded, the asset retirement cost is recorded in results of operations.

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.

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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

Recently Adopted Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. This ASU requires an entity to disclose both gross and net information about financial instruments and transactions eligible for offset on the Consolidated Balance Sheets as well as financial instruments and transactions executed under a master netting or similar arrangement. The ASU was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on an entity's financial position. This ASU was required to be applied retrospectively and was effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of this ASU did not have an impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under US GAAP that provide additional detail about those amounts. This ASU was required to be applied prospectively and was effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.

Recent Accounting Guidance Not Yet Adopted

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This ASU provides guidance on the presentation of unrecognized tax benefits. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this ASU is not anticipated to have a significant impact on the Company's Consolidated Financial Statements.

4. BUSINESS ACQUISITION

Norfolk Power Purchase Agreement

On April 2, 2013, Hydro One reached an agreement with The Corporation of Norfolk County to acquire 100% of the common shares of Norfolk Power Inc. (Norfolk Power), an electricity distribution and telecom company located in southwestern Ontario. The acquisition is pending a regulatory decision from the OEB. The purchase price for Norfolk Power will be approximately \$93 million, subject to final closing adjustments. The transaction is anticipated to be completed in 2014. In anticipation of the Norfolk Power acquisition, the Company made a refundable deposit totaling \$5 million, which was recorded in other current assets on the interim Consolidated Balance Sheet.

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5. DEPRECIATION AND AMORTIZATION

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Depreciation of property, plant and equipment	533	522
Amortization of intangible assets	48	48
Asset removal costs	79	70
Amortization of regulatory assets	16	19
	676	659

6. FINANCING CHARGES

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Interest on long-term debt	416	421
Other	9	12
Less: Interest capitalized on construction and development in progress	(51)	(59)
Gain on interest-rate swap agreements	(11)	(12)
Interest earned on investments	(3)	(4)
	360	358

7. 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 the effective tax rates is provided as follows:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Income before provision for PILs	912	866
Canadian federal and Ontario statutory income tax rate	26.50%	26.50%
Provision for PILs at statutory rate	242	230
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(72)	(42)
Pension contributions in excess of pension expense	(23)	(23)
Interest capitalized for accounting but deducted for tax purposes	(13)	(15)
Overheads capitalized for accounting but deducted for tax purposes	(14)	(14)
Prior year's adjustments	(8)	(2)
Non-refundable investment tax credits	(4)	(8)
Environmental expenditures	(4)	(5)
Post-retirement and post-employment benefit expense in excess of cash payments	4	—
Other	(1)	(1)
Net temporary differences	(135)	(110)
Net permanent differences	2	1
Total provision for PILs	109	121

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The major components of income tax expense are as follows:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Current provision for PILs	111	130
Deferred recovery of PILs	(2)	(9)
Total provision for PILs	109	121
 Effective income tax rate	 11.98%	 13.96%

The current provision for PILs is remitted to, or received from, the Ontario Electricity Financial Corporation (OEFC). At December 31, 2013, \$29 million due from the OEFC was included in due from related parties on the Consolidated Balance Sheet (December 31, 2012 – \$10 million included in due to related parties).

The total provision for PILs includes deferred recovery of PILs of \$2 million (2012 – \$9 million) that is not included in the rate-setting process, using the 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.

Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Company's assets and liabilities. At December 31, 2013 and 2012, deferred income tax assets and liabilities consisted of the following:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Deferred income tax assets		
Post-retirement and post-employment benefits expense in excess of cash payments	7	7
Environmental expenditures	5	4
Depreciation and amortization in excess of capital cost allowance	–	3
Other	(1)	–
Total deferred income tax assets	11	14
Less: current portion	–	–
	11	14

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Deferred income tax liabilities		
Capital cost allowance in excess of depreciation and amortization	(1,556)	(1,344)
Post-retirement and post-employment benefits expense in excess of cash payments	542	519
Environmental expenditures	66	62
Regulatory amounts that are not recognized for tax purposes	(144)	(147)
Goodwill	(20)	(19)
Other	1	3
Total deferred income tax liabilities	(1,111)	(926)
Less: current portion	18	18
	(1,129)	(944)

During 2013, there was no change in the rate applicable to future taxes (2012 – a change in rate applicable to future rates generated a \$60 million increase).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

8. ACCOUNTS RECEIVABLE

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Accounts receivable – billed	268	224
Accounts receivable – unbilled	691	644
Accounts receivable, gross	959	868
Allowance for doubtful accounts	(36)	(23)
Accounts receivable, net	923	845

The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2013 and 2012:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Allowance for doubtful accounts – January 1	(23)	(18)
Write-offs	24	17
Additions to allowance for doubtful accounts	(37)	(22)
Allowance for doubtful accounts – December 31	(36)	(23)

9. PROPERTY, PLANT AND EQUIPMENT

<i>December 31, 2013 (millions of Canadian dollars)</i>	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Transmission	12,413	4,215	671	8,869
Distribution	8,498	3,046	316	5,768
Communication	1,060	560	53	553
Administration and Service	1,380	716	38	702
Easements	617	78	–	539
	23,968	8,615	1,078	16,431

<i>December 31, 2012 (millions of Canadian dollars)</i>	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Transmission	11,840	3,990	641	8,491
Distribution	8,005	2,879	234	5,360
Communication	1,024	516	57	565
Administration and Service	1,314	668	123	769
Easements	614	92	–	522
	22,797	8,145	1,055	15,707

Financing charges capitalized on property, plant and equipment under construction were \$48 million in 2013 (2012 – \$56 million).

10. INTANGIBLE ASSETS

<i>December 31, 2013 (millions of Canadian dollars)</i>	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	557	249	3	311
Other	5	3	–	2
	562	252	3	313

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the years ended December 31, 2013 and 2012**

<i>December 31, 2012 (millions of Canadian dollars)</i>	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	451	301	116	266
Other	5	4	–	1
	456	305	116	267

Financing charges capitalized on intangible assets under development were \$3 million in 2013 (2012 – \$3 million). The estimated annual amortization expense for intangible assets is as follows: 2014 – \$52 million; 2015 – \$52 million; 2016 – \$52 million; 2017 – \$52 million; and 2018 – \$44 million.

11. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. Hydro One has recorded the following regulatory assets and liabilities:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Regulatory assets:		
Deferred income tax regulatory asset	1,145	954
Pension benefit regulatory asset	845	1,515
Post-retirement and post-employment benefits	308	320
Environmental	266	249
Pension cost variance	80	61
OEB cost assessment differential	9	6
DSC exemption	7	2
Long-term project development costs	5	5
Rider 2	–	10
Other	18	5
Total regulatory assets	2,683	3,127
Less: current portion	47	29
	2,636	3,098
Regulatory liabilities:		
External revenue variance	81	61
Rider 8	55	45
Retail settlement variance accounts	35	54
Deferred income tax regulatory liability	19	16
Rider 9	19	–
PST savings deferral	17	13
Hydro One Brampton Networks rider	8	–
Rider 3	–	9
Rural and remote rate protection variance	–	6
Other	14	17
Total regulatory liabilities	248	221
Less: current portion	85	40
	163	181

Deferred Income Tax Regulatory Asset and Liability

Deferred 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 that correspond to deferred 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

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method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the 2013 provision for PILs would have been higher by approximately \$139 million (2012 – \$136 million).

Pension Benefit Regulatory Asset

The Company recognizes the net unfunded status of pension obligations on the Consolidated Balance Sheets with an offset to the associated regulatory asset. A regulatory asset is recognized because management considers it to be probable that pension benefit costs will be recovered in the future through the rate-setting process. The pension benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2013 OCI would have been higher by \$670 million (2012 – lower by \$736 million).

Post-Retirement and Post-Employment Benefits

The Company recognizes the net unfunded status of post-retirement and post-employment obligations on the Consolidated Balance Sheets with an incremental offset to the associated regulatory assets. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2013 OCI would have been higher by \$12 million (2012 – lower by \$197 million).

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate environmental contamination. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2013, the environmental regulatory asset decreased by \$3 million (2012 – \$3 million) to reflect related changes in the Company's PCB liability, and increased by \$26 million (2012 – \$2 million) due to changes in the LAR liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. 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, 2013 operation, maintenance and administration expenses would have been higher by \$23 million (2012 – lower by \$1 million). In addition, 2013 amortization expense would have been lower by \$16 million (2012 – \$18 million), and 2013 financing charges would have been higher by \$10 million (2012 – \$11 million).

Pension Cost Variance

A pension cost variance account was established for Hydro One Networks' transmission and distribution businesses to track the difference between the actual pension expense incurred and estimated pension costs approved by the OEB. The balance in this regulatory account reflects the excess of pension costs paid as compared to OEB-approved amounts. In the absence of rate-regulated accounting, 2013 revenue would have been lower by \$19 million (2012 – \$18 million).

OEB Cost Assessment Differential

In April 2010, the OEB announced its decision regarding the Company's rate application in respect of Hydro One Networks' distribution business for 2010 and 2011. As part of this decision, the OEB also approved the distribution-related OEB Cost Assessment Differential Account to record the difference between the amounts approved in rates and actual expenditures with respect to the OEB's cost assessments.

DSC Exemption

In June 2010, Hydro One Networks filed an application with the OEB regarding the OEB's new cost responsibility rules contained in the OEB's October 2009 Notice of Amendment to the Distribution System Code (DSC), with respect to the connection of certain renewable generators that were already connected or that had received a connection impact assessment prior to October 21, 2009. The application sought approval to record and defer the unanticipated costs incurred by Hydro One

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Networks that resulted from the connection of certain renewable generation facilities. The OEB ruled that expenditures for identified specific expenditures can be recorded in a deferral account, subject to the OEB's review at a future date.

Long-Term Project Development Costs

In May 2009, the OEB approved the creation of a deferral account to record Hydro One Networks' costs of preliminary work to advance certain transmission projects identified in the Company's 2009 and 2010 transmission rate applications. In March 2010, the OEB issued a decision amending the scope of the account to include the 20 major transmission projects identified in the September 2009 request from the Ministry of Energy and Infrastructure. In December 2012, the OEB approved the recovery of the December 31, 2012 balance, including accrued interest, to be recovered over a one-year period from January 1, 2014 to December 31, 2014.

Rider 2

In April 2006, the OEB approved Hydro One Networks' distribution-related deferral account balances. The Rider 2 regulatory asset includes retail settlement and cost variance amounts and distribution low-voltage service amounts, plus accrued interest. In December 2012, as part of Hydro One Networks' 2013 IRM distribution rate application, the OEB approved the balance of the Rider 2 regulatory account for disposition as part of Rider 9, including accrued interest, to be disposed over a 24-month period from January 1, 2013 to December 31, 2014.

External Revenue Variance

In May 2009, 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. In November 2012, the OEB again approved forecasted amounts related to these revenue categories and extended the scope to encompass all other external revenues. The external revenue variance account balance reflects the excess of actual external revenues compared to the OEB-approved forecasted amounts.

Rider 8

In April 2010, the OEB requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and the actual recoveries received.

Retail Settlement Variance Accounts (RSVAs)

Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In December 2012, the OEB approved the disposition of the total RSVA balance accumulated from January 2010 to December 2011, including accrued interest, to be disposed over a 24-month period from January 1, 2013 to December 31, 2014. Hydro One has continued to accumulate a net liability in its RSVAs since December 31, 2011.

Rider 9

In December 2012, as part of Hydro One Networks' 2013 IRM distribution rate application, the OEB approved for disposition certain distribution-related deferral account balances, including RSVA amounts and balances of Rider 2 and Rider 3, accumulated up to December 2011, including accrued interest, to be disposed over a 24-month period from January 1, 2013 to December 31, 2014.

PST Savings Deferral Account

The provincial sales tax (PST) and goods and services tax (GST) were harmonized in July 2010. Unlike the GST, the PST was included in operation, maintenance and administrative expenses or capital expenditures for past revenue requirements approved during a full cost-of-service hearing. Under the harmonized sales tax (HST) regime, the HST included in operation, maintenance and administration expenses or capital expenditures is not a cost ultimately borne by the Company and as such, a refund of the prior PST element in the approved revenue requirement is applicable, and calculations for tracking and refund

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were requested by the OEB. For Hydro One Networks' transmission revenue requirement, PST was included between July 1, 2010 and December 31, 2010 and recorded in a deferral account, per direction from the OEB. For Hydro One Networks' distribution revenue requirement, PST was included between July 1, 2010 and December 31, 2013 and recorded in a deferral account, per direction from the OEB.

Hydro One Brampton Networks Rider

In December 2013, the OEB issued a decision for Hydro One Brampton Networks' 2014 distribution rates. Included in the OEB's decision was the approval of certain deferral account balances, primarily RSVAs. The OEB ordered that the approved balances be aggregated into a single regulatory account and disposed of through a rate rider over a two-year period from January 1, 2014 to December 31, 2015.

Rider 3

In December 2008, the OEB approved certain distribution-related deferral account balances, including RSVA amounts, deferred tax changes, OEB costs and smart meters. The OEB approved the disposition of the Rider 3 balance accumulated up to April 2008, including accrued interest, to be disposed over a 27-month period from February 1, 2009 to April 30, 2011. In December 2012, as part of Hydro One Networks' 2013 IRM distribution rate application, the OEB approved the balance of Rider 2 for disposition as part of Rider 9.

Rural and Remote Rate Protection Variance (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. The OEB has 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. At December 31, 2013, the RRRP variance account had a \$2 million debit balance, which is included in Other regulatory assets.

12. DEBT AND CREDIT AGREEMENTS

Short-Term Notes

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under its Commercial Paper Program which has a maximum authorized amount of \$1,000 million. These 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 December 31, 2013 and 2012.

Hydro One has a \$1,500 million committed and unused revolving standby credit facility with a syndicate of banks, maturing in June 2018. If used, interest on the facility would apply based on Canadian benchmark rates. This credit facility is unsecured and supports the Company's Commercial Paper Program. The Company may use the credit facility for general corporate purposes, including meeting short-term funding requirements. The obligation of each lender to make any credit extension to the Company under its credit facility is subject to various conditions including, among other things, that no event of default has occurred or would result from such credit extension.

Long-Term Debt

The Company issues notes for long-term financing under its Medium-Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under this program is \$3,000 million. At December 31, 2013, \$1,815 million remained available for issuance until October 2015.

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The following table presents the outstanding long-term debt at December 31, 2013 and 2012:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
5.00% Series 15 notes due 2013	–	600
3.13% Series 19 notes due 2014 ¹	750	750
2.95% Series 21 notes due 2015 ¹	500	500
Floating-rate Series 22 notes due 2015 ²	50	50
4.64% Series 10 notes due 2016	450	450
Floating-rate Series 27 notes due 2016 ²	50	50
5.18% Series 13 notes due 2017	600	600
2.78% Series 28 notes due 2018	750	–
4.40% Series 20 notes due 2020	300	300
3.20% Series 25 notes due 2022	600	600
7.35% Debentures due 2030	400	400
6.93% Series 2 notes due 2032	500	500
6.35% Series 4 notes due 2034	385	385
5.36% Series 9 notes due 2036	600	600
4.89% Series 12 notes due 2037	400	400
6.03% Series 17 notes due 2039	300	300
5.49% Series 18 notes due 2040	500	500
4.39% Series 23 notes due 2041	300	300
6.59% Series 5 notes due 2043	315	315
4.59% Series 29 notes due 2043	435	–
5.00% Series 11 notes due 2046	325	325
4.00% Series 24 notes due 2051	225	225
3.79% Series 26 notes due 2062	310	310
	9,045	8,460
Add: Unrealized marked-to-market loss ¹	12	19
Less: Long-term debt payable within one year	(756)	(600)
Long-term debt	8,301	7,879

¹ The unrealized marked-to-market loss relates to \$500 million of the Series 19 notes due 2014, and \$250 million of the Series 21 notes due 2015. The unrealized marked-to-market loss is offset by a \$12 million (2012 – \$19 million) unrealized marked-to-market gain on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges. See Note 13 – Fair Value of Financial Instruments and Risk Management for details of fair value hedges.

² The interest rates of the floating-rate notes are referenced to the 3-month Canadian dollar bankers' acceptance rate, plus a margin.

In 2013, Hydro One issued \$1,185 million (2012 – \$1,085 million) of long-term debt under the MTN Program, and repaid the \$600 million MTN Series 15 notes (2012 – redeemed \$600 million MTN Series 3 notes).

The long-term debt is unsecured and denominated in Canadian dollars. The long-term debt is summarized by the number of years to maturity in Note 13 – Fair Value of Financial Instruments and Risk Management.

13. 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:

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the years ended December 31, 2013 and 2012**

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 occur 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

At December 31, 2013 and 2012, the Company's carrying amounts of accounts receivable, due from related parties, cash and cash equivalents, bank indebtedness, accounts payable, and due to related parties 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 at December 31, 2013 and 2012 are as follows:

<i>December 31 (millions of Canadian dollars)</i>	2013 Carrying Value	2013 Fair Value	2012 Carrying Value	2012 Fair Value
Long-term debt				
\$500 million of MTN Series 19 notes ¹	506	506	512	512
\$250 million of MTN Series 21 notes ²	256	256	257	257
Other notes and debentures ³	8,295	9,018	7,710	9,188
	9,057	9,780	8,479	9,957

¹ The fair value of \$500 million of the MTN Series 19 notes 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 notes 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 notes and the MTN Series 21 notes 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 Derivative Instruments

At December 31, 2013, the Company had interest-rate swaps totaling \$750 million (2012 – \$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 was equal to about 8% (2012 – 9%) of its total long-term debt of \$9,057 million (2012 – \$8,479 million). At December 31, 2013, the Company had 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 notes 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 notes maturing September 11, 2015 into three-month variable rate debt.

At December 31, 2013, the Company also had interest-rate swaps with a total notional value of \$900 million (2012 – \$900 million) classified as undesignated contracts. The undesignated contracts consist of the following interest-rate swaps:

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- (c) three \$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 11, 2013 to December 11, 2014, from February 19, 2013 to February 19, 2014, and from February 19, 2014 to November 19, 2014;
- (d) two \$50 million floating-to-fixed interest-rate swap agreements that lock in the floating rate the Company pays on the \$50 million floating-rate MTN Series 22 notes from January 24, 2013 to January 24, 2014, and from January 24, 2014 to January 24, 2015; and
- (e) 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 MTN Series 27 notes from December 3, 2013 to December 3, 2014.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at December 31, 2013 and 2012 is as follows:

<i>December 31, 2013 (millions of Canadian dollars)</i>	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	565	565	565	–	–
Investment	251	251	–	251	–
Derivative instruments					
Fair value hedges – interest-rate swaps	12	12	–	12	–
	828	828	565	263	–
Liabilities:					
Bank indebtedness	31	31	31	–	–
Long-term debt	9,057	9,780	–	9,780	–
	9,088	9,811	31	9,780	–
<i>December 31, 2012 (millions of Canadian dollars)</i>	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	195	195	195	–	–
Investment	251	251	–	251	–
Derivative instruments					
Fair value hedges – interest-rate swaps	19	19	–	19	–
	465	465	195	270	–
Liabilities:					
Bank indebtedness	42	42	42	–	–
Long-term debt	8,479	9,957	–	9,957	–
	8,521	9,999	42	9,957	–

Cash and cash equivalents include cash and short-term investments. At December 31, 2013, short-term investments consisted of bankers' acceptances and money market funds totaling \$515 million (2012 – \$195 million). The carrying values are representative of fair value because of the short-term nature of these instruments.

The investment represents the Province of Ontario Floating-Rate Notes maturing in November 2014. The fair value of the investment is determined using inputs other than quoted prices that are observable for the asset, with unrecognized gains or losses recognized in financing charges. The Company obtains quotes from an independent third party for the fair value of the investment, who uses the market price of similar securities adjusted for changes in observable inputs such as maturity dates and interest rates.

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The fair value of the derivative instruments is determined using inputs other than quoted prices that are observable for these assets. The fair value is primarily based on the present value of future cash flows using a swap yield curve to determine the assumptions for interest rates.

The fair value of the hedged portion of the long-term debt is primarily based on the present value of future cash flows using a swap yield curve to determine the assumption for interest rates. The fair value of the unhedged portion of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

There were no significant transfers between any of the fair value levels during the years ended December 31, 2013 and 2012.

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' annual results of operations by approximately \$19 million (2012 – \$18 million) and Hydro One Networks' distribution business' annual results of operations by approximately \$10 million (2012 – \$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 derivative instruments 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 in existence as at December 31, 2013 or 2012.

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 years ended December 31, 2013 or 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 years ended December 31, 2013 and 2012 are included in financing charges as follows:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Unrealized loss (gain) on hedged debt	(8)	(14)
Unrealized loss (gain) on fair value interest-rate swaps	8	14
Net unrealized loss (gain)	—	—

At December 31, 2013, Hydro One had \$750 million (2012 – \$750 million) of notional amounts of fair value hedges outstanding related to interest-rate swaps, with assets at fair value of \$12 million (2012 – \$19 million). During the years

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ended December 31, 2013 and 2012, 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. At December 31, 2013 and 2012, 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 single customer. At December 31, 2013 and 2012, there was no significant accounts receivable balance due from any single customer.

At December 31, 2013, the Company's provision for bad debts was \$36 million (2012 – \$23 million). Adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2013, approximately 4% of the Company's net accounts receivable were aged more than 60 days (2012 – 3%).

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly-rated counterparties; 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 marked-to-market position on the measurement date. The Company would offset the positive market values against negative values with the same counterparty only 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 December 31, 2013, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was \$14 million (2012 – \$22 million). At December 31, 2013, 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 three of the four counterparties accounted for more than 10% of the total credit exposure of derivative contracts.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, the revolving standby credit facility of \$1,500 million, and by holding Province of Ontario Floating-Rate Notes. The short-term liquidity under the Commercial Paper Program, the holding of Province of Ontario Floating-Rate Notes and anticipated levels of funds from operations should be sufficient to fund normal operating requirements.

At December 31, 2013, accounts payable and accrued liabilities in the amount of \$795 million (2012 – \$722 million) were expected to be settled in cash at their carrying amounts within the next 12 months.

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At December 31, 2013, Hydro One had issued long-term debt in the principal amount of \$9,045 million (2012 – \$8,460 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 Long-term Debt <i>(millions of Canadian dollars)</i>	Interest Payments <i>(millions of Canadian dollars)</i>	Weighted Average Interest Rate <i>(%)</i>
1 year	750	422	3.1
2 years	550	398	2.8
3 years	500	372	4.3
4 years	600	361	5.2
5 years	750	330	2.8
	3,150	1,883	3.6
6 – 10 years	900	1,470	3.6
Over 10 years	4,995	4,281	5.5
	9,045	7,634	4.7

14. 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, preferred shares, long-term debt, and cash and cash equivalents. At December 31, 2013 and 2012, the Company's capital structure was as follows:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Long-term debt payable within one year	756	600
Less: cash and cash equivalents	565	195
	191	405
Long-term debt	8,301	7,879
Preferred shares	323	323
Common shares	3,314	3,314
Retained earnings	3,787	3,202
	7,101	6,516
Total capital	15,916	15,123

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, 2013 and 2012, Hydro One was in compliance with all of these covenants and limitations.

15. PENSION AND POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

Hydro One has a defined benefit pension plan, a supplementary pension plan, and post-retirement and post-employment benefit plans. The defined benefit pension plan (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

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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 supplementary pension plan obligation is included with other post-retirement and post-employment benefit obligations on the Consolidated Balance Sheets.

The OMERS Plan

Hydro One contributions to the OMERS plan for the year ended December 31, 2013 were \$2 million (2012 – \$2 million). Company contributions payable at December 31, 2013 and included in accrued liabilities on the Consolidated Balance Sheets were \$0.2 million (2012 – \$0.2 million). Hydro One contributions do not represent more than 5% of total contributions to the OMERS plan, as indicated in OMERS's most recently available annual report for the year ended December 31, 2012.

At December 31, 2012, the OMERS plan was 85.6% funded, with an unfunded liability of \$9,924 million. This unfunded liability will likely result in future payments by participating employers and members. Hydro One future contributions could be increased substantially if other entities withdraw from the plan.

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-represented staff hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation.

Company and employee contributions to the Pension Plan are based on actuarial valuations performed at least every three years. Annual Pension Plan contributions for 2013 of \$160 million (2012 – \$163 million) were based on an actuarial valuation effective December 31, 2011 and the level of 2013 pensionable earnings. Estimated annual Pension Plan contributions for 2014 are approximately \$160 million, based on the December 31, 2011 valuation and the projected level of pensionable earnings.

Hydro One recognizes the overfunded or underfunded status of the Pension Plan, and post-retirement and post-employment benefit plans (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 is December 31.

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	Pension Benefits		Post-Retirement and Post-Employment Benefits	
<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012	2013	2012
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	6,507	5,461	1,459	1,206
Current service cost	170	123	40	29
Interest cost	278	285	63	63
Reciprocal transfers	1	1	—	—
Benefits paid	(317)	(291)	(44)	(42)
Net actuarial loss (gain)	(63)	928	13	203
Projected benefit obligation, end of year	6,576	6,507	1,531	1,459
Change in plan assets				
Fair value of plan assets, beginning of year	4,992	4,682	—	—
Actual return on plan assets	887	425	—	—
Reciprocal transfers	1	1	—	—
Benefits paid	(317)	(291)	—	—
Employer contributions	160	163	—	—
Employee contributions	30	27	—	—
Administrative expenses	(22)	(15)	—	—
Fair value of plan assets, end of year	5,731	4,992	—	—
Unfunded status	845	1,515	1,531	1,459

Hydro One presents its benefit obligations and plan assets net on its Consolidated Balance Sheets within the following line items:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
<i>December 31 (millions of Canadian dollars)</i>	2013	2012	2013	2012
Accrued liabilities	—	—	43	43
Pension benefit liability	845	1,515	—	—
Post-retirement and post-employment benefit liability	—	—	1,488	1,416
Unfunded status	845	1,515	1,531	1,459

The funded or unfunded status of the pension, post-retirement and post-employment benefit plans refers to the difference between the fair value of plan assets and the projected benefit obligations for 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:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
PBO	6,576	6,507
ABO	5,998	6,074
Fair value of plan assets	5,731	4,992

On an ABO basis, the Pension Plan was funded at 96% at December 31, 2013 (2012 – 82%). On a PBO basis, the Pension Plan was funded at 87% at December 31, 2013 (2012 – 77%). The ABO differs from the PBO in that the ABO includes no assumption about future compensation levels.

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Components of Net Periodic Benefit Costs

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2013 and 2012 for the Pension Plan:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Current service cost, net of employee contributions	141	96
Interest cost	278	285
Expected return on plan assets, net of expenses	(309)	(289)
Actuarial loss amortization	175	112
Prior service cost amortization	2	3
Net periodic benefit costs	287	207
Charged to results of operations¹	72	76

¹ The Company follows the cash basis of accounting consistent with the inclusion of pension costs in OEB-approved rates. During the year ended December 31, 2013, pension costs of \$160 million (2012 – \$163 million) were attributed to labour, of which \$72 million (2012 – \$76 million) was charged to operations, and \$88 million (2012 – \$87 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2013 and 2012 for the post-retirement and post-employment plans:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Current service cost, net of employee contributions	40	30
Interest cost	63	63
Actuarial loss amortization	27	8
Prior service cost amortization	3	3
Net periodic benefit costs	133	104
Charged to results of operations	58	48

Assumptions

The measurement of the obligations of the Plans and the costs of providing benefits under the Plans involves various factors, including the development of valuation assumptions and accounting policy elections. When developing the required assumptions, the Company considers historical information as well as future expectations. The measurement of benefit obligations and costs is impacted by several assumptions including the discount rate applied to benefit obligations, the long-term expected rate of return on plan assets, Hydro One's expected level of contributions to the Plans, the incidence of mortality, the expected remaining service period of plan participants, the level of compensation and rate of compensation increases, employee age, length of service, and the anticipated rate of increase of health care costs, among other factors. The impact of changes in assumptions used to measure the obligations of the Plans is generally recognized over the expected average remaining service period of the plan participants. In selecting the expected rate of return on plan assets, Hydro One considers historical economic indicators (including inflation and GDP growth) that impact asset returns, as well as expectations regarding future long-term capital market performance, weighted by target asset class allocations. In general, equity securities, real estate and private equity investments are forecasted to have higher returns than fixed income securities.

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The following weighted average assumptions were used to determine the benefit obligations at December 31, 2013 and 2012:

<i>Year ended December 31</i>	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2013	2012	2013	2012
Significant assumptions:				
Weighted average discount rate	4.75%	4.25%	4.75%	4.25%
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 trends ¹	—	—	4.39%	4.39%

¹ 6.81% per annum in 2014, grading down to 4.39% per annum in and after 2031 (2012 – 6.91% in 2013, grading down to 4.39% per annum in and after 2031)

The following weighted average assumptions were used to determine the net periodic benefit costs for the years ended December 31, 2013 and 2012. Assumptions used to determine current year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

<i>Year ended December 31</i>	2013	2012
Pension Benefits:		
Weighted average expected rate of return on plan assets	6.25%	6.25%
Weighted average discount rate	4.25%	5.25%
Rate of compensation scale escalation (without merit)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees (years)	11	11
Post-retirement and Post-Employment Benefits:		
Weighted average discount rate	4.25%	5.25%
Rate of compensation scale escalation (without merit)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees (years)	11	11
Rate of increase in health care cost trends ¹	4.39%	4.41%

¹ 6.91% per annum in 2013, grading down to 4.39% per annum in and after 2031 (2012 – 7.03% in 2012, grading down to 4.41% per annum in and after 2031)

The discount rate used to determine the current year pension obligation and the subsequent year's net periodic benefit costs is based on a yield curve approach. Under the yield curve approach, expected future benefit payments for each plan are discounted by a rate on a third party bond yield curve corresponding to each duration. The yield curve is based on AA long-term corporate bonds. A single discount rate is calculated that would yield the same present value as the sum of the discounted cash flows.

The effect of 1% change in health care cost trends on the projected benefit obligation for the post-retirement and post-employment benefits at December 31, 2013 and 2012 is as follows:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Projected benefit obligation:		
Effect of 1% increase in health care cost trends	258	246
Effect of 1% decrease in health care cost trends	(200)	(191)

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The effect of 1% change in health care cost trends on the service cost and interest cost for the post-retirement and post-employment benefits for the years ended December 31, 2013 and 2012 is as follows:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Service cost and interest cost:		
Effect of 1% increase in health care cost trends	21	17
Effect of 1% decrease in health care cost trends	(16)	(13)

The following approximate life expectancies were used in the mortality assumptions to determine the projected benefit obligations for the pension and post-retirement and post-employment plans at December 31, 2013 and 2012:

December 31, 2013				December 31, 2012			
Life expectancy at 65 for a member currently at				Life expectancy at 65 for a member currently at			
Age 65		Age 45		Age 65		Age 45	
Male	Female	Male	Female	Male	Female	Male	Female
23	25	24	26	20	22	21	23

Estimated Future Benefit Payments

At December 31, 2013, estimated future benefit payments by the Company to Plan participants were:

<i>(millions of Canadian dollars)</i>	Pension Benefits	Post-Retirement and Post-Employment Benefits
2014	310	54
2015	319	57
2016	327	59
2017	335	62
2018	343	65
2019 through to 2023	1,698	370
Total estimated future benefit payments through to 2023	3,332	667

Components of Regulatory Assets

A portion of actuarial gains and losses and prior service costs 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 table provides the actuarial gains and losses and prior service costs recorded within regulatory assets:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Pension Benefits:		
Actuarial loss (gain) for the year	(619)	807
Actuarial loss amortization	(175)	(112)
Prior service cost amortization	(2)	(3)
	(796)	692
Post-Retirement and Post-Employment Benefits:		
Actuarial loss for the year	13	203
Actuarial loss amortization	(27)	(8)
Prior service cost amortization	(3)	(3)
	(17)	192

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The following table provides the components of regulatory assets that have not been recognized as components of net periodic benefit costs for the years ended December 31, 2013 and 2012:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Pension Benefits:		
Prior service cost	3	5
Actuarial loss	842	1,510
	845	1,515
Post-Retirement and Post-Employment Benefits:		
Prior service cost	2	5
Actuarial loss	306	315
	308	320

The following table provides the components of regulatory assets at December 31 that are expected to be amortized as components of net periodic benefit costs in the following year:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
<i>December 31 (millions of Canadian dollars)</i>	2013	2012	2013	2012
Prior service cost	2	2	2	3
Actuarial loss	103	175	15	17
	105	177	17	20

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

At December 31, 2013, the Pension Plan target asset allocations and weighted average asset allocations were as follows:

	Target Allocation (%)	Pension Plan Assets (%)
Equity securities	60.0	67.8
Debt securities	35.0	32.2
Other ¹	5.0	0.0
	100.0	100.0

¹ Other investments include real estate and infrastructure investments.

At December 31, 2013, the Pension Plan held \$15 million of Hydro One corporate bonds (2012 – \$20 million) and \$217 million of debt securities of the Province (2012 – \$243 million).

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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, 2013 and 2012. 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, 2013 and 2012, there were no significant concentrations (defined as greater than 10% 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 derivative instruments by transacting only with financial institutions rated at least "A+" by Standard and Poor's, Dominion Bond Rating Service, and Fitch Ratings, and "A1" by Moody's Investors Service Inc., and also by utilizing exposure limits to each counterparty and ensuring that exposure is diversified across counterparties. 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 tables present the Pension Plan assets measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy at December 31, 2013 and 2012:

<i>December 31, 2013 (millions of Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
Pooled funds	1	16	117	134
Cash and cash equivalents	150	—	—	150
Short-term securities	—	180	—	180
Real estate	—	—	2	2
Corporate shares – Canadian	943	—	—	943
Corporate shares – Foreign	2,708	—	—	2,708
Bonds and debentures – Canadian	—	1,416	—	1,416
Bonds and debentures – Foreign	—	186	—	186
Total fair value of plan assets ¹	3,802	1,798	119	5,719

¹ At December 31, 2013, the total fair value of Pension Plan assets excludes \$19 million of interest and dividends receivable, and \$7 million relating to accruals for pension administration expense.

<i>December 31, 2012 (millions of Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
Pooled funds	2	15	104	121
Cash and cash equivalents	125	—	—	125
Short-term securities	—	100	—	100
Real estate	—	—	2	2
Corporate shares – Canadian	920	—	—	920
Corporate shares – Foreign	2,077	—	—	2,077
Bonds and debentures – Canadian	—	1,643	—	1,643
Total fair value of plan assets ¹	3,124	1,758	106	4,988

¹ At December 31, 2012, the total fair value of Pension Plan assets excludes \$16 million of interest and dividends receivable, \$4 million relating to accruals for pending sales transactions, and \$8 million relating to accruals for pension administration expense.

See Note 13 – Fair Value of Financial Instruments and Risk Management 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 years ended December 31, 2013 and 2012. 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

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gains and losses presented in the table below may include changes in fair value based on both observable and unobservable inputs.

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Fair value, beginning of year	106	167
Realized and unrealized gains	23	5
Purchases	–	6
Sales and disbursements	(10)	(72)
Fair value, end of year	119	106

There have been no material transfers into or out of Level 3 of the fair value hierarchy.

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 private equity investments. 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 includes 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 investments in the holding companies are valued using net asset values reported by the fund manager. Real estate investments are 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.

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16. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2013 and 2012:

<i>Year ended December 31, 2013 (millions of Canadian dollars)</i>	PCB	LAR	Total
Environmental liabilities, January 1	197	52	249
Interest accretion	9	1	10
Expenditures	(2)	(14)	(16)
Revaluation adjustment	(3)	26	23
Environmental liabilities, December 31	201	65	266
Less: current portion	15	12	27
	186	53	239

<i>Year ended December 31, 2012 (millions of Canadian dollars)</i>	PCB	LAR	Total
Environmental liabilities, January 1	199	58	257
Interest accretion	9	2	11
Expenditures	(8)	(10)	(18)
Revaluation adjustment	(3)	2	(1)
Environmental liabilities, December 31	197	52	249
Less: current portion	13	9	22
	184	43	227

The following tables show the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized on the Consolidated Balance Sheets after factoring in the discount rate:

<i>December 31, 2013 (millions of Canadian dollars)</i>	PCB	LAR	Total
Undiscounted environmental liabilities	237	68	305
Less: discounting accumulated liabilities to present value	36	3	39
Discounted environmental liabilities	201	65	266

<i>December 31, 2012 (millions of Canadian dollars)</i>	PCB	LAR	Total
Undiscounted environmental liabilities	233	54	287
Less: discounting accumulated liabilities to present value	36	2	38
Discounted environmental liabilities	197	52	249

At December 31, 2013, the estimated future environmental expenditures were as follows:

<i>(millions of Canadian dollars)</i>	
2014	27
2015	28
2016	35
2017	23
2018	22
Thereafter	170
	305

At December 31, 2013, of the total estimated future environmental expenditures, \$237 million relates to PCBs (2012 – \$233 million) and \$68 million relates to LAR (2012 – \$54 million).

Hydro One records a liability for the estimated future expenditures for the contaminated LAR and for the phase-out and destruction of PCB-contaminated mineral oil removed from electrical equipment. 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. 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,

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

in order to generate future cash flow information. A long-term inflation rate 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 3.3% to 6.3%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value of 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, with respect to the PCB environmental liability, 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. Environmental liabilities are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively. The Company records a regulatory asset reflecting the expectation that future environmental costs will be recoverable in rates.

PCBs

In September 2008, Environment Canada published regulations governing the management, storage and disposal of PCBs, enacted under the *Canadian Environmental Protection Act, 1999*. The regulations impose timelines for disposal of PCBs based on certain criteria, including type of equipment, in-use status, and PCB-contamination thresholds. Under these regulations and Hydro One's approved end-of-use extension, PCBs in concentrations of 500 parts per million (ppm) or more have to be disposed of by the end of 2014, with the exception of specifically exempted equipment, and PCBs 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. Contaminated equipment will generally be replaced, or will be decontaminated by removing PCB-contaminated insulating oil and retro filling with replacement oil that contains PCBs in concentrations of less than 2 ppm.

The Company's best estimate of the total estimated future expenditures to comply with current PCB regulations is \$237 million. These expenditures are expected to be incurred over the period from 2014 to 2025. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2013 to reduce the PCB environmental liability by \$3 million (2012 – \$3 million).

LAR

The Company's best estimate of the total estimated future expenditures to complete its LAR program is \$68 million. These expenditures are expected to be incurred over the period from 2014 to 2022. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2013 to increase the LAR environmental liability by \$26 million (2012 – \$2 million).

17. ASSET RETIREMENT OBLIGATIONS

Hydro One records a liability for the estimated future expenditures for the removal and disposal of asbestos-containing materials installed in some of its facilities and for the decommissioning of specific switching stations located on unowned sites. AROs, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected expenditures for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate of fair value can be made. If the asset remains in service at the recognition date, the present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred and this additional carrying amount is depreciated over the remaining life of the asset. If an ARO is recorded in respect of an out-of-service asset, the asset retirement cost is charged to results of operations. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the ARO, which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired, changes in legislation or regulations, as well as for accretion of the liability due to the passage of time until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset.

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In determining the amounts to be recorded as AROs, the Company estimates the current fair value for 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 expenditures have been discounted using factors ranging from approximately 3.0% to 5.0%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's AROs represent management's best estimates of the 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. AROs are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively.

At December 31, 2013, Hydro One had recorded AROs of \$14 million (2012 – \$15 million), consisting of \$7 million (2012 – \$7 million) related to the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities, as well as \$7 million (2012 – \$8 million) related to the future decommissioning and removal of two switching stations. The amount of interest recorded is nominal and there have been no significant expenditures associated with these obligations in 2013.

18. SHARE CAPITAL

Preferred Shares

The Company has 12,920,000 issued and outstanding 5.5% cumulative preferred shares with a redemption value of \$25 per share or \$323 million total value. The Company is authorized to issue an unlimited number of 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 the redemption 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 the 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 at December 31, 2013. If it becomes probable in the future that the preferred shares will be redeemed, the redemption value would be adjusted.

Common Shares

The Company has 100,000 issued and outstanding common shares. The Company is authorized to issue an unlimited number of common shares.

Common share 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 conditions, cash requirements, and other relevant factors, such as industry practice and shareholder expectations.

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Earnings per Share

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

19. DIVIDENDS

In 2013, preferred share dividends in the amount of \$18 million (2012 – \$18 million) and common share dividends in the amount of \$200 million (2012 – \$352 million) were declared.

20. 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.

Hydro One receives revenues for transmission services from the IESO, based on OEB-approved uniform transmission rates. Transmission revenues include \$1,509 million (2012 – \$1,474 million) related to these services. Hydro One receives amounts for rural rate protection from the IESO. Distribution revenues include \$127 million (2012 – \$127 million) related to this program. Hydro One also receives revenues related to the supply of electricity to remote northern communities from the IESO. Distribution revenues include \$33 million (2012 – \$28 million) related to these services.

In 2013, Hydro One purchased power in the amount of \$2,477 million (2012 – \$2,392 million) from the IESO-administered electricity market; \$15 million (2012 – \$10 million) from OPG; and \$8 million (2012 – \$7 million) from power contracts administered by 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 transmitters. In 2013, Hydro One incurred \$12 million (2012 – \$11 million) in OEB fees.

Hydro One has service level agreements with OPG. These services include field, engineering, logistics and telecommunications services. In 2013, revenues related to the provision of construction and equipment maintenance services with respect to these service level agreements were \$9 million (2012 – \$10 million), 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 in 2013 (2012 – \$2 million).

The OPA funds substantially all of the Company's conservation and demand management programs. The funding includes program costs, incentives, and management fees. In 2013, Hydro One received \$34 million (2012 – \$39 million) from the OPA related to these programs.

Hydro One pays a \$5 million annual fee to the OEFC for indemnification against adverse claims in excess of \$10 million paid by the OEFC with respect to certain of Ontario Hydro's businesses transferred to Hydro One on April 1, 1999.

PILs and payments in lieu of property taxes are paid to the OEFC, and dividends are paid 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 interest free and settled in cash.

At December 31, 2013, the Company held \$250 million in Province of Ontario Floating-Rate Notes with a fair value of \$251 million (2012 – \$251 million).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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The amounts due to and from related parties as a result of the transactions referred to above are as follows:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Due from related parties	197	154
Due to related parties ¹	(230)	(261)
Investment	251	251

¹ Included in due to related parties at December 31, 2013 are amounts owing to the IESO in respect of power purchases of \$217 million (2012 – \$199 million).

21. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Accounts receivable	(78)	(30)
Due from related parties	(43)	2
Materials and supplies	–	2
Other assets	(5)	(4)
Accounts payable	(60)	(5)
Accrued liabilities	150	10
Due to related parties	(31)	(85)
Accrued interest	5	10
Long-term accounts payable and other liabilities	(11)	13
Post-retirement and post-employment benefit liability	84	56
	11	(31)

Capital Expenditures

The following table illustrates the reconciliation between investments in property, plant and equipment and the amount presented in the Consolidated Statements of Cash Flows after factoring in the net change in related accruals:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Capital investments in property, plant and equipment	(1,312)	(1,363)
Net change in accruals included in capital investments in property, plant and equipment	(21)	(10)
Capital expenditures – property, plant and equipment	(1,333)	(1,373)

The following table illustrates the reconciliation between investments in intangible assets and the amount presented in the Consolidated Statements of Cash Flows after factoring in the net change in related accruals:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Capital investments in intangible assets	(82)	(91)
Net change in accruals included in capital investments in intangible assets	3	1
Capital expenditures – intangible assets	(79)	(90)

Supplementary Information

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Net interest paid	395	411
PILs	138	197

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22. 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 the Company acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on Reserves (as defined in the *Indian Act* (Canada)). Currently, the OEFC holds these assets. Under the terms of the transfer orders, the Company 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. In 2013, the Company paid approximately \$2 million (2012 – \$1 million) in respect of these consents. If the Company cannot obtain the required consents, 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 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 the Company is not able to recover them in future rate orders.

23. COMMITMENTS

Agreement with Inergi LP (Inergi)

In 2002, Inergi, an affiliate of Capgemini Canada Inc., began providing services to Hydro One, including business processing and information technology outsourcing services, as well as core system support related primarily to SAP implementation and optimization. The current agreement with Inergi will expire in February 2015.

At December 31, 2013, the annual commitments under the Inergi agreement are as follows: 2014 – \$130 million; 2015 – \$22 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 December 31, 2013, 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 (2012 – \$325 million), and on behalf of two distributors using guarantees of \$1 million (2012 – \$1 million). In addition, as at December 31, 2013, the Company has provided letters of credit in the amount of \$21 million (2012 – \$22 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 letters of credit plus the amount of the parental guarantees.

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 eligible employees of Hydro One. The supplementary pension plan trustee is required to draw upon these 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 letters of credit. At December 31, 2013, Hydro One had letters of credit of \$127 million (2012 – \$127 million) outstanding relating to retirement compensation arrangements.

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Operating Leases

Hydro One is committed as lessee to irrevocable operating lease contracts for buildings used in administrative and service-related functions and storing telecommunications equipment. These leases have an average life of between one and five years with renewal options for periods ranging from one to 10 years included in some of the contracts. All leases include a clause to enable upward revision of the rental charge on an annual basis or on renewal according to prevailing market conditions. There are no restrictions placed upon Hydro One by entering into these leases. Hydro One Networks and Hydro One Telecom are the principal entities concerned.

At December 31, the future minimum lease payments under non-cancellable operating leases were as follows:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Within one year	11	10
After one year but not more than five years	28	29
More than five years	9	14
	48	53

During the year ended December 31, 2013, the Company made lease payments totaling \$11 million (2012 – \$9 million).

24. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Business, which comprises the core business of providing electricity 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. Operating segments of the Company are determined based on information used by the chief operating decision maker in deciding how to allocate resources and evaluate the performance of each of the segments. The Company evaluates segment performance based on income before financing charges and provision for PILs from continuing operations (excluding certain allocated corporate governance costs).

The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see Note 2 – Significant Accounting Policies). Segment information on the above basis is as follows:

<i>Year ended December 31, 2013 (millions of Canadian dollars)</i>	Transmission	Distribution	Other	Consolidated
Revenues	1,529	4,484	61	6,074
Purchased power	–	3,020	–	3,020
Operation, maintenance and administration	375	672	59	1,106
Depreciation and amortization	327	340	9	676
Income (loss) before financing charges and provision for PILs	827	452	(7)	1,272
Financing charges				360
Income before provision for PILs				912
Capital investments	714	673	7	1,394

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<i>Year ended December 31, 2012 (millions of Canadian dollars)</i>	Transmission	Distribution	Other	Consolidated
Revenues	1,482	4,184	62	5,728
Purchased power	—	2,774	—	2,774
Operation, maintenance and administration	402	608	61	1,071
Depreciation and amortization	320	329	10	659
Income (loss) before financing charges and provision for PILs	760	473	(9)	1,224
Financing charges				358
Income before provision for PILs				866
Capital investments	776	671	7	1,454

Total Assets by Segment:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Total assets		
Transmission	11,846	11,586
Distribution	8,805	8,621
Other	974	604
	21,625	20,811

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

25. SUBSEQUENT EVENT

On January 29, 2014, Hydro One issued \$50 million notes under its MTN Program, with a maturity date of January 29, 2064 and a coupon rate of 4.29%.

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HYDRO ONE INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

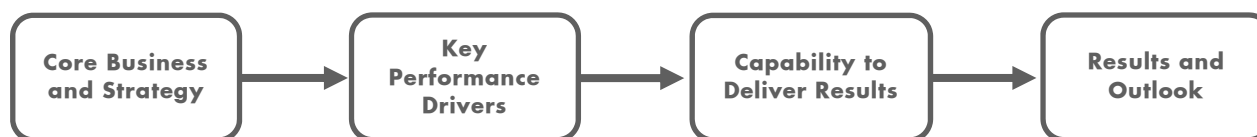
On January 1, 2012, Hydro One Inc. (Hydro One) adopted United States (US) Generally Accepted Accounting Principles (GAAP) as its approved basis for accounting and financial reporting. Comparative 2011 information is presented under US GAAP, unless otherwise noted. All amounts are in Canadian dollars.

The following discussion is based on our Consolidated Financial Statements for the years ended December 31, 2012 and 2011.

EXECUTIVE SUMMARY

We are wholly owned by the Province of Ontario (Province), and our transmission and distribution businesses are regulated by the Ontario Energy Board (OEB). Our mission and vision has 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 strive to 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; excellence; stewardship; 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, transparent and which 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 2012, we continued to focus on our core businesses and our commitment to our customers and made important contributions to the rebuilding of Ontario's core infrastructure while continuing to meet the requirements of the Green Energy Act (GEA).

We manage our business using the following framework:



Core Business and Strategy

Our corporate strategy is based on our mission and vision and our values. Our strategic goals, which are discussed in the section "Our Strategy," 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

Performance drivers have been identified that relate to achieving certain of our company's strategic goals. We establish specific performance targets for each driver aimed at measuring the achievement of our strategic goals over time. For example, we track the duration of unplanned customer interruptions per delivery point as an indication of our commitment to provide a reliable transmission system for our customers. We measure transmission and distribution unit costs as an indication of our commitment to increasing productivity. These and other key performance drivers are included in our discussion of our performance measures in the section "Performance Measures and Targets."

Capability to Deliver Results

We continue to use a balanced scorecard approach as we strive to manage our performance and deliver results each and every year. In 2012, we set nine stretch targets and we met or exceeded five of them. In 2011, we met or exceeded 13 of 17 stretch targets. We exceeded our target for minimizing the duration of unplanned customer interruptions within our Transmission Business. Our performance with respect to productivity was on target in our subsidiary Hydro One Networks Inc.'s (Hydro One Networks) transmission and distribution businesses. Our ability to deliver results in each of our strategic areas is limited by risks inherent in our regulatory environment, our business, our workforce and in the economic environment. These risks, as well as our strategies to mitigate them, are discussed in the section "Risk Management and Risk Factors."

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Results and Outlook

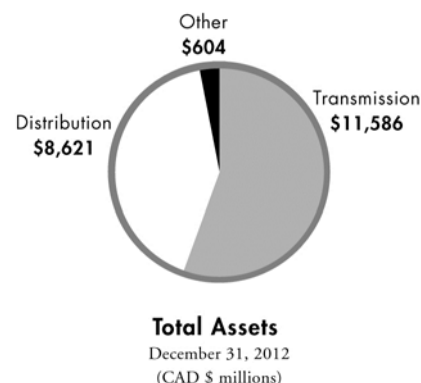
During 2012, our financial fundamentals remained strong with current year net income of \$745 million. Our OEB-approved revenue requirement for our transmission business for 2012 was \$1,418 million. Our 2011 distribution rates for Hydro One Networks continued unchanged throughout 2012, and its approved revenue requirement for 2011 was \$1,218 million. Approved rates support the work programs required to sustain our critical infrastructure and invest in a sustainable electricity system that supports renewable and cleaner generation. We successfully issued \$1,085 million in debt financing in 2012, the proceeds of which were used to fund the retirement of \$600 million of debt maturing in the year and to fund a portion of our capital expenditures and other corporate requirements. A full discussion of our results of operations and financing activities can be found in the sections "Results of Operations" and "Liquidity and Capital Resources."

In 2012, we invested more than \$1.4 billion in capital expenditures to improve system reliability and performance, address our aging power system, facilitate new generation and improve service to our customers. Capital expenditures for the next few years will include those required to build critical infrastructure identified in the Long-Term Energy Plan (LTEP), which is based on recommendations from the Ontario Power Authority (OPA), and expenditures to address aging infrastructure. Our future capital expenditures are more fully described in the section "Future Capital Expenditures."

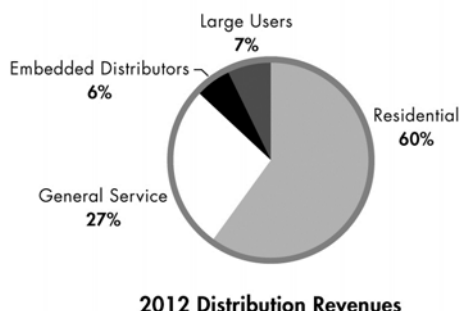
OVERVIEW

Transmission

Substantially all of Ontario's electricity transmission system is owned and operated by our subsidiary Hydro One Networks. 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 2012, we earned total transmission revenues of \$1,482 million, primarily by transmitting approximately 141 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 it is linked to five adjoining jurisdictions through 26 interconnections, through which we can accommodate imports of about 4,800 MW and exports of approximately 6,000 MW of electricity. In terms of assets, our Transmission Business is our largest business segment, representing approximately 56% of our total assets at December 31, 2012.



Distribution



Our consolidated distribution system is the largest in Ontario and it spans roughly 75% of the province. We serve approximately 1.4 million rural and urban customers and 440 large user customers. Our subsidiary Hydro One Remote Communities Inc. (Hydro One Remote Communities) operates small, regulated generation and distribution systems in a number of remote communities across northern Ontario that are not connected to Ontario's electricity grid. In 2012, we earned total distribution revenues of \$4,184 million. As illustrated in the accompanying chart, over half of our distribution revenues were earned from our residential customers. At December 31, 2012, our Distribution Business assets represented approximately 41% of our total assets.

Other

In 2012, our Other business segment contributed revenues of \$62 million, and had assets of \$604 million at December 31, 2012, representing 3% of our total assets. This segment primarily represents the operations of our wholly-owned subsidiary, Hydro One Telecom Inc., which markets fibre-optic capacity to telecommunications carriers and commercial customers with

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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, those who work on our property, and the public.

Excellence: We achieve excellence through continuous training, ensuring we are prepared and equipped to deliver high-quality and cost-effective service, with integrity.

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 are inextricably linked. 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 implement the internationally recognized health and safety management system, ISO 18001, to identify health and safety risks, priorities and mitigation in order to further drive our safety culture. 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. We will develop and deliver targeted customer segment strategies, products and delivery channels that will respond to their unique needs and behaviours.

Continuous innovation. Innovation represents one of our core values and is critical to achieving our mission and vision. 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. The Advanced Distribution System (ADS) is a key element in our investment in innovation and will improve operation of our distribution assets and deliver further value to our customers.

Building and maintaining reliable, cost-effective transmission and distribution 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 ADS technology to provide greater visibility; increasing control and improving customer service; supporting the connection of renewable energy sources; seeking efficiencies through leveraging technology and operational experience from our transmission system; providing reliable and cost-effective service over a diverse geography; and pursuing commercial arrangements that are anticipated to arise from the rationalization of Ontario's distribution sector.

Protecting and sustaining the environment for future generations. Consistent with our value of stewardship, we play 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. We will engage our customers further regarding how we manage our sustainability obligations and activities on their behalf.

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 corporate culture, labour demographics, diversity, development of critical core competencies and skill and knowledge retention. Our labour strategy should enable us to make significant gains in the areas of labour flexibility, productivity improvement and cost reduction.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Maintaining 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. We will explore and pursue opportunities to increase the revenue-earning potential of our company by leveraging existing assets, technologies, capabilities and the geographic presence of our company.

Achieving productivity improvements 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 Ontario's economy and its residents.

Performance Measures and Targets

We target and measure our performance by using a balanced scorecard approach. Key performance drivers are closely monitored throughout the year to ensure that we maintain a focus on our strategic objectives and take mitigating actions as required. In 2012, we met or exceeded five of nine stretch targets. Overall, we are making progress towards achieving many of our strategic goals.

Achieving productivity improvements and cost-effectiveness

One of our strategic objectives is to increase productivity through efficiency improvements and effective management of costs. The measures for this objective for 2012 were transmission unit cost and distribution unit cost.

For 2012, we measured for transmission unit cost the capital expenditures and operation, maintenance and administration costs per dollar of gross in-service assets (expressed as a percentage). For distribution unit cost, the measure is capital expenditures and operation, maintenance and administration costs per kilometre of line (\$'000/km) due to the length of line required to connect our rural customers. Our objective with our ongoing work and investment program is to maintain and improve our assets and monitor our productivity year-over-year. Our transmission unit cost target was set at 10.1% and we met this target. The distribution unit cost target was set at \$11,000 per kilometre of line and we also met this target.

Building and maintaining reliable, cost-effective transmission and distribution systems

We continue to build and retain public confidence and trust in our operations, as stewards of Ontario's electricity grid. In 2012, 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 customers in a safe, reliable and efficient fashion. We are conscious that commercial customers of all sizes require reliable service to allow them to deliver their products and services and that customers' expectations are for a reasonably limited duration when interruptions occur. Transmission and distribution reliability is measured through the duration of customer interruptions.

For the duration of unplanned customer interruptions within our Transmission Business, the target for 2012 was 10 minutes per delivery point. We more than met this target.

For the Hydro One Networks distribution business, the target for 2012 for the duration of customer interruptions was set at 6.7 hours per customer. We did not meet this target.

Satisfying our customers

Customer satisfaction measures the degree to which our transmission and distribution customers are satisfied with the service they receive from our company. Customer satisfaction is based on the results of customer surveys conducted on our behalf by independent third parties. In 2012, for transmission customers we targeted a customer satisfaction rate of 90%, but did not meet this target. For our distribution customers, we targeted a satisfaction rate of 86%, and we met this target.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Employee engagement

We continue to focus efforts on increasing employee engagement throughout the company. An engaged workforce is one in which employees embrace the corporate values of safety, stewardship, excellence and innovation. The process of measuring and improving such engagement began in 2008 by means of an employee engagement survey administered by an independent third-party expert. Our goal is to improve the grand mean score year-over-year. The target of improving the grand mean score to 4.06 (out of 5) in 2012 was not met.

Maintaining a commercial culture that increases value for our shareholder

Achievement of strong financial performance is measured by a performance measure of targeted level of net income after tax. Our target was \$643 million net income after tax and we exceeded our target.

Creating an injury-free workplace and maintaining public safety

The safety of our employees is paramount. In 2012, we used medical attentions, defined as injuries that require treatment by a medical practitioner (beyond first aid), as the performance measure for this strategic objective. The medical attentions measure reflects incidents that are reported to the Workplace Safety and Insurance Board and is calculated as the number of attentions per 200,000 hours worked. In 2012, Hydro One set a target of no higher than 2.2 attentions per 200,000 hours worked. In an effort to achieve this target, we engaged in a number of activities, such as: continued emphasis on improving health and safety through face-to-face sessions; continuation of our Journey to Zero initiative; better monitoring of mandatory skills and safety training; an enhanced driver training/evaluation program; and field coaching to increase the expectations from supervisors and staff. The number of attentions in 2012 improved by 35% compared to the number in 2011 but was still slightly higher than our target for 2012.

REGULATION

Our electricity transmission and distribution businesses are licenced 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 province-wide uniform transmission rates (UTRs) 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 a return on deemed common equity. In addition, the OEB approves rate riders to allow for the recovery or disposition of specific regulatory accounts over specified timeframes.

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 both a two-tiered electricity pricing structure, with seasonal consumption thresholds, and a three-tiered electricity pricing structure with Time of Use (TOU) thresholds. The majority of our RPP customers are now on TOU billing. Unexpected shortfalls or overpayments associated with the RPP are temporarily financed by the OPA. Prices are reviewed by the OEB 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.

We started migrating our customers to TOU rates in 2010 and the majority of our customers were transitioned to TOU rates by the end of 2011. We received an exemption from the OEB, effective until December 31, 2014, from implementing mandatory TOU pricing for approximately 120,000 customers that are currently out of reach of our smart meter telecommunications infrastructure.

Customers who 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 by the Independent Electricity System Operator (IESO) under the *Electricity Act, 1998*. The IESO is responsible for overseeing and operating the wholesale market as well as ensuring the reliability of the integrated power system.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Transmission Rates

The IESO facilitates payments to us based on the Ontario UTRs approved by the OEB for all transmitters across Ontario.

On May 19, 2010, we submitted our application for 2011 and 2012 transmission rates in continued support of our aging critical infrastructure and 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 represented estimated rate increases of 15.7% and 9.8%, respectively, or 1.2% and 0.7% on an average customer's monthly bill.

On December 23, 2010, the OEB issued its decision, which resulted in a revenue requirement effective January 1, 2011 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, or 0.5% and 2%, respectively, on an average customer's total bill. Our 2012 revenue requirement was impacted by the OEB directing us to adopt a cost capitalization policy consistent with International Financial Reporting Standards (IFRS). This specific accounting revision resulted in an increased revenue requirement of about \$200 million for 2012.

Consistent with an approval from the Ontario Securities Commission (OSC) to adopt US GAAP for our external financial reporting and securities filings, on July 15, 2011 we filed a Motion to Vary the OEB's 2012 rate decision. Our application sought approval to adopt US GAAP as a basis for regulatory accounting and rate setting in place of the OEB's approved modified IFRS basis. On November 23, 2011, the OEB approved the use of US GAAP by our Transmission Business, which resulted in the reversal of the \$200 million adjustment that was made by the OEB in its December 2010 rate decision.

On December 1, 2011, we submitted to the OEB a draft 2012 transmission revenue requirement that reflects the approved adoption of US GAAP for rate-setting purposes as well as the OEB-directed update to 2012 cost-of-capital parameters. On December 20, 2011, the proposed \$1,418 million 2012 revenue requirement was approved by the OEB along with new 2012 UTRs effective January 1, 2012. The new rates resulted in an approximate 8% transmission rate increase, or 0.6% on an average customer's total bill. The adoption of US GAAP in lieu of modified IFRS as a basis for rate setting decreased the approved rates by about 15%.

To achieve the necessary funding in support of aging critical infrastructure and investments, we submitted a cost-of-service rate application to the OEB for our 2013 and 2014 transmission rates on May 28, 2012. The application sought OEB approval for revenue requirement increases of approximately 0.6% and 9.1% in 2013 and 2014, respectively, or estimated increases of 0% in 2013 and 0.7% in 2014, on an average customer's total bill. A settlement conference was held in October 2012, where Hydro One Networks and the intervenors reached an agreement, settling all issues apart from Export Transmission Service. This is anticipated to be settled in early 2013 but is not expected to affect our company's results of operations. The settlement agreement was reviewed and approved by the OEB on November 8, 2012. On November 30, 2012, we submitted a draft rate order, which includes revenue requirements of approximately \$1,438 million and \$1,528 million for 2013 and 2014, respectively. For the transmission portion of the bill, this represents no change from existing 2012 OEB-approved rate levels in 2013 and a 5.8% increase in 2014. On an average customer total bill basis, this represents increases of nil for 2013 and 0.5% for 2014. On December 20, 2012, the OEB issued a final Rate Order, approving Hydro One Networks' 2013 transmission revenue requirement for use in setting the 2013 Ontario UTRs.

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 itself.

In 2006, the OEB established a multi-year electricity distribution rate-setting plan whereby a distributor's rates are set via a cost-of-service rebasing application followed by an Incentive Regulation Mechanism (IRM) that uses a formulaic approach to establish rates for the next three years. In 2012, the OEB issued a new regulatory framework that included three rate-setting methods available to distributors (see "Renewed Regulatory Framework").

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Hydro One Networks

On July 13, 2009, our subsidiary Hydro One Networks filed a cost-of-service application with the OEB for 2010 and 2011 distribution rates.

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.

On November 15, 2010, the OEB issued its cost-of-capital parameter updates for rates effective January 1, 2011. The lowering of the return on equity (ROE) produced a revised revenue requirement of \$1,218 million. The approved 2011 revenue requirement resulted in an average distribution rate increase of approximately 8.7% for 2011, or 3.4% on an average (i.e. consuming 800 kWh per month) customer's total bill.

On March 23, 2012, the OEB approved our request for Hydro One Networks' distribution business to adopt US GAAP for rate setting and regulatory accounting and reporting. Hydro One Networks did not seek a distribution cost-of-service rate adjustment for 2012 and rates continued unchanged at 2011 levels.

On June 15, 2012, Hydro One Networks filed evidence in support of its application for 2013 distribution rates on the basis of the OEB's 3rd Generation IRM process. Hydro One Networks and intervenors subsequently reached a settlement and submitted a settlement agreement to the OEB. On December 14, 2012, the OEB issued its decision accepting the agreement as filed. On December 20, 2012, the OEB issued a final Rate Order. The distribution rate of an average residential customer will increase by approximately 1.3% in 2013, or by 0.4% when considering total bill impacts. In addition, the Retail Transmission Service Rates adjustment, which was accepted in the Settlement, will bring the total bill increase in 2013 to approximately 1.5%.

Hydro One Brampton Networks

On June 30, 2010, our subsidiary Hydro One Brampton Networks submitted its 2011 cost-of-service application, which was subsequently adjusted in September to reflect the optional deferral of the adoption of modified IFRS until January 1, 2012, consistent with a decision by the Canadian Accounting Standards Board (AcSB). The AcSB later extended the optional deferral to January 1, 2014 and Hydro One Brampton Networks has decided to exercise this option.

Following another adjustment to the application in November 2010, the revenue requirement was approximately \$63 million. On April 4, 2011, the OEB issued a decision that approved a revenue requirement of \$59.5 million for 2011. The revised rates were approved with an effective date of January 1, 2011 and an implementation date of May 1, 2011. Included in the rates is an amount of \$1.52 per month per metered customer for smart meters and approval of a GEA funding adder of \$0.02 per month per metered customer. The new rates result in a total bill increase for an average customer (i.e. consuming 800 kWh per month) of approximately 0.5%.

On September 15, 2011, Hydro One Brampton Networks filed an application for 2012 rates on the basis of the OEB's 3rd Generation IRM process. On December 22, 2011, the OEB issued its decision and on December 31, 2011, the OEB declared Hydro One Brampton Networks' existing rates interim as of January 1, 2011. On January 5, 2012, the OEB released a decision that resulted in a reduction in rates of approximately 13.2%, or a 1.7% reduction on the average customer's total bill in the year. These rate reductions were primarily due to OEB-approved adjustments to depreciation rates.

On August 3, 2012, Hydro One Brampton Networks filed an application for 2013 rates on the basis of the OEB's 3rd Generation IRM process, requesting new distribution rates effective January 1, 2013. Hydro One Brampton Networks subsequently amended its rate application and on December 6, 2012, the OEB approved the amended application. The rate impact on the distribution component associated with a typical residential customer was an increase of approximately 0.3%, or less than 0.1% on the customer's total bill.

Hydro One Remote Communities

On October 15, 2010, Hydro One Remote Communities filed an application for 2011 distribution rates on the basis of the OEB's 3rd Generation IRM. The application sought approval for an increase of approximately 0.4% to basic rates for the distribution and generation of electricity effective May 1, 2011. On March 28, 2011, the OEB approved the application. The

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

overall impact of the new rates on an average (i.e. consuming 800 kWh per month) residential customer's total bill was marginal.

On November 25, 2011, Hydro One Remote Communities filed its application for 2012 distribution rates on the basis of the OEB's 3rd Generation IRM. On March 22, 2012, the OEB issued its decision approving a rate increase of 1.08% effective May 1, 2012, representing an increase of about \$1 on an average residential customer's monthly bill.

Consistent with the OEB's decision affirming the use of US GAAP for rate-setting purposes by Hydro One Networks' transmission and distribution businesses, we made a similar request to use US GAAP for Hydro One Remote Communities. On April 3, 2012, the OEB approved the request to use US GAAP as the basis for rate setting within Hydro One Remote Communities effective January 1, 2012.

On September 17, 2012, Hydro One Remote Communities filed a cost-of-service application for 2013 rates to be effective May 1, 2013. If approved as filed, the electricity rate of an average customer will increase by 3.5% in 2013. In its rate application, Hydro One Remote Communities also requested approval to establish a Rural and Remote Rate Protection of \$35 million in 2013. The OEB Hearing and decision are anticipated to occur in the first quarter of 2013.

Recent Industry Developments

Long-Term Energy Plan

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. On February 17, 2011, the Province issued a Supply Mix Directive that required the OPA to prepare a 20-year Integrated Power System Plan (IPSP) to meet the goals set out in the LTEP. On May 9, 2011, the OPA announced that it was beginning consultations to update Ontario's IPSP and issued the *IPSP Planning and Consultation Overview* document. On June 17, 2011, we submitted our comments on the IPSP, as requested of stakeholders by the OPA. Stakeholder comments will form part of the evidence when the OPA submits the revised IPSP to the OEB for its review.

On February 28, 2011, the OEB issued a decision amending Hydro One Networks' transmission licence in accordance with a directive from the Minister of Energy to the OEB. The licensee amendment requires Hydro One Networks to develop and either seek approvals for, or implement, specified transmission projects and upgrades to safely and reliably accommodate additional renewable energy in accordance with recommendations from the OPA. In a letter dated April 7, 2011, the OPA provided the scope and timing to increase short circuit and/or transformer capacity at ten of 15 transformer stations noted in the licence to accommodate small-scale renewable generation. Six of these upgrades have been completed and we are currently anticipating that one additional station upgrade will be placed in service in 2013. Alternative solutions have been identified for the other three upgrades. 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 (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. As a result, the recovery of the seven station upgrades was restricted. We charged \$17 million to operation, maintenance and administration expense in 2012 and charged \$19 million to operation, maintenance and administration expense in 2011, in respect of these projects.

In June 2011, the OPA recommended the scope and timing of the project to re-conductor two circuits between Sarnia and London, our West of London Transmission Upgrade Project, with a required in-service date of December 2014. This project is needed to satisfy government policy relating to the incorporation of 10,700 MW of non-hydroelectric renewable generation resources by 2018. On November 8, 2012, the OEB issued a decision approving our Section 92, Leave to Construct, application for this project. In October 2011, the OPA recommended the scope and timing of the Southwestern Ontario Reactive Compensation Priority Project, recommending that we install a Static Var Compensator (SVC) at our Milton Switching Station to increase the capability of our Bruce to Milton Line. An OPA recommendation regarding the construction of a new transmission line west of the City of London is not expected in the foreseeable future.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Framework for Transmission Development Plans

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 of Energy expressed the Province's interest in the OEB commencing a transmitter designation process for the East-West Tie Line. The East-West Tie Project is the first transmission network line expansion covered under the new competitive approach. The proposed route is a 400 km, 230 kV double-circuit line between its 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. The East-West Tie LP, an equally-shared partnership of three entities including our company, obtained a transmission licence on May 31, 2012, and is participating in the East-West Tie Project bid process.

The OEB adopted a two-phase process for the East-West Tie proceeding. On July 12, 2012, the OEB issued its Phase 1 decision and order, thus concluding Phase 1 of the proceeding by finalizing various filing requirements and process issues and directing registered transmitters to file their applications for designation by January 4, 2013. The proceeding is now in Phase 2 and the OEB received six applications for designation from the registered transmitters in the proceeding, including one from the East-West Tie LP. The timeline for Phase 2, which will take the form of a written hearing, has not yet been set.

Renewed Regulatory Framework

On December 17, 2010, the OEB initiated a coordinated consultation process for the development of a renewed regulatory framework for electricity distributors and transmitters. On October 18, 2012, the OEB issued its report *A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, marking the completion of its consultation process. The report identified three rate-setting models available to provide choices suitable for distributors having varying capital requirements: a 4th Generation IRM, which builds on the current 3rd Generation model by adding one year to the IRM period; a Custom IRM, which involves rate setting based on a five-year forecast of a distributor's revenue requirement and sales volume; and an Annual Incentive Rate-setting Index method, which involves annual adjustment of rates by a simple price cap index formula. The report also provided information on performance measurement, continuous improvement and implementation of the new framework.

Four working groups were established to provide expert assistance to review and advise the OEB's staff on proposals regarding certain implementation matters: Asset Redefinition and Regional Infrastructure Planning Process; Distribution Network Investment Planning; Performance, Benchmarking, and Rate Adjustment Indices; and Smart Grid. Hydro One Networks is represented on all four groups. Working group meetings began in November 2012 and are scheduled through February 2013. Consultations will conclude with the issuance of filing requirements and guidance, code amendments, and/or supplemental Board policies in support of the new framework. The OEB is expecting that policies will be largely implemented in time for the 2014 rate year. We are currently assessing the rate-setting methods available.

OEB Transmission and Distribution System Codes

Under the Transmission System Code, the transmitter covers the initial pooling of the costs of enabler lines, with generators paying their pro-rata share when ready to connect, based on generator capacity.

Under the Distribution System Code (DSC), there are three classes of distribution assets associated with the connection of renewable energy generation: connection assets, expansion assets, and renewable enabling improvements. Generators that connect directly to a distributor's system pay the costs of connection assets, while distributors fund: all expansion costs identified in a plan; other generator-requested expansion costs up to a cap of \$90,000/MW per project (generator pays the rest); and all renewable enabling improvements.

In 2011, the OEB granted us an exemption from mandatory DSC timelines for the connection of micro-embedded generation facilities. The OEB decision increased the timeline for processing indirect connections that require a site assessment and approved amendments to the conditions that must be met before we are required to connect micro-embedded generation facilities to our distribution system. On August 3, 2012, Hydro One Networks applied to the OEB for an extension of the exemption and on November 8, 2012, the OEB granted the extension for a period ending August 3, 2013, or six months after the conclusion of its consultation on micro-embedded generation issues, whichever is earlier.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Ontario Clean Energy Benefit

Effective January 1, 2011, 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 a 10% benefit with respect to the total cost of electricity on their bills, including tax, for a five-year period. This benefit is applied to customers' electricity costs for each billing period. Effective September 1, 2012, the 10% rebate is applied only to the first 3,000 kWh of electricity consumed per month.

Revenue Decoupling for Distributors

In 2010, the OEB initiated a consultation process to examine the revenue adjustment and cost recovery mechanisms available to electricity and natural gas distributors to address revenue erosion resulting from unforecasted changes in volume of energy sold. These mechanisms are commonly referred to as "revenue decoupling" mechanisms as each involves some means of disconnecting the link between the volume of energy consumed by customers and the recovery by energy distributors of their approved revenue requirement.

On November 26, 2012, the OEB initiated a project to complete the work begun on revenue decoupling for electricity and natural gas distributors. The OEB will coordinate its consideration of revenue decoupling with the new rate-setting policies proposed in the renewed regulatory framework for electricity. The OEB will examine how best to address changes in demand, including potential declines in average use. This consultation will review the options for potential revenue decoupling in addition to the existing lost revenue decoupling mechanism (i.e. the Lost Revenue Adjustment Mechanism or LRAM). The OEB expects to release a draft policy in early 2013. The OEB will solicit stakeholder comments in writing before finalizing the policy.

Distribution Sector Consolidation

On April 13, 2012, the Province announced it was launching a comprehensive review of Ontario's electricity sector to explore options to improve efficiencies, including local distribution companies (LDCs) consolidation. As a result, the Province created the Ontario Distribution Sector Review Panel (Panel). On December 13, 2012, the Panel released its report, *Renewing Ontario's Electricity Distribution Sector: Putting the Consumer First*, with recommendations for electricity sector consolidation. This report recommends that the 73 LDCs comprising the focus of the report be consolidated into eight to 12 larger regional electricity distributors within a two-year timeframe. Specifically, it recommends there be two regional distributors in northern Ontario and between six and ten regional distributors in southern Ontario with a minimum of 400,000 customers each. Given our company's position as the largest LDC, the report recommends that Hydro One Networks be given unambiguous direction to lead and engage in the discussion of the merger of distribution assets with the appropriate interested utilities on a commercial basis. At present, the Province is reviewing the report and assessing the recommendations.

FIT and microFIT

On October 1, 2009, the OPA launched its Feed-in Tariff (FIT) Program which 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 March 22, 2012, the Province announced the results of its two-year FIT Program Review, including recommended changes to reflect input received from stakeholders. The OPA implemented these recommendations and re-launched its microFIT program on July 12, 2012. The revised program encourages greater community and aboriginal participation and the protection of agricultural lands. In August 2012, the OPA began to release approvals allowing microFIT projects to proceed. On December 14, 2012, the OPA announced that it will award up to 200 MW of Small FIT applications, received between December 14, 2012 and January 18, 2013, for renewable energy projects with a proposed capacity between ten and 500 kilowatts. The OPA is not accepting Large FIT applications at this time. The timing for the Large FIT project application window will be communicated once details are finalized.

Conservation and Demand Management (CDM)

The OPA continues to be responsible for coordinating the delivery and funding of Ontario's CDM programs. Our CDM programs funded through the OPA in 2012 amounted to approximately \$25 million, compared to \$15 million in 2011. These

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

programs included: the Peaksaver Program; the Low Income Home Assistance Program; Appliance Retirement and Exchange Events; and the Process and System Upgrade Incentive Program.

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 licencees. A province-wide CDM target for Ontario's LDCs was set in 2010. The two key CDM targets for LDCs over the four-year period beginning January 1, 2011 were to collectively reduce 1,330 MW of provincial summer peak demand and to provide 6,000 GWh of cumulative energy savings. The OEB issued its CDM Code for Electricity Distributors (CDM Code) on September 16, 2010 and on November 12, 2010, it issued final CDM targets to each LDC. Our company was allocated a 259 MW reduction of provincial peak demand and a 1,320 GWh reduction of electricity consumption, representing, respectively, 19.5% and 22.0% 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 April 26, 2012, the OEB issued its CDM guidelines for all electricity distributors. One key change is that savings associated with TOU pricing are eligible to be counted towards the CDM targets. Savings will be evaluated by the OPA for the entire province and then allocated to each distributor. The other key change is the establishment of the LRAM variance account, which captures the variance between the level of CDM included in a distributor's load forecast and the verifiable results of impacts of CDM activities undertaken between 2011 and 2014 for both OPA-contracted and OEB-approved CDM programs.

On September 28, 2012 and September 30, 2012, in accordance with the CDM Code, Hydro One Brampton Networks and Hydro One Networks, respectively, filed their 2011 Annual CDM Reports with the OEB. Our combined results for 2011 were 40 MW in peak demand savings, representing 15.6% of our target, and 99 GWh of annual energy savings. These energy savings will produce 388 GWh towards our target, representing 29.4% of our cumulative target. We anticipate meeting our 2014 cumulative demand and energy savings targets.

On December 21, 2012, the Minister of Energy issued a directive to the OPA to extend funding for its CDM programs for one additional year, to December 31, 2015. This extension aims to provide added stability, support the momentum of province-wide programs and ensure that projects with longer completion times can continue to participate in key conservation initiatives. This extension will also provide an opportunity for the OPA and LDCs to collaboratively work to strengthen the current framework and deliver innovative programs that support Ontario families and businesses. The OPA will be reaching out to distributors to further solicit insight and advice on the implementation of this extension.

Advanced Distribution System

The *Energy Conservation Responsibility Act, 2006* further broadened the objectives of CDM by providing the framework for the installation of smart meters in all homes and small businesses in Ontario. In 2007, the Province appointed the IESO as the interim smart meter entity that would oversee the collection and management of data from installed smart meters. LDCs, including our distribution businesses, are accountable for the deployment of smart meter infrastructure and related communications technology to meet minimum regulatory requirements, as well as the implementation of TOU rates.

In 2011, we carried out a number of studies on advanced distribution technologies and initiated the Smart Zone Pilot Project in the Owen Sound area. The Smart Zone Pilot consists of testing and demonstrating power system equipment, IT systems and communication systems that will be required to help facilitate the connection of a large number of Distributed Generation (DG) connections to our distribution system. In 2012, we successfully completed the deployment of the Distribution Management System (DMS) within the Owen Sound pilot area. This integrates the Network Management System, the Outage Response Management System and field devices. Further releases of the ADS will look at optimizing outage response through more effective dispatch, automation to isolate faults where needed and the dynamic regulation of voltage to reduce losses. All releases leverage a core infrastructure and build on each other, and as pilot elements are proven, business cases will be developed for the provincial roll out which will ultimately comprise the ADS.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

RESULTS OF OPERATIONS

Revenues

<i>Year ended December 31 (millions of dollars)</i>	2012	2011	\$ Change	% Change
Transmission	1,482	1,389	93	7
Distribution	4,184	4,019	165	4
Other	62	63	(1)	(2)
	5,728	5,471	257	5
<hr/>				
Average annual Ontario 60-minute peak demand (MW) ¹	21,132	21,166	(34)	-
<hr/>				
Distribution – units distributed to customers (TWh) ¹	29.2	29.2	-	-
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¹ System-related statistics are preliminary.

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. 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 \$93 million, or 7%, compared to 2011. On December 23, 2010, the OEB rendered its decision on our 2011 and 2012 transmission rate application. On December 20, 2011, the OEB approved new transmission tariff rates, effective January 1, 2012, which reflected higher in-service assets and the use of US GAAP as our basis for rate setting. The decisions resulted in higher transmission revenues of \$106 million for the year ended December 31, 2012, and the average peak demand for 2012 resulted in a slight increase of \$3 million, compared to the prior year.

Increases were partially offset by a \$9 million reduction in revenue following the completion of recovery of a transmission regulatory account effective December 31, 2011, a \$6 million reduction in transmission-related external revenues and a \$1 million reduction associated with other OEB-approved regulatory accounts.

Distribution

Our consolidated Distribution Business consists of the separate distribution businesses of our subsidiaries Hydro One Networks, Hydro One Brampton Networks, and Hydro One Remote Communities. Distribution revenues include our distribution tariff and amounts to recover the cost of purchased power used by the customers of our consolidated Distribution Business. Accordingly, our 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 for late payments.

Our 2012 distribution revenues were higher by \$165 million, or 4%, compared to 2011. The increase was primarily due to the recovery of higher purchased power costs of \$146 million, as described below under "Purchased Power." Our distribution revenues were also higher by \$18 million due to our placement of new ADS and smart meter investments in service. Given that these investments relate to new technologies, they are currently recovered through separate rate mechanisms.

Distribution revenues for the year reflect additional external revenues of \$7 million, an increase in Hydro One Remote Communities' revenues of \$2 million and a \$1 million increase associated with OEB-approved regulatory accounts. These increases were partially offset by a \$7 million reduction due to lower energy consumption, resulting primarily from the milder winter we experienced in 2012 compared to 2011, and by a decrease of \$2 million in Hydro One Brampton Networks' distribution tariff revenues.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Purchased Power

Purchased power costs are incurred by our Distribution Business and represent the cost of electricity delivered to customers within our distribution service territories. These costs comprise the wholesale commodity cost of energy, the IESO's 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 RPP, which consists of a two-tiered pricing structure with threshold amounts and a separate pricing structure for RPP customers on 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.

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
November 1, 2012	1,000	750	7.4	8.7

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
November 1, 2012	11.8	9.9	6.3

Purchased power costs increased by \$146 million, or 6%, to \$2,774 million for the year, compared to 2011. The increase in our purchased power costs was primarily due to an increase of \$118 million resulting from the impact of changes in the OEB's RPP rates for residential and other eligible customers, a \$33 million increase resulting from the OEB transmission rate decision effective January 1, 2012 that affected the transmission charges levied by the IESO, and a \$7 million increase related to higher electricity demand. The effect of these increases was partially offset by an \$11 million reduction compared to 2011 in wholesale market service charges levied by the IESO, which include certain costs for operating the transmission grid, and a \$1 million decrease resulting from lower purchased power costs for customers who are not eligible for the RPP.

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:

<i>Year ended December 31 (millions of dollars)</i>	2012	2011	\$ Change	% Change
Transmission	402	422	(20)	(5)
Distribution	608	609	(1)	-
Other	61	61	-	-
	1,071	1,092	(21)	(2)

Our company continues to focus on managing its costs, resulting in a decrease in total operation, maintenance and administration expenditures in 2012, compared to 2011, while continuing to substantially complete the planned work programs for both our transmission and distribution businesses.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Transmission

Operation, maintenance and administration expenditures incurred to sustain our high-voltage transmission stations, lines and rights-of-way decreased by \$20 million, or 5%, in 2012 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. Our work program requirements were lower by \$33 million compared to last year mainly due to: lower demand for station-related corrective maintenance, particularly for power equipment; lower demand for underground cable corrective maintenance; and reduced autotransformer remediation work. We also incurred lower expenditures compared to last year related to the OPA's recommendation to increase short circuit and/or transformer capacity at a number of our transmission stations to enable the connection of small renewable projects, for which recovery is restricted (see "Regulation – Long-Term Energy Plan"). Most of this work has now been completed. Expenditures in support of our transmission system increased by \$13 million, compared to 2011, due to a redirection of resources from our Distribution Business, partially offset by management cost reduction initiatives.

Distribution

Operation, maintenance and administration expenditures required to maintain our low-voltage distribution system decreased slightly by \$1 million compared to last year. Our work program expenditures decreased by \$5 million mainly due to decreased power restoration expenditures resulting from overall lower storm activity in Ontario in 2012 compared to 2011. Reductions also resulted from lower lines maintenance requirements, partially offset by increased requirements within our forestry program resulting from higher tree densities experienced this year. Our expenditures in support of our distribution system increased by \$4 million mainly due to spending in support of the Customer Information System (CIS) phase of our entity-wide information system replacement and improvement project. The impact of this increase was partially offset by cost reduction initiatives and a redirection of resources in support of our Transmission Business.

Depreciation and Amortization

Depreciation and amortization expense increased by \$43 million, or 7%, in 2012, compared to 2011. This increase was attributable to higher depreciation expense of \$40 million, when compared to 2011, primarily related to our placement of new assets in service consistent with our ongoing capital work program. Slightly higher asset removal costs of \$3 million contributed the remainder of the variance from the prior year.

Financing Charges

Financing charges increased by \$14 million, or 4%, to \$358 million for 2012 compared to 2011. Higher financing costs were mainly due to an increased average level of debt and partially offset by a lower average effective interest rate.

Provision for Payments in Lieu of Corporate Income Taxes (PILs)

The provision for PILs decreased by \$29 million, or 19%, to \$121 million in 2012, compared to 2011. This decrease primarily resulted from a reduction in the statutory tax rate from 28.25% to 26.50%, changes in net temporary differences, and an increase in research and development tax credits related to our ADS project. This reduction was partially offset by the impact of higher levels of pre-tax income compared to 2011.

Net Income

Net income of \$745 million was higher by \$104 million, or 16%, than our comparable 2011 results. Higher revenues reflect the recovery of prior year investments which are now in service and which will improve the province's electricity system. Our net income was also positively impacted by lower operation, maintenance and administration expenditures resulting from cost-effectively managing the work program within our Transmission Business and by lower PILs resulting from a lower combined federal and provincial statutory income tax rate compared to 2011. In addition, our 2012 net income reflects higher depreciation expense resulting from our placement of new assets in service, consistent with our increased capital work program, and increased financing charges reflecting our higher average level of debt.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth unaudited quarterly information for each of the eight quarters, from the quarter ended March 31, 2011 through December 31, 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.

<i>(millions of dollars)</i> <i>Quarter ended</i>	2012				2011			
	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Total revenue	1,435	1,466	1,359	1,468	1,359	1,384	1,268	1,460
Net income	165	201	169	210	120	167	142	212
Net income to common shareholder	160	197	164	206	115	163	137	208

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.

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, and dividends.

Summary of Sources and Uses of Cash

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Operating activities	1,285	1,407
Financing activities		
Long-term debt issued	1,085	700
Long-term debt retired	(600)	(500)
Dividends paid	(370)	(168)
Investing activities		
Capital expenditures	(1,454)	(1,447)
Other financing and investing activities	21	64
Net change in cash and cash equivalents	(33)	56

Operating Activities

Net cash from operating activities decreased by \$122 million to \$1,285 million in 2012, compared to 2011. The decrease was primarily due to changes in accrued liabilities related to customer prepayments, and a reduction in taxes payable, resulting from a tax payment made in the first quarter of 2012 related to the 2011 taxation year, as well as the timing of tax installment payments in 2012, compared to 2011. The decrease was partly offset by higher 2012 net income, compared to 2011.

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 a long-term investment in Province of Ontario Floating-Rate Notes of \$250 million (with a fair value of \$251 million at December 31, 2012). The short-term liquidity under this program and anticipated levels of funds from operations should be sufficient to fund our normal operating requirements.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

At December 31, 2012, we had \$8,460 million in long-term debt outstanding, including the current portion. Our notes and debentures mature between 2013 and 2062. 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. At December 31, 2012, \$1,515 million remained available until September 2013.

Rating Agency	Rating	
	Short-term Debt	Long-term Debt
DBRS Limited	R-1 (middle)	A (high)
Moody's Investors Service Inc. ¹	Prime-1	A1
Standard & Poor's (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 at December 31, 2012.

In 2012, we successfully issued \$1,085 million in cost-effective long-term debt under our MTN Program, consisting of \$300 million issued in the first quarter, \$425 million issued in the second quarter, \$310 million issued in the third quarter, and \$50 million issued in the fourth quarter of 2012. In the third quarter of 2012, we also called and redeemed \$600 million of our long-term debt, prior to its maturity date of November 15, 2012.

In 2011, we issued \$700 million in long-term debt under our MTN Program, consisting of \$300 million issued in the first quarter, \$300 million issued in the third quarter, and \$100 million issued in the fourth quarter of 2011. In 2011, we also repaid \$500 million in maturing long-term debt, \$250 million in the first quarter and \$250 million in the fourth quarter.

We had no short-term notes outstanding as at December 31, 2012 or December 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 2012, we paid dividends to the Province in the amount of \$370 million, consisting of \$352 million in common dividends and \$18 million in preferred dividends. In 2011, we paid dividends in the amount of \$168 million, consisting of \$150 million in common dividends and \$18 million in preferred dividends.

In 2012, cash dividends per common share were \$3.523, compared to \$1.500 per common share in 2011. Cash dividends per preferred share were \$1.375 in each of 2012 and 2011.

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.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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:

<i>Year ended December 31 (millions of dollars)</i>	2012	2011	\$ Change	% Change
Transmission	776	810	(34)	(4)
Distribution	671	628	43	7
Other	7	9	(2)	(22)
	1,454	1,447	7	-

Transmission

Transmission capital expenditures decreased by \$34 million, or 4%, to \$776 million in 2012, compared to 2011. Investments to expand and reinforce our transmission system were \$313 million, representing a decrease of \$103 million from 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 in 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 SVCs at our Nanticoke, Detweiler, Porcupine and Kirkland Lake transformer stations. Also contributing to the reduction in expenditures were lower expenditures in 2012 related to our Woodstock Area Transmission Reinforcement Project to increase capacity and ensure supply reliability in the Woodstock area, and our Bruce to Milton Transmission Reinforcement Project connecting refurbished nuclear and new wind generation sources in the Huron-Grey-Bruce area. These projects were successfully put into service in March and May of this year, respectively. The impact of the reductions in expenditures in both periods was partially offset by increases in our expenditures resulting from load customer connection and local area supply projects progressing into their build phases, and investments in our transformer stations related to the ADS Project, which supports clean DG connected to our distribution system consistent with the GEA.

On June 18, 2012, our subsidiary Hydro One Networks entered into an agreement with the Chippewas of Nawash First Nation and the Chippewas of Saugeen First Nation, collectively known as the Saugeen Ojibway Nation (SON). The agreement contemplates a new Limited Partnership (LP) to hold only the lines and related land rights of our 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 in late 2013. Under the terms of our agreement, the SON will be eligible to purchase a non-controlling equity interest in the LP at fair value. The LP is anticipated to become a rate-regulated entity under the jurisdiction of the OEB. Transfer of our 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. On December 18, 2012, the SON, Hydro One Networks and Hydro One signed a Letter Agreement in connection with the establishment of the LP. The Letter Agreement addresses, among other things, the terms of the LP Agreement to be entered into on closing and the terms on which Hydro One Networks will operate the Bruce to Milton Line on behalf of the LP. The closing is conditional on certain regulatory approvals and tax rulings.

Our local area supply project expenditures include investments in our Switchyard Reconstruction Project at our Burlington Transformer Station, which will address aging infrastructure to increase the load supply capacity and to ensure reliability of supply to customers in the area. The project successfully went into service on December 21, 2012. 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.

Significant expenditures within our load customer connection projects include investments to build our Commerce Way Transformer Station, a new load supply station in the City of Woodstock that was partially put into service on December 19, 2012. This project will provide additional transformation and line capacity to address load growth issues in the Woodstock area.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Expenditures to sustain our existing transmission system were \$392 million in 2012, representing an increase of \$57 million compared to 2011. During the year, we made significant investments in the refurbishment and replacement of end-of-life equipment, including end-of-life oil circuit breakers, switches, insulators and protections at our Abitibi Canyon switching station, and deteriorated autotransformers at our Trafalgar and Claireville transformer stations. Of these projects, the autotransformer at our Trafalgar transformer station and one of two at our Claireville transformer station were successfully put into service this year. During the year, we also experienced an increase in replacements for end-of-life protection and control equipment.

Our other transmission capital expenditures were \$71 million in 2012, representing an increase of \$12 million compared to 2011. The majority of these increased expenditures were related to fleet acquisitions and to information technology (IT) investments.

Distribution

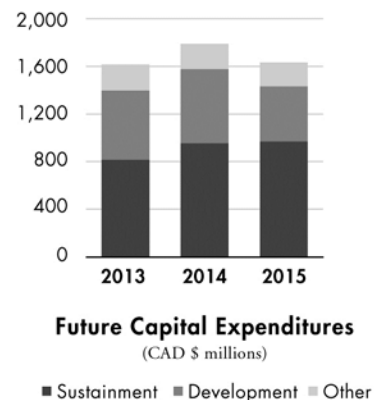
Our distribution capital expenditures increased by \$43 million, or 7%, to \$671 million in 2012, compared to 2011. Capital investments to expand and reinforce our distribution network were \$284 million in 2012, representing an increase of \$15 million compared to 2011. We experienced increases in 2012 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 will protect distributed generators from power interruption and is anticipated to improve outage restoration, reduce construction and ongoing maintenance costs, and reduce power loss as it flows across the electricity grid. 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 to 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 network were \$245 million in 2012, representing an increase of \$5 million compared to 2011. The increase in our sustainment program was primarily impacted by increased work accomplished within our lines and distribution station refurbishment programs, as well as higher expenditures related to the strategic purchase of power transformers compared to the prior year. These impacts were partially offset by lower storm restoration work given lower storm activity in 2012 compared to two major storms in Ontario in 2011.

Other distribution capital expenditures were \$142 million in 2012, representing an increase of \$23 million, compared to 2011. The majority of these expenditures were related to the CIS phase of our enterprise-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. Productivity savings are anticipated to result from performance improvements, consolidation of systems, and decommissioning of over a dozen legacy systems.

Future Capital Expenditures

Our capital expenditures for 2013 are budgeted at approximately \$1,600 million. Our 2013 capital budgets for our transmission and distribution businesses are about \$1,000 million and \$600 million, respectively. Consolidated capital expenditures are expected to be approximately \$1,750 million in 2014 and \$1,650 million in 2015. These expenditure levels reflect meeting the sustainment requirements of our aging infrastructure. Our sustainment program is expected to be approximately \$800 million in 2013, \$950 million in 2014 and \$1,000 million in 2015. 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 expected to be approximately \$600 million in 2013, \$600 million in 2014, and \$450 million in 2015. These development investments also reflect customer demand work. Other capital expenditures are expected to be approximately \$200 million in each of 2013, 2014 and 2015. These expenditures include investments to replace our end-of-life customer billing system and smaller projects related to the continued realization of increased productivity from our enterprise-wide SAP information system.



HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Transmission

Transmission capital expenditures include significant investments to manage the replacement and refurbishment of our aging transmission infrastructure in order to ensure a continued reliable supply of energy to customers throughout the province. Our investment plan includes sustainment investments to replace end-of-life air blast circuit breakers and switchgear, high-voltage underground cable, and aging power transformers and to comply with North American Electricity Reliability Corporation cyber security requirements. These sustaining investments are necessary to ensure that we continue to meet all regulatory, compliance, safety and environmental objectives.

Major capital investments include our Oshawa Area Transformer Station Project to install additional auto-transformer capacity at our proposed Clarington Transformer Station, for which the OPA has requested that Hydro One develop an implementation plan and initiate work. Planning and environmental studies are currently being undertaken for this project. Investments also include our Midtown Electricity Infrastructure Renewal Project that will provide additional supply capability to meet future load growth in midtown Toronto as well as areas to the west, our SVC installation to be completed at our Milton station, and our project to rebuild the switching station at our Hearn Transformer Station, which is expected to be completed by 2014. Transmission investments for ADS and requirements to enable DG are also included in the investment plan. The Hearn Transformer Station Project, when combined with four other transformer station upgrades, will collectively enable up to 600 MW of new transmission capacity.

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. On April 7, 2011, the OPA provided the scope and timing to increase short circuit and/or transformer capacity at ten of 15 transformer stations. These upgrades are substantially complete. Expenditures for these upgrades have been recorded within operation, maintenance and administration (see "Regulation – Long-Term Energy Plan"). Two of the three priority specified transmission projects are reflected in our budgeted capital expenditures. The West of London Transmission Upgrade Project generally requires restringing conductor on existing towers along an existing right-of-way and will enable the connection of additional renewable generation in the west of London area. The Southwestern Ontario Reactive Compensation Priority Project will increase the transmission capability of the Bruce transmission system. We are awaiting direction on the third priority project from the OPA (see "Regulation – Long-Term Energy Plan").

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 expansions 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.

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. Projects are also dependent on the timing and level of generator contributions for enabling facilities.

Distribution

Distribution capital expenditures include investments 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 are continuing investments to replace end-of-life equipment and components, implement ADS as part of this renewal and a focus on wood pole replacements to maintain reliability. In addition, we will continue to address customer demand projects through connectivity for DG, the demand for new load connections, trouble calls, storm restoration and system capability reinforcement.

Distribution development expenditures over the period are primarily related to the development of an ADS system and related grid modernization standards, customer demand work such as connections and upgrades, work to facilitate DG connections, including station upgrades, protection and control, new lines and some contestable work for which we receive capital contributions. During the 2013 and 2014 periods, we expect to manage a significant number of projects throughout the province to address load growth and the stress on our system components.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

DG expenditures are based on our estimate of the number of anticipated connections, which have been reduced based on the experience gained since 2009 and changes that have occurred to the FIT Program. The budget only reflects expenditures for projects with FIT and microFIT Program contracts from the OPA that are expected to connect to our distribution system.

In 2013, the ADS Project will look at optimizing outage response through more effective dispatch, automation to isolate faults where needed and the dynamic regulation of voltage to reduce losses.

Summary of Contractual Obligations and Other Commercial Commitments

There are no off-balance-sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

The following table presents a summary of our debt and other major contractual obligations, as well as other major commercial commitments.

<i>December 31, 2012 (millions of dollars)</i>	Total	2013	2014/2015	2016/2017	After 2017
Contractual Obligations (due by year)					
Long-term debt – principal repayments	8,460	600	1,300	1,100	5,460
Long-term debt – interest payments	7,336	410	735	651	5,540
Pension ¹	330	158	172	-	-
Environmental and asset retirement obligations ²	313	30	73	40	170
Inergi LP (Inergi) outsourcing agreement ³	287	136	151	-	-
Operating lease commitments	53	10	15	14	14
Total Contractual Obligations⁴	16,779	1,344	2,446	1,805	11,184
Other Commercial Commitments (by year of expiry)					
Bank line ⁵	1,250	-	-	1,250	-
Letters of credit ⁶	150	150	-	-	-
Guarantees ⁶	326	326	-	-	-
Total Other Commercial Commitments	1,726	476	-	1,250	-

¹ Contributions to the Hydro One Pension Fund are generally made one month in arrears. The 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 were approximately \$160 million. 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.

² 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.

³ On March 1, 2002, Inergi began providing a range of services to us for a ten-year period, including IT, customer care, supply chain and certain human resources and finance services. On May 1, 2010, consistent with the terms of the contract, our company extended the Master Services Agreement with Inergi for a further three-year period, to expire on February 28, 2015. Given the complexities involved, we have begun developing a plan of action for end-of-term and anticipate working towards a request for proposal in 2013. The amounts disclosed include an estimated annual inflation adjustment in the range of 1.8% to 3.0%.

⁴ In addition, our 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 is considered individually material, and the majority do not extend beyond December 31, 2013.

⁵ 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.

⁶ We currently have outstanding bank letters of credit of \$127 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 began providing prudential support to the IESO in the form of letters of credit, the amount of which is calculated based on forecasted monthly power consumption. As at December 31, 2012, we provided letters of credit to the IESO in the amount of \$22 million to meet our current prudential requirement. The other \$1 million 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 \$0.7 million.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 purchase 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 PILs and some of our property 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

Our load, based on normal weather patterns, is expected to marginally decline in 2013 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 1.3%, with the commercial and industrial sectors slightly outperforming the residential sector. The load impacts of CDM and embedded generation are expected to have a negative impact on load growth of approximately 1.1% and 0.3%, respectively. On the whole, our load is expected to decline by about 0.1% in 2013. Our approved revenue requirement for 2013 has taken the expected load decline into account. 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 the revenue requirements upon which our rates are based. The first component impacted by interest rates is our ROE. The OEB-approved adjustment formula for calculating ROE 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%. All other things being equal, we estimate that a 1% decrease in the forecasted long-term Government of Canada bond yield used in determining our ROE would reduce Hydro One Networks' transmission and distribution businesses' results of operations by approximately \$19 million and \$10 million, respectively. As interest rates decline, there is more risk of a decline in our net income. 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, general outline agreements, and vendor alliances and we also 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.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 at December 31, 2012, 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 2012, we continued issuing sufficient cost-effective debt financing through the MTN Program in the Canadian capital markets and we arranged sufficient available liquidity. Economic conditions were challenging in 2012 and we expect they will remain challenging in 2013.

Pension

In 2012, we contributed approximately \$160 million to our pension plan and incurred \$207 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 \$160 million for 2013 and 2014, 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 9.19% in 2012. Our pension obligation is impacted by interest rates. The 1% decrease in the discount rate, from 5.25% at December 31, 2011 to 4.25% at December 31, 2012, resulted in an increase in the pension obligation of \$862 million and an increase to our post-retirement and post-employment benefit obligation of \$241 million. No new benefits were introduced and over the last number of years benefits have been reduced through re-negotiations with certain of our unions as well as our management employees.

RISK MANAGEMENT AND RISK FACTORS

We have an Enterprise Risk Management (ERM) 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 goals. Our ERM program helps us to better understand uncertainty and its potential impact on our strategic goals. It sets out the uniform principles, processes and criteria for identifying, assessing, evaluating, treating, monitoring and communicating risks across all lines of business. It supports our Board of Directors' corporate governance needs and the due diligence responsibilities of senior management.

While our philosophy is that risk management is the responsibility of all employees, the Board of Directors annually reviews our company's risk tolerances, risk management policies, processes and accountabilities. Twice per year, the Board of Directors reviews our risk profile, which is the list of key risks prepared by senior management, that represents the greatest threats to meeting our strategic objectives. The Audit and Finance Committee of our Board of Directors annually reviews the status of our internal control framework.

Our President and Chief Executive Officer (CEO) has ultimate accountability for risk management. Our Leadership Team provides senior management oversight of our risk portfolio and our risk management processes. The leadership team provides direction on the evolution of these processes and identifies priority areas of focus for risk assessment and mitigation planning.

Our Chief Administration Officer and Chief Financial Officer (CAO and CFO) is responsible for ensuring that the risk management program is an integral part of our business strategy, planning and objective setting. The CAO and CFO has specific accountability for ensuring that enterprise risk management processes are established, properly documented and maintained by our company.

Our senior managers, line and functional managers are responsible for managing risks within the scope of their authority and accountability. Risk acceptance or mitigation decisions are made within the risk tolerances specified by the head of the subsidiary or function.

The CAO and CFO provides support to the Audit and Finance Committee of our Board of Directors, the President and CEO, the senior management team and key managers within our company. This support includes developing risk management

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

frameworks, policies and processes, introducing and promoting new techniques, establishing risk tolerances, preparing annual corporate risk profiles, maintaining a registry of key business risks and facilitating risk assessments across our company. Our internal audit staff is responsible for performing independent reviews of the effectiveness of risk management policies, processes and systems. Starting in 2013, our Board of Directors has taken on an enhanced role in our governance structure. Each committee of the Board of Directors will take accountability for reviewing specific risks of our company.

Key elements of our ERM Program enable us to identify, assess and monitor our risks effectively. These include having an ERM policy and framework which communicates our philosophy and process for risk management across our company. A discussion of risks is an integral part of each line of business' planning documents on an annual basis. Risk identification is also considered as part of each business case for investments. Finally, discrete risk assessments and workshops are performed for specific lines of business, key projects and various profiles, such as customer relationships and regulatory compliance.

In order to drive consistency throughout our risk identification and risk management processes, we use a standard list of risk sources known as our risk universe. These sources are maintained in a single database that provides a consistent basis for risk identification and classification and serves as a repository for our risk assessments. All risk assessments in our company start with this risk universe. We also use standard risk criteria, which establish the metrics and terminology used for assessing and communicating on risks, and help ensure a consistent basis for our risk assessments and risk evaluations across all lines of business. Risk criteria include formally established risk tolerances and standard scales for assessing the probability of a risk materializing and the strength of controls in place to mitigate them.

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. In 2009, the Province required our company, among other entities, 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. Our 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, including any potential outcomes arising out of the recommendations of the Ontario Distribution Sector Review Panel's report, the Province's ownership of Ontario Power Generation Inc., 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 materially falls below projected levels, our net income 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. We are also subject to risk of revenue loss from other factors, such as economic trends and weather.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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.

In Ontario, the Market Rules mandate that we comply with the reliability standards established by North American Electric Reliability Corporation and Northeast Power Coordinating Council Inc. As a result, we will be required to comply with the Federal Energy Regulatory Commission's definition of "bulk electric system" unless we are granted an exemption which will allow the application of the new definition in a cost-effective manner. We will look for recovery for costs incurred in meeting the definition in our rates; however an adverse decision on an exemption for recovery of costs could have an 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 2013 and 2016, including \$600 million maturing in 2013 and \$750 million maturing in 2014. We plan to incur capital expenditures of approximately \$1.6 billion in 2013 and \$1.8 billion in 2014. 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 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 with First Nations and Métis. Obtaining OEB and/or environmental assessment approvals and carrying out these processes may also be impacted by opposition to the proposed site of transmission investments which could 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, in the absence of a government directive, 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. This could have a material adverse effect on our company.

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 programs have been increasing to maintain the performance of

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

our aging asset base. Execution of these plans is partially dependent on external factors, such as outage planning with the IESO and transmission-connected customers, funding approval by the OEB, and supply chain availability for equipment suppliers and consulting services. In addition, opportunities to remove equipment from service to accommodate construction and maintenance are becoming increasingly limited due to customer and generator priorities.

Adjustments to accommodate these external dependencies have been made in our planning process, and we are focused on overcoming these challenges to execute our work programs. 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.

Workforce Demographic Risk

By the end of 2012, approximately 18% of our employees were eligible for retirement and by 2013 there could be up to 20% 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 are therefore focused on earlier identification and more rapid development of staff who demonstrate management potential. Moreover, we must also continue to advance our technical 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 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.

Under applicable regulations, we expect to incur future expenditures to identify, remove and dispose of asbestos-containing materials installed in some of our facilities. We record an asset retirement obligation for the present value of the estimated future expenditures. The estimates are based on an external, expert study of the current expenditures associated with removing such materials from our facilities. Actual future expenditures may vary materially from the estimates used for the amount of the asset retirement obligation.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 IT 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. We mitigate this risk through various methods including the use of security event management tools on our power and business systems, by separating our power system network from our business system network, by performing scans of our systems for known cyber threats and by providing company-wide awareness training to our personnel. We also engage the services of external experts to evaluate the security of our IT infrastructure and controls. We perform vulnerability assessments on our critical cyber assets and we ensure security and privacy controls are incorporated into new IT capabilities. Although these security and system disaster recovery controls are in place, there can be no guarantee that there will not be system failures or security breaches. Upon occurrence, the focus would shift from prevention to isolation, remediation and recovery until the incident has been fully addressed. Any such system failures or security breaches could have a material adverse effect on our company.

We are currently in the process of a planned phased replacement of key enterprise IT systems. The last phase of this project is underway and will replace our existing billing and customer system with a new CIS. With projects of this size and complexity, there is risk to the Company if the resulting solution encounters performance problems or calculation errors. Any such system problems could have a material adverse effect on our company. To mitigate this risk, extensive testing and user training is taking place. Testing includes performance, system integration, parallel billing (comparing legacy system bill calculation to the new system), and operational/business readiness. Since this system directly impacts our end customers, stringent test exit criteria must be met prior to placing it into production.

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, 2011 and was filed in May 2012. Our company contributed \$148 million in respect of 2011 and approximately \$160 million in respect of 2012 to its pension plan to satisfy minimum funding requirements. An additional contribution of \$3.8 million was also made in 2011 to complete the funding associated with the partial plan wind-up. Contributions beyond 2012 will depend on investment returns, changes in benefits and actuarial assumptions and may include additional voluntary contributions from time to time. Nevertheless, future

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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. The OEB-approved adjustment formula for calculating ROE 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 used in determining our rate of return would reduce our Transmission Business' net income by approximately \$19 million and our Hydro One Networks' 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 counterparty 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 counterparty default. We monitor and minimize credit risk through various techniques, including dealing with highly-rated counterparties, limiting total exposure levels with individual counterparties, and by entering into master agreements which enable net settlement and by monitoring the financial condition of counterparties. 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. 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 hired after November 2005 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, 2013 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.

First Nation and Métis Claims Risk

Some of our current and proposed transmission and distribution lines may traverse lands over which First Nations and Métis have aboriginal, treaty or other legal claims. Although we have a recent history of successful negotiations and consultations with First Nations and Métis in Ontario, some communities and/or their citizens have expressed an increasing willingness to assert their claims through the courts, tribunals, or by direct action, which in turn can affect business activities. As a result, there exists uncertainty relating to business operations and project planning which could have an adverse effect on our company.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Risk from Transfer of Assets Located on Reserves

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 Reserves. Currently, OEFC holds legal title to these assets and we manage them until we have obtained necessary authorizations to complete the title transfer. To occupy Reserves, we must have valid permits issued by Her Majesty the Queen in the Right of Canada. For each permit, we must negotiate an agreement (in the form of a Memorandum of Understanding) with the First Nation, OEFC and any members of the First Nation who have occupancy rights. The agreement includes provisions whereby the First Nation consents to the federal Department of Aboriginal Affairs and Northern Development issuing a permit. It is difficult to predict the aggregate amount that we may have to pay, either on an annual or one-time basis, to obtain the required agreements from First Nations. However, we anticipate that the amount will exceed the approximately \$943,000 that we paid in 2012. OEFC will continue to hold these assets until we are able to negotiate agreements with First Nations and occupants. If we cannot reach satisfactory agreements and obtain federal permits, we may have to relocate these assets to other locations at a cost that could be substantial. In a limited number of cases, it may be necessary 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, effectively renewing the arrangement until February 28, 2015. If the agreement with Inergi 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, which could have an adverse effect on our company.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our Consolidated 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 Consolidated Financial Statements:

Regulatory Assets and Liabilities

At December 31, 2012, regulatory assets amounted to \$3,127 million and these amounts principally relate to regulatory offsets to pension, deferred income tax, post-retirement and post-employment benefits and environmental liabilities, which are anticipated to be recovered through rates over time. We have also recorded regulatory liabilities amounting to \$221 million as at December 31, 2012. These amounts pertain primarily to OEB deferral and variance accounts. These assets and liabilities can be recognized for rate-setting and financial reporting purposes only if the relevant amounts have been approved for inclusion in the rate-setting process by the OEB or if such approval is judged to be probable by management. If management judges that it is no longer probable that the OEB will include a regulatory item 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.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 now 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% is 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 3.57% to 4.87%, depending on the appropriate rate for the period when the particular obligation was recorded. Consistent with the current requirements of Environment Canada's PCB regulations, 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 in effect in the period when each obligation was originally recorded.

Recording a liability 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; contamination levels of equipment that may have PCBs; and the timing of work. 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 requirements 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 current assumptions. Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant facts occur. Regulatory changes are reflected when enacted. 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 2012 were approximately \$160 million, based on an actuarial valuation effective December 31, 2011. Contributions after 2014 will be based on an actuarial valuation effective no later than December 31, 2014, and will depend on investment returns, changes in benefits or actuarial assumptions. Pension costs are also disclosed in the notes to the Consolidated Financial Statements on an accrual basis. The discount rate used to calculate the accrued benefit obligation, on an accrual accounting basis, is calculated differently from what would be used to determine the funding requirement, and 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, 2012 declined to 4.25% from 5.25% used at December 31, 2011, in conjunction with decreases in bond yields over this period. The decrease in discount rates has resulted in a corresponding increase in liabilities for accounting purposes. We also record employee future benefit costs other than pension on an accrual accounting 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. There were no changes in benefits afforded to employees.

The assumed return on pension plan assets of 6.25% 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 60% equities, 35% fixed income and 5% in alternative assets consisting of real estate and infrastructure. 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 2012, the return on pension plan assets of 9.19% was higher than this long-term assumption and was higher than in 2011.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Yields on AA corporate bonds declined by approximately 80-100 basis points between December 31, 2011 and December 31, 2012. Based on the duration of the plan's liabilities, discount rates would be 4.25% 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 accounting purposes as at December 31, 2012 was 4.25%.

Further, based on differences between long-term Government of Canada nominal bonds and real return bonds, the implied inflation rate has decreased from 2.0% per annum as at December 31, 2011 to approximately 1.90% per annum as at December 31, 2012. 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 reasonable to use as a long-term assumption and as such, has used a 2.0% per annum inflation rate for liability valuation purposes as at December 31, 2012.

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 \$17 million per year and an increase in the year-end obligation of about \$246 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 and intangible 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 part of the cost of fixed and intangible assets.

Asset Impairment

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 need to 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 within any of our businesses.

TRANSITION TO US GAAP

Accounting Framework for External Reporting

In 2011, the 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 Consolidated Financial Statements and accompanying notes as at, and for the year ended, December 31, 2012 have been prepared in accordance with US GAAP. These are our first US GAAP annual Consolidated Financial Statements. Our first US GAAP unaudited interim Consolidated Financial Statements were as at, and for the three months ended, March 31, 2012.

Our company's Consolidated Financial Statements were prepared in accordance with Part V of the Canadian Institute of Chartered Accountants (CICA) Handbook until December 31, 2011. Canadian GAAP differs in some areas from US GAAP as disclosed in the reconciliation to US GAAP included in Note 24 to the annual Consolidated Financial Statements as at, and for the year ended, December 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 24 to our annual Consolidated Financial Statements for the year ended December 31, 2012. The accounting policies set out in the annual Consolidated Financial Statements for the year ended December 31, 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 IFRS basis. The OEB approved Hydro One Networks' request to adopt US GAAP for its regulated transmission and distribution businesses, and approved Hydro One

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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. Our subsidiary Hydro One Brampton Networks has deferred its adoption of modified IFRS until the fiscal year beginning January 1, 2014, as allowed by the Canadian Accounting Standards Board. Currently, Hydro One Brampton Networks will continue to have its rates set based on Part V of the CICA Handbook until it begins reporting under modified IFRS.

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 2013, we will continue to 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 ongoing basis, as we have certain subsidiaries that are required to prepare their own separate financial statements in accordance with IFRS. IFRS training was also previously provided to our Audit and Finance Committee and senior executive management. In 2013, we will continue to monitor new IFRS accounting and reporting developments and emerging issues and will provide IFRS training to specific staff as applicable.

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 International Accounting Standards Board's (IASB) Rate

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 impactful IASB 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 (ICFR)

To optimize our customer service operations, we have started the final major phase of our planned SAP enterprise-wide information system by initiating our CIS Project. This new system will increase productivity by replacing multiple 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 system integration phase. Internal controls have been documented and will be tested for adequacy and effectiveness with any remediation effort to be completed prior to the go-live date in 2013. In addition to the benefits associated with our 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 Consolidated Financial Statements for the year ended December 31, 2012, 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, 2012. Further, our Certifying Officers have also certified that our ICFRs have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements. Based on the evaluation of the design and operating effectiveness of our company's ICFR, our Certifying Officers concluded that our ICFR was effective as at December 31, 2012.

SELECTED ANNUAL INFORMATION

The following table sets forth audited annual information for each of the three years ended December 31, 2012, 2011 and 2010. This information has been derived from our audited annual Consolidated Financial Statements.

Consolidated Statements of Operations

<i>Year ended December 31 (millions of dollars, except amounts per share)</i>	2012	2011	2010¹
Revenues	5,728	5,471	5,124
Net income	745	641	591
Basic and fully diluted earnings per common share	7,280	6,228	5,727
Cash dividends per common share	3,523	1,500	100
Cash dividends per preferred share	1.375	1.375	1.375

Consolidated Balance Sheets

<i>December 31 (millions of dollars)</i>	2012	2011	2010
Total assets	20,811	18,836	17,344
Total long-term debt	8,479	8,008	7,783

¹ Based on Canadian GAAP. US GAAP results would not differ significantly.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

OUTLOOK

To achieve our mission and vision to be an innovative and trusted company delivering electricity safely, reliably and efficiently to create value for our customers, we will continue to concentrate on our strategic objectives of safety, customer satisfaction, continuous innovation, reliability, protection of the environment, employee engagement, shareholder value and productivity and cost-effectiveness. Given the nature of the work undertaken by our employees and contractors, safety remains our top priority. We will continue to focus on creating an injury-free workplace and maintaining public safety through several health and safety initiatives.

We will continue to focus our efforts to improve our customers' satisfaction by meeting the unique needs of our diverse customer base through dialogue to understand their needs. We will install innovative solutions that improve the reliability and efficiency of the transmission and distribution systems and provide our customers more capability to manage their own costs. Most importantly, we are focused on becoming the customer's trusted advisor by providing access to specialized energy conservation teams to discuss the customer's opportunities to lower consumption, and through the use of a special team of agents to handle distributed generator inquiries and requirements.

Our assets are in the midst of a demographic change with an increasing proportion of assets reaching end-of-life and an increasing average asset age. Our focus is to address aging infrastructure, and to make needed asset replacement and maintenance investments, to maintain current and future system reliability for customers, within the policy set by the OEB. We will invest in technology that will provide us with real time asset condition and performance data giving us the visibility to make asset optimization life-cycle decisions, and opportunities through planning and scheduling data to improve materials procurement and to deploy work crews to better manage work programs to meet customer needs.

It is expected that the implementation of new asset management tools, such as Asset Analytics and Asset Investment Planning, will enhance risk-based investment planning, which considers such factors as asset condition, safety, performance, system function, customer impact, and statutory requirements allowing for targeted investment.

We will also continue to strive for productivity through efficiency and effective management of costs, which is key to achieving value for our customers and our shareholder.

Over the last four years, we have replaced most of our core information technology systems with an enterprise-wide IT system. We will leverage this investment as a platform for further effectiveness and efficiency gains, including enhancements in strategic sourcing. Further development of the existing IT platform will provide tools which are being developed to allow our company to effectively plan and reprioritize work and integrate customers' needs into multi-year investment plans. The outcomes are consistent with the OEB's direction in its new Outcomes-Based Approach to regulation.

We will be implementing the new CIS in 2013 that will improve customer service and corporate productivity by allowing the earlier investments in SAP to operate as an integrated platform. In addition, the first elements of the next generation of work delivery to be introduced through the Workflow of the Future Program in 2013 and 2014, and the use of information within the SAP systems, are expected to improve field-level productivity.

We are planning significant investments in transmission and distribution infrastructure and we will continue to focus on the operating and economic performance of our core utility operations in the provision of safe, cost-effective and reliable electricity delivery services to our customers, and in providing increasing enterprise value to the people of the province of Ontario. Productivity, value for money and improved employee and customer communications will be key areas of focus. We will continue to connect and support DG and investments made consistent with the LTEP.

Significant opportunity resides with smart meters and the proliferation of an ADS, including energy efficiency, demand response and distributed-resources technologies. We will invest in the development of an ADS and related grid modernization standards, customer demand work (connections and upgrades), smart meters, DG connections, including station upgrades, protection and control, new lines and some contestable work, for which the Company will receive capital contributions. There is little flexibility to reduce this work as most of it is customer demand driven.

As part of our new ADS, a new DMS will provide a monitoring and centralized control capability similar to that which already exists in the transmission system, and in selected areas of the distribution system. The new DMS was introduced in the Owen Sound pilot area and it will be expanded over time, as warranted. Future enhancements will also integrate the

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Outage Response Management System with the Advanced Meter Infrastructure (i.e. smart meters) and with the DMS, to reduce System Average Interruption Duration Index and System Average Interruption Frequency Index.

The actual timing and expenditures in our business 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.

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 by ensuring that environmental factors are considered in making our business decisions.

Key enablers of the successful implementation of our work programs are our human and material resourcing strategies. Our human resource strategy is focused on hiring through our apprenticeship program and our association with universities, colleges and our unions, as well as skills development and retention, including earlier identification and more rapid development of staff who demonstrate management potential. Effective use of human resources and ensuring correct skills will be critical to attaining the balance between meeting the asset needs and mitigating rate impact on the customer. Although our work program is assumed to grow moderately over the 2013 and 2014 years, no increase in regular staff numbers is anticipated over that period. With regard to materials, we are seeing a need for 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. We have considered and will continue to consider and respond to opportunities for acquisitions or divestitures, on a voluntary and commercial basis. Our plan does not include funding for LDC acquisitions or assume any disposition of our service territory. These opportunities will be managed as they arise. Our plan also does not incorporate any projects related to competitive transmission. However, as leaders in the sector, we plan to bid on key projects. The OEB notes in its *Framework for Transmission Project Development Plans* that where projects are otherwise equivalent or close in other factors, information such as socio-economic benefits, including First Nations involvement, could prove decisive in a competitive bid. As such, First Nations involvement in competitive bids is likely to become more prevalent.

APPOINTMENT OF CARMINE MARCELLO

On November 14, 2012, our Board of Directors appointed Carmine Marcello to the role of President and Chief Executive Officer, effective January 1, 2013. Mr. Marcello assumes his responsibilities following the planned retirement of outgoing President and Chief Executive Officer, Laura Formosa. Mr. Marcello has over 25 years' experience with our company as a senior executive, strategic planner and advisor on transmission and distribution utility processes in the electric utility industry.

APPOINTMENT OF YEZDI PAVRI

On December 6, 2012, Yezdi Pavri was appointed to our Board of Directors. Mr. Pavri is a Chartered Accountant and a former Vice-Chairman of Deloitte Canada. Mr. Pavri currently holds the position of Chair of the Board of Trustees of the United Way of Toronto.

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, including our strategic objectives; statements regarding our transmission and distribution rates; statements regarding load changes and associated impacts; statements regarding CDM programs and targets; the estimated impact of changes in the forecasted long-term Government of Canada bond yield (used in determining our regulated rate of return) on our results of operations; statements related to economic conditions; expectations regarding

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

energy-related revenues and profit and their trend; statements related to the GEA, the IPSP and the Ministry's LTEP and Supply Mix Directive, including additional investments arising therefrom and the timing and content of OPA recommendations; statements regarding our liquidity and capital resources and operational requirements; statements about our standby credit facility; expectations regarding our financing activities; statements regarding our maturing debt; 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; statements related to the OEB, including the renewed regulatory framework and revenue decoupling; 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 as well as our training and conversion plans; statements related to our agreement with the SON; statements related to our outlook including statements regarding our approach to distribution rationalization; and statements related to the FIT program. 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; favourable decisions from the OEB 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; 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 risks associated with the impending expiry of our collective agreements with both the Society and the PWU;
- the risk that previously granted regulatory approvals may be subsequently challenged, appealed or overturned;
- the risks associated with the OEB's competitive transmission project development planning process;
- 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;

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

- 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, and changes in benefits and actuarial assumptions;
- the risks related to our workforce demographic and our potential inability to attract and retain qualified personnel;
- the risks associated with information system security, with maintaining a complex information technology system infrastructure, and with transitioning key enterprise IT systems;
- the risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders;
- the risk that future environmental expenditures are not recoverable in future electricity rates;
- the risk that it may be determined that exposure to electric and magnetic fields emanating from power lines and other electric sources may cause health problems;
- 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 risks associated with the fact that some of our current and proposed transmission and distribution lines may traverse lands which First Nations and Métis have aboriginal, treaty or other legal claims;
- 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 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 14, 2013. Additional information about our company, including our Annual Information Form, is available on SEDAR at www.sedar.com.

HYDRO ONE INC. 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 United States Generally Accepted Accounting Principles 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 14, 2013.

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). The effectiveness of these internal controls is evaluated and findings are reported 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 United States Generally Accepted Accounting Principles. The Independent Auditors' Report 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:



Carmine Marcello
President and Chief Executive Officer



Sandy Struthers
Chief Administration Officer and Chief Financial Officer

HYDRO ONE INC. 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, 2012 and December 31, 2011, the consolidated statements of operations and comprehensive income, changes in shareholder's equity and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 United States 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 consolidated financial position of Hydro One Inc. as at December 31, 2012 and December 31, 2011, and its consolidated statements of operations and comprehensive income, changes in shareholder's equity and cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with United States Generally Accepted Accounting Principles.



Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 14, 2013

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

<i>Year ended December 31 (millions of dollars, except per share amounts)</i>	2012	2011
Revenues		(Note 24)
Distribution (includes \$155 related party revenues; 2011 – \$155) (Note 19)	4,184	4,019
Transmission (includes \$1,482 related party revenues; 2011 – \$1,372) (Note 19)	1,482	1,389
Other	62	63
	5,728	5,471
Costs		
Purchased power (includes \$2,409 related party costs; 2011 – \$2,427) (Note 19)	2,774	2,628
Operation, maintenance and administration (Note 19)	1,071	1,092
Depreciation and amortization (Note 4)	659	616
	4,504	4,336
Income before financing charges and provision for payments in lieu of corporate income taxes	1,224	1,135
Financing charges (Note 5)	358	344
Income before provision for payments in lieu of corporate income taxes	866	791
Provision for payments in lieu of corporate income taxes (Notes 6, 19)	121	150
Net income	745	641
Other comprehensive income	1	-
Comprehensive income	746	641
Basic and fully diluted earnings per common share (dollars) (Note 17)	7,280	6,228
Dividends per common share declared (dollars) (Note 18)	3,523	1,500

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS

<i>December 31 (millions of dollars)</i>	2012	2011
Assets		<i>(Note 24)</i>
Current assets:		
Short-term investments <i>(Note 12)</i>	195	228
Accounts receivable (net of allowance for doubtful accounts – \$23; 2011 – \$18) <i>(Note 7)</i>	845	805
Due from related parties <i>(Note 19)</i>	154	156
Regulatory assets <i>(Note 10)</i>	29	24
Materials and supplies	23	25
Deferred income tax assets <i>(Note 6)</i>	18	19
Derivative instruments <i>(Note 12)</i>	-	1
Other	22	19
	1,286	1,277
Property, plant and equipment <i>(Note 8)</i> :		
Property, plant and equipment in service	22,650	21,008
Less: accumulated depreciation	8,145	7,679
	14,505	13,329
Construction in progress	1,055	1,436
Future use land, components and spares	147	138
	15,707	14,903
Other long-term assets:		
Regulatory assets <i>(Note 10)</i>	3,098	1,966
Long-term investment <i>(Notes 11, 12, 19)</i>	251	250
Intangible assets (net of accumulated amortization – \$305; 2011 – \$257) <i>(Note 9)</i>	267	224
Goodwill	133	133
Deferred debt costs	34	32
Derivative instruments <i>(Note 12)</i>	19	33
Deferred income tax assets <i>(Note 6)</i>	14	17
Other	2	1
	3,818	2,656
Total assets	20,811	18,836

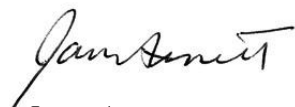
See accompanying notes to Consolidated Financial Statements.


HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (continued)

<i>December 31 (millions of dollars, except number of shares)</i>	2012	2011
Liabilities		<i>(Note 24)</i>
Current liabilities:		
Bank indebtedness <i>(Note 12)</i>	42	39
Accounts payable	140	154
Accrued liabilities <i>(Notes 6, 14, 15)</i>	582	575
Due to related parties <i>(Note 19)</i>	257	342
Accrued interest	95	85
Regulatory liabilities <i>(Note 10)</i>	40	25
Long-term debt payable within one year <i>(Notes 11, 12)</i>	600	600
	1,756	1,820
Long-term debt (includes \$769 measured at fair value; 2011 – \$783) <i>(Notes 11, 12)</i>	7,879	7,408
Other long-term liabilities:		
Post-retirement and post-employment benefit liability <i>(Note 14)</i>	1,416	1,163
Deferred income tax liabilities <i>(Note 6)</i>	944	758
Pension benefit liability <i>(Note 14)</i>	1,515	779
Environmental liabilities <i>(Note 15)</i>	227	235
Regulatory liabilities <i>(Note 10)</i>	181	169
Net unamortized debt premiums	23	23
Asset retirement obligations <i>(Note 16)</i>	15	15
Long-term accounts payable and other liabilities	25	12
	4,346	3,154
Total liabilities	13,981	12,382
<i>Contingencies and commitments (Notes 21, 22)</i>		
Preferred shares (authorized: unlimited; issued: 12,920,000) <i>(Notes 17, 18)</i>	323	323
Shareholder's Equity		
Common shares (authorized: unlimited; issued: 100,000) <i>(Notes 17, 18)</i>	3,314	3,314
Retained earnings	3,202	2,827
Accumulated other comprehensive loss	(9)	(10)
Total shareholder's equity	6,507	6,131
Total liabilities, preferred shares and shareholder's equity	20,811	18,836

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

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

<i>Year ended December 31, 2012</i> <i>(millions of dollars)</i>	Common Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholder's Equity
January 1, 2012	3,314	2,827	(10)	6,131
Net income	-	745	-	745
Other comprehensive income	-	-	1	1
Dividends on preferred shares	-	(18)	-	(18)
Dividends on common shares	-	(352)	-	(352)
December 31, 2012	3,314	3,202	(9)	6,507

<i>Year ended December 31, 2011</i> <i>(millions of dollars)</i> <i>(Note 24)</i>	Common Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholder's Equity
January 1, 2011	3,314	2,354	(10)	5,658
Net income	-	641	-	641
Other comprehensive income	-	-	-	-
Dividends on preferred shares	-	(18)	-	(18)
Dividends on common shares	-	(150)	-	(150)
December 31, 2011	3,314	2,827	(10)	6,131

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Operating activities		<i>(Note 24)</i>
Net income	745	641
Environmental expenditures	(18)	(16)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	589	550
Regulatory assets and liabilities	12	47
Deferred income taxes	(9)	(12)
Asset retirement obligations	-	4
Other	6	9
Changes in non-cash balances related to operations <i>(Note 20)</i>	(40)	184
Net cash from operating activities	1,285	1,407
Financing activities		
Long-term debt issued	1,085	700
Long-term debt retired	(600)	(500)
Dividends paid	(370)	(168)
Change in bank indebtedness	3	39
Other	(1)	(4)
Net cash from (used in) financing activities	117	67
Investing activities		
Capital expenditures		
Property, plant and equipment	(1,363)	(1,371)
Intangible assets	(91)	(76)
Other	19	29
Net cash used in investing activities	(1,435)	(1,418)
Net change in cash and cash equivalents	(33)	56
Cash and cash equivalents, beginning of year	228	172
Cash and cash equivalents, end of year	195	228

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.

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 (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

These 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 Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) and in Canadian dollars. These statements are to be read in conjunction with Note 24 – Transition to US GAAP, which discloses information on the Canadian GAAP per Part V of the CICA Handbook (Canadian GAAP) to US GAAP transition and related reconciliations from Canadian GAAP to US GAAP. The results of operations for the year ended December 31, 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.

Hydro One performed an evaluation of subsequent events for the accompanying Consolidated Financial Statements and notes through to February 14, 2013, the date these Consolidated Financial Statements were issued, to determine whether the circumstances warranted recognition and disclosure of any events or transactions. No such events or transactions were identified.

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, expenses, gains and losses during the reporting periods. Management evaluates these estimates on an ongoing basis based upon: historical experience; current conditions; and assumptions believed to be reasonable at the time the assumptions are made with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, pension benefits, post-retirement and post-employment benefits, asset retirement obligations (AROs), goodwill and asset impairments, contingencies, unbilled revenues, allowance for doubtful accounts, derivative instruments, 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 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 has approved US GAAP as the basis for rate setting for Hydro One Networks' Transmission and Distribution businesses and by Hydro One Remote Communities all effective January 1, 2012. Hydro One Brampton Networks' rates are currently set under Canadian GAAP, and are expected to be set under the OEB's modified International Financial Reporting Standards (IFRS) framework commencing in 2015, once its current Incentive Regulation Mechanism (IRM) period is complete.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Transmission

In May 2010, Hydro One Networks filed a cost-of-service application for 2011 and 2012 transmission rates in continued support of the Company's 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.

In December 2010, the OEB 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 to adopt a cost capitalization policy based on modified IFRS. This adjustment was subsequently reversed, when the OEB approved the use of US GAAP for transmission rate-setting purposes beginning January 1, 2012. Consequently, the OEB approved a revenue requirement of \$1,418 million for 2012, along with new 2012 uniform transmission rates, with an effective date of January 1, 2012.

Distribution

In 2009, Hydro One Networks filed a cost-of-service application with the OEB for 2011 distribution rates, seeking approval for a revenue requirement of approximately \$1,264 million. The application reflected 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 to make investments required by the GEA. In April 2010, the OEB approved a revenue requirement of \$1,236 million for 2011. The OEB also approved certain distribution regulatory account balances sought by Hydro One Networks in its application, including retail settlement variance accounts, retail cost variance accounts and smart meters. In November 2010, the OEB issued its cost-of-capital parameter updates for rates effective January 1, 2011. A lowering of the return on equity produced a revised revenue requirement of \$1,218 million. The approved 2011 revenue requirement resulted in an average distribution rate increase of approximately 8.7% for 2011. Hydro One Networks elected to retain the same distribution rates for 2012 as approved by the OEB for the 2011 rate year.

In 2010, Hydro One Brampton Networks filed a cost-of-service application with the OEB for 2011 distribution rates, seeking approval for a revenue requirement of approximately \$63 million. In 2011, the OEB approved a revenue requirement of approximately \$60 million for 2011, with an effective date of January 1, 2011. The reduced approved revenue requirement included a reduction to approved operation, maintenance and administration costs. In September 2011, Hydro One Brampton Networks filed an IRM application with the OEB for 2012 distribution rates, with an effective date of January 1, 2012. In January 2012, the OEB released a decision that resulted in a reduction in distribution rates of approximately 13.2% for 2012. These rate reductions were primarily due to OEB-approved adjustments to depreciation rates.

In October 2010, Hydro One Remote Communities filed an IRM application with the OEB for 2011 rates. In March 2011, the OEB approved an increase of approximately 0.4% to basic rates for the distribution and generation of electricity, with an effective date of May 1, 2011. In November 2011, Hydro One Remote Communities filed an IRM application with the OEB for 2012 rates. In March 2012, the OEB approved an increase of approximately 1.1% to basic rates for the distribution and generation of electricity, with an effective date of May 1, 2012.

Regulatory Accounting

The OEB has the general power to include or exclude revenues, costs, gains or losses 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 future 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.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments. Short-term investments have an original maturity of three months or less.

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 electricity 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 electricity 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.

Revenues are recorded net of indirect taxes.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount or net realizable value, if unbilled. 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.

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 (OEFEC). 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% 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 judgement 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.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 their 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 tax asset to report the net 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 realized.

The Company records regulatory assets and liabilities associated with deferred income taxes that will be included in the rate-setting process.

The Company uses the flow-through method to account for investment tax credits (ITCs) earned on eligible scientific research and experimental development expenditures, and apprenticeship job creation. Under this method, only the ITCs are recognized as a reduction to income tax expense.

Materials and Supplies

Materials and supplies represent consumables, small spare parts and construction materials held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost, net of customer contributions received in aid of construction and any accumulated impairment losses. The cost of additions, including betterments and replacement asset components, is included on the Consolidated Balance Sheets as property, plant and equipment.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized financing costs, asset retirement costs, and direct and indirect overheads that are related to the capital project or program. Indirect overheads include a portion of corporate costs such as finance, treasury, human resources, information technology and executive costs. Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

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.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 land access rights.

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), consulting, engineering, overheads and attributable capitalized 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.

Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of property, plant and equipment or development of intangible assets. The financing 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.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of constructed assets that are not yet complete 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, except for 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 OEB approval of such a review are

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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	Rate (%)	
	Service Life	Range	Average
Transmission	56 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%.

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 such gain or loss 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 that is in excess of the fair value of the net identifiable assets acquired at the acquisition date. Goodwill is not included in rate base.

Goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require. Per Accounting Standards Update (ASU) 2011-08, Intangibles – Goodwill and Other (Topic 350), Testing Goodwill for Impairment, issued by the Financial Accounting Standards Board (FASB) in September 2011, the Company performs a qualitative assessment to determine whether it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount. If the Company determines, as a result of its qualitative assessment, that it is not more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, no further testing is required. If the Company determines, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, a goodwill impairment assessment is performed using a two-step, fair value-based test. The first step compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the carrying amount of the applicable reporting unit exceeds its fair value, a 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.

For the year ended December 31, 2012, based on the qualitative assessment performed, the Company has determined that it is not more-likely-than-not that the fair value of each applicable reporting unit assessed is less than its carrying amount. As a result, no further testing was performed, and the Company has concluded that goodwill was not impaired at December 31, 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.

HYDRO ONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Within its regulated business, the carrying costs of most of Hydro One's long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is 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 December 31, 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 such amounts 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 within financing charges in the Consolidated Statements of Operations and Comprehensive Income. 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 amortization of net unamortized hedging losses on the Company's discounted cash flow hedges, and the change in fair value on the 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. Hydro One presents net income and OCI 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; 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 and amounts due from related parties, which are measured at the lower of cost or fair value. Accounts receivable and amounts due from related parties are classified as loans and receivables. The Company considers the carrying amounts of accounts receivable and amounts due from related parties to be reasonable estimates 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 12 – Fair Value of Financial Instruments and Risk Management.

Short-term investments have an original maturity of three months or less and 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 December 31, 2012 and 2011, all short-term investments were classified as held-to-maturity.

HYDRO ONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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 hedging relationships.

The accounting guidance for derivative instruments 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 on the Consolidated Balance Sheets. For derivative instruments that qualify for hedge accounting, the Company may elect to designate such derivative instruments 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, net of tax, is reported as a component of accumulated OCI (AOCI) and is 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 derivative instruments 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 and had no embedded derivatives at December 31, 2012.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where the Company has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on a quarterly 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 plans 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 plans 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

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets.

Pension benefits

Hydro One records a regulatory asset equal to the net underfunded projected benefit obligation for its pension plan. The regulatory asset for the net underfunded projected benefit obligation for the pension plan, in the absence of regulatory accounting, would be recognized in AOCI. A regulatory asset is recognized because management considers it to be probable that pension benefit costs will be recovered in the future through the rate-setting process. The pension regulatory assets are remeasured at the end of each year based on the current status of the pension plan.

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 for financial reporting purposes. 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. 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 fair valued at the end of each year.

All future pension 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.

Post-retirement and post-employment benefits

Hydro One records a regulatory asset equal to the incremental net unfunded projected benefit obligation for post-retirement and post-employment plans recorded on transition to US GAAP and at each year end based on annual actuarial reports. The regulatory asset for the incremental net unfunded projected benefit obligation for post-retirement and post-employment plans, in the absence of regulatory accounting, would be recognized in AOCI. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process.

Post-retirement and post-employment benefits are recorded and included in rates 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.

For post-retirement benefits, 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. The post-retirement benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

For post-employment obligations, the associated regulatory liabilities representing actuarial gains on transition to US GAAP are amortized to results of operations based on the "corridor" approach. Post transition, the actuarial gains and losses on post-employment obligations that are incurred during the year are recognized immediately to results of operations. The post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to associated regulatory asset, to the extent of the remeasurement adjustment.

All post-retirement and post-employment 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.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Multiemployer Pension Plan

Employees of Hydro One Brampton Networks participate in the Ontario Municipal Employees Retirement System Fund (OMERS), a multiemployer, contributory, defined benefit public sector pension fund. OMERS provides retirement pension payments based on members' length of service and salary. Both participating employers and members are required to make plan contributions. The OMERS plan assets are pooled together to provide benefits to all plan participants and the plan assets are not segregated by member entity. OMERS is registered with the Financial Services Commission of Ontario under Registration #0345983.

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 obligation, the fair value of plan assets or the related current service cost applicable to Hydro One Brampton Networks' employees. Hydro One recognizes its contributions to the OMERS plan 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.

At December 31, 2011, OMERS had approximately 419,000 members, with approximately 277 members being current employees of Hydro One Brampton Networks.

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 judgements 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. Where the loss amount is recoverable in future rates, a regulatory asset is also recorded. 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 judgements 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 where the projection period is lengthy. A significant upward or downward trend in the number of claims filed, the nature of the alleged injuries, and the average cost of resolving each claim could change the estimated provision, as could any substantial adverse or favourable verdict at trial. A federal or provincial legislative outcome or structured settlement 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 contaminated land assessment and remediation (LAR) 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.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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. Where an asset is no longer in service when an ARO is recorded, the asset retirement cost is recorded in results of operations.

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

Recently Adopted Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-09, Disclosures About an Employer's Participation in a Multiemployer Benefit Plan. This ASU requires an employer to provide quantitative and qualitative disclosures 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. An employer that is not able to provide some of the quantitative information required by this ASU must disclose what information has been omitted and why it could not obtain the information. This ASU does not change the recognition and measurement guidance for an employer's participation in a multiemployer plan. As this ASU only requires enhanced disclosures, the adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.

In September 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other (Topic 350), Testing Goodwill for Impairment. This ASU 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 adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income 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

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 shareholder's equity. The amendments in this ASU do not change the items that must be reported in OCI or when an item of OCI must be reclassified to net income. Hydro One has elected to present OCI and net income in a single continuous Consolidated Statement of Operations and Comprehensive Income.

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. This 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. This ASU is largely consistent with existing US GAAP fair value measurement principles under Accounting Standards Codification 820. However, this 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. Required disclosures have been included in Note 12 – Fair Value of Financial Instruments and Risk Management. As this ASU only requires enhanced disclosures, the adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.

Recent Accounting Guidance Not Yet Adopted

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. This ASU requires an entity to disclose both gross and net information about financial instruments and transactions eligible for offset on the Consolidated Balance Sheets as well as financial instruments and transactions executed under a master netting or similar arrangement. The ASU was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on an entity's 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 ASU only requires enhanced disclosures, the adoption of this ASU is not anticipated to have a significant impact on the Company's Consolidated Financial Statements.

4. DEPRECIATION AND AMORTIZATION

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Depreciation of property, plant and equipment	522	485
Amortization of intangible assets	48	45
Asset removal costs	70	66
Amortization of regulatory assets	19	20
	659	616

5. FINANCING CHARGES

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Interest on long-term debt	421	412
Other	12	5
Less: Interest capitalized on construction and development in progress	(59)	(58)
Gain on interest-rate swap agreements	(12)	(12)
Interest earned on investments	(4)	(3)
	358	344

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The major components of income tax expense are as follows:

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Current provision for PILs	130	162
Deferred recovery of PILs	(9)	(12)
Provision for PILs	121	150

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 the effective tax rates is provided as follows:

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Income before provision for PILs	866	791
Canadian Federal and Ontario statutory income tax rate	26.50%	28.25%
Provision for PILs at statutory rate	230	223

Increase (decrease) resulting from:

Net temporary differences included in amounts charged to customers:

Capital cost allowance in excess of depreciation and amortization	(42)	(34)
Pension contributions in excess of pension expense	(23)	(17)
Interest capitalized for accounting but deducted for tax purposes	(15)	(16)
Overheads capitalized for accounting but deducted for tax purposes	(14)	(12)
Non-refundable investment tax credits	(8)	-
Environmental expenditures	(5)	(4)
Post-retirement and post-employment benefit expense in excess of cash payments	-	5
Other	(3)	3
Net temporary differences	(110)	(75)
Net permanent differences	1	2
Total provision for PILs	121	150
Current provision for PILs	130	162
Deferred recovery of PILs	(9)	(12)
Total provision for PILs	121	150
Effective income tax rate	13.96%	18.96%

The current provision for PILs of \$130 million represents the amount paid or payable to the OEFC with respect to current year income. The outstanding balance due to the OEFC at December 31, 2012 was \$10 million (2011 – \$85 million).

The total provision for PILs includes deferred recovery of PILs of \$9 million that is 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.

Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Company's assets and liabilities. At December 31, deferred income tax assets and liabilities consisted of the following:

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

<i>December 31 (millions of dollars)</i>	2012	2011
Deferred income tax assets		
Depreciation and amortization in excess of capital cost allowance	3	6
Post-retirement and post-employment benefits expense in excess of cash payments	7	5
Environmental expenditures	4	5
Other	-	1
Total deferred income tax assets	14	17
Less: current portion	-	-
	14	17

<i>December 31 (millions of dollars)</i>	2012	2011
Deferred income tax liabilities		
Capital cost allowance in excess of depreciation and amortization	(1,344)	(1,106)
Post-retirement and post-employment benefits expense in excess of cash payments	519	356
Environmental expenditures	62	61
Regulatory amounts receivable that are not recognized for tax purposes	(147)	(36)
Goodwill	(19)	(18)
Other	3	4
Total deferred income tax liabilities	(926)	(739)
Less: current portion	18	19
	(944)	(758)

During 2012, the deferred tax liability increased by \$60 million as a result of the change in the rate applicable to future taxes. At December 31, 2012, unused tax losses carried forward were less than \$1 million (2011 – less than \$1 million).

7. ACCOUNTS RECEIVABLE

<i>December 31 (millions of dollars)</i>	2012	2011
Accounts receivable – billed	224	235
Accounts receivable – unbilled	644	588
Accounts receivable, gross	868	823
Allowance for doubtful accounts	(23)	(18)
Accounts receivable, net	845	805

The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2012 and 2011.

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Allowance for doubtful accounts – January 1	(18)	(25)
Write-offs	17	30
Additions to allowance for doubtful accounts	(22)	(23)
Allowance for doubtful accounts – December 31	(23)	(18)

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT

<i>December 31 (millions of dollars)</i>	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
2012				
Transmission	11,840	3,990	641	8,491
Distribution	8,005	2,879	234	5,360
Communication	1,024	516	57	565
Administration and Service	1,314	668	123	769
Easements	614	92	-	522
	22,797	8,145	1,055	15,707
2011				
Transmission	10,906	3,810	1,079	8,175
Distribution	7,596	2,706	253	5,143
Communication	919	468	43	494
Administration and Service	1,232	607	61	686
Easements	493	88	-	405
	21,146	7,679	1,436	14,903

Financing charges capitalized on property, plant and equipment under construction were \$56 million in 2012 (2011 – \$57 million).

9. INTANGIBLE ASSETS

<i>December 31 (millions of dollars)</i>	Intangible Assets	Accumulated Amortization	Development in Progress	Total
2012				
Computer applications software	451	301	116	266
Other	5	4	-	1
	456	305	116	267
2011				
Computer applications software	427	254	49	222
Other	5	3	-	2
	432	257	49	224

Financing charges capitalized on intangible assets under development were \$3 million in 2012 (2011 – \$1 million). The estimated annual amortization expense for intangible assets for each of the next five years is \$42 million.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. Hydro One has recorded the following regulatory assets and liabilities:

<i>December 31 (millions of dollars)</i>	2012	2011
Regulatory assets:		
Pension benefit regulatory asset	1,515	779
Deferred income tax regulatory asset	954	763
Post-retirement and post-employment benefits	320	123
Environmental	249	257
Pension cost variance	61	42
Rider 2	10	11
Long-term project development costs	5	5
Other	13	10
Total regulatory assets	3,127	1,990
Less: current portion	29	24
	3,098	1,966
Regulatory liabilities:		
External revenue variance	61	39
Retail settlement variance accounts	54	39
Rider 8	45	41
Deferred income tax regulatory liability	16	25
PST savings deferral	13	8
Rider 3	9	9
Rural and remote rate protection variance	6	8
Hydro One Brampton Networks rider	-	2
Other	17	23
Total regulatory liabilities	221	194
Less: current portion	40	25
	181	169

Pension Benefit Regulatory Asset

The Company recognizes the net unfunded status of pension obligations on the Consolidated Balance Sheets with an offset to the associated regulatory asset. A regulatory asset is recognized because management considers it to be probable that pension benefit costs will be recovered in the future through the rate-setting process. The pension benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2012 OCI would have been lower by \$736 million (2011 – higher by \$482 million).

Deferred Income Tax Regulatory Asset and Liability

Deferred 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 that correspond to deferred 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 2012 provision for PILs would have been higher by approximately \$136 million (2011 – \$70 million), including the impact of a change in enacted tax rates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Post-Retirement and Post-Employment Benefits

The Company recognizes the net unfunded status of post-retirement and post-employment obligations on the Consolidated Balance Sheets with an incremental offset to the associated regulatory assets. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2012 OCI would have been lower by \$197 million (2011 – higher by \$30 million).

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate past environmental contamination (see Note 15 – Environmental Liabilities). Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2012, this regulatory asset decreased by \$3 million (2011 – \$55 million) to reflect related changes in the Company's PCB liability, and increased by \$2 million (2011 – \$5 million) due to changes in the LAR liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. 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, 2012 operation, maintenance and administration expenses would have been lower by \$1 million (2011 – \$50 million). In addition, 2012 amortization expense would have been lower by \$18 million (2011 – \$16 million), and 2012 financing charges would have been higher by \$11 million (2011 – \$14 million).

Pension Cost Variance

A pension cost variance account was established for each of Hydro One Networks' Transmission and Distribution businesses to track the difference between the actual pension expense incurred and estimated pension costs approved by the OEB. The balance in this account reflects the excess of pension costs paid as compared to OEB-approved amounts. In December 2010, 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, 2012 revenue would have been lower by \$18 million (2011 – \$14 million).

Rider 2

In April 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 Rider 2 regulatory asset includes retail settlement and cost variance amounts and distribution low-voltage service amounts, plus accrued interest.

Long-Term Project Development Costs

In May 2009, the OEB approved the creation of a deferral account to record Hydro One Networks' costs of preliminary work to advance certain transmission projects identified in the Company's 2009 and 2010 transmission rate applications. In March 2010, the OEB issued a decision amending the scope of the account to include the 20 major transmission projects identified in the September 2009 request from the Ministry of Energy and Infrastructure. In December 2010, the OEB approved the recovery of 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, 2011 operation, maintenance and administration expenses would have been lower by \$2 million.

External Revenue Variance

In May 2009, 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 taken into account in structuring the Company's revenue requirement and as such, the OEB requested the establishment of new variance accounts to capture any difference between the approved forecasted external revenue amounts used in establishing the revenue requirement and actual external revenues. The external revenue variance account balance reflects the excess of

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

actual external revenue compared to the OEB-approved forecasted amounts. In December 2010, the OEB approved the disposition of the December 31, 2009 balance, including accrued interest, to be disposed over a one-year period from January 1, 2011 to December 31, 2011.

Retail Settlement Variance Accounts (RSVAs)

Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In April 2010, the OEB approved the disposition of the total RSVA balance accumulated from May 2008 to December 2009, including accrued interest, to be disposed over a 20-month period from May 1, 2010 to December 31, 2011. Hydro One has continued to accumulate a net liability in its RSVA accounts since December 31, 2009.

Rider 8

In April 2010, the OEB requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and the actual recoveries received.

PST Savings Deferral Account

The provincial sales tax (PST) and goods and services tax (GST) were harmonized in July 2010. Unlike the GST, the PST was included in operation, maintenance and administrative expenses or capital expenditures for past revenue requirements approved during a full cost of service hearing. Under the harmonized sales tax (HST) regime, the HST included in operation, maintenance and administrative expenses or capital expenditures is not a cost ultimately borne by the Company and as such, a refund of the prior PST element in the approved revenue requirement is applicable and calculations for tracking and refund were requested by the OEB. For the Hydro One Networks Transmission revenue requirement, PST was included between July 1, 2010 and December 31, 2010 and recorded in a deferral account per direction from the OEB. For the Hydro One Networks Distribution revenue requirement, PST was included between July 1, 2010 and December 31, 2012 and recorded in a deferral account per direction from the OEB.

Rider 3

In December 2008, the OEB approved certain distribution-related deferral account balances sought by Hydro One, including RSVA amounts, deferred tax changes, OEB costs and smart meters. The OEB approved the disposition of the Rider 3 balance accumulated up to April 2008, including accrued interest, to be disposed over a 27-month period from February 1, 2009 to April 30, 2011.

Rural and Remote Rate Protection Variance (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. The OEB has 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.

Hydro One Brampton Networks Rider

In April 2010, the OEB issued a decision regarding the 2010 distribution rates of Hydro One Brampton Networks. Included in the OEB's decision was the approval of certain deferral account balances, primarily RSVAs, sought by Hydro One Brampton Networks in its application. The OEB ordered that the approved balances be aggregated into a single regulatory account and disposed of through a rate rider over a two-year period from May 1, 2010 to April 30, 2012.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. DEBT AND CREDIT AGREEMENTS

Short-Term Notes

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under its Commercial Paper Program with a maximum amount of \$1,000 million. These 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 December 31, 2012 and 2011.

The Commercial Paper Program is supported by a total of \$1,500 million in liquidity facilities comprised of a \$1,250 million committed revolving standby credit facility with a syndicate of banks and a long-term investment in Province of Ontario Floating-Rate Notes with a fair value of \$251 million at December 31, 2012.

Long-Term Debt

The Company issues notes for long-term financing under its Medium-Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under this program is \$3,000 million. At December 31, 2012, \$1,515 million remained available until September 2013.

The following table presents the outstanding long-term debt at December 31, 2012 and 2011:

<i>December 31 (millions of dollars)</i>	2012	2011
5.77% Series 3 notes due 2012	-	600
5.00% Series 15 notes due 2013	600	600
3.13% Series 19 notes due 2014 ¹	750	750
2.95% Series 21 notes due 2015 ¹	500	500
Floating-rate Series 22 notes due 2015 ²	50	50
4.64% Series 10 notes due 2016	450	450
Floating-rate Series 27 notes due 2016 ²	50	-
5.18% Series 13 notes due 2017	600	600
4.40% Series 20 notes due 2020	300	300
3.20% Series 25 notes due 2022	600	-
7.35% debentures due 2030	400	400
6.93% Series 2 notes due 2032	500	500
6.35% Series 4 notes due 2034	385	385
5.36% Series 9 notes due 2036	600	600
4.89% Series 12 notes due 2037	400	400
6.03% Series 17 notes due 2039	300	300
5.49% Series 18 notes due 2040	500	500
4.39% Series 23 notes due 2041	300	300
6.59% Series 5 notes due 2043	315	315
5.00% Series 11 notes due 2046	325	325
4.00% Series 24 notes due 2051	225	100
3.79% Series 26 notes due 2062	310	-
	8,460	7,975
Add: Unrealized marked-to-market loss ¹	19	33
Less: Long-term debt payable within one year	(600)	(600)
Long-term debt	7,879	7,408

¹ The unrealized marked-to-market loss relates to \$500 million of the Series 19 notes due 2014, and \$250 million of the Series 21 notes due 2015. The unrealized marked-to-market loss is offset by a \$19 million (2011 – \$33 million) unrealized marked-to-market gain on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges. See Note 12 – Fair Value of Financial Instruments and Risk Management for details of fair value hedges.

² The interest rates of the floating-rate notes are referenced to the 3-month Canadian dollar bankers' acceptance rate, plus a margin.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In 2012, Hydro One issued \$1,085 million of long-term debt under the MTN Program, consisting of \$300 million issued in the first quarter, \$425 million issued in the second quarter, \$310 million issued in the third quarter, and \$50 million issued in the fourth quarter of 2012. In September 2012, the Company also redeemed the \$600 million MTN Series 3 notes.

The long-term debt is unsecured and denominated in Canadian dollars. The long-term debt is summarized by the number of years to maturity in Note 12 – Fair Value of Financial Instruments and Risk Management.

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 facility for general corporate purposes, including meeting short-term funding requirements. The obligation of each lender to make any credit extension to the Company under its credit facility is subject to various conditions including, among other things, that no event of default has occurred or would result from such credit extension.

12. 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 occur 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

At December 31, 2012 and 2011, the Company's carrying amounts of accounts receivable, due from related parties, short-term investments, bank indebtedness, accounts payable, accrued liabilities, and due to related parties are representative of fair value because of the short-term nature of these instruments.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at December 31, 2012 and 2011 are as follows:

<i>December 31 (millions of dollars)</i>	2012 Carrying Value	2012 Fair Value	2011 Carrying Value	2011 Fair Value
Long-term debt				
\$500 million of MTN Series 19 notes ¹	512	512	521	521
\$250 million of MTN Series 21 notes ²	257	257	262	262
Other notes and debentures ³	7,710	9,188	7,225	8,615
	8,479	9,957	8,008	9,398

¹ The fair value of \$500 million of the MTN Series 19 notes 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 notes 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 notes and the MTN Series 21 notes 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 Derivative Instruments

At December 31, 2012, the Company had interest-rate swaps totaling \$750 million (2011 – \$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 was equal to about 9% (2011 – 9%) of its total long-term debt of \$8,479 million (2011 – \$8,008 million). At December 31, 2012, the Company had 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 notes 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 notes maturing September 11, 2015 into three-month variable rate debt.

At December 31, 2012, the Company also had interest-rate swaps with a total notional value of \$900 million classified as undesignated contracts. The undesignated contracts consist of the following interest-rate swaps:

- (c) three \$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 11, 2012 to December 11, 2013, from February 21, 2012 to February 19, 2013, and from February 19, 2013 to February 19, 2014, respectively;
- (d) two \$50 million floating-to-fixed interest-rate swap agreements that lock in the floating rate the Company pays on the \$50 million floating-rate MTN Series 22 notes from January 24, 2012 to January 24, 2013, and from January 24, 2013 to January 24, 2014; and
- (e) 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 MTN Series 27 notes from March 4, 2013 to December 3, 2013.

At December 31, 2012 and 2011, the Company's carrying amounts of derivative instruments were representative of fair value.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at December 31, 2012 and 2011 is as follows:

<i>December 31, 2012 (millions of dollars)</i>	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Short-term investments	195	195	-	195	-
Long-term investment	251	251	-	251	-
Derivative instruments					
Fair value hedges – interest-rate swaps	19	19	-	19	-
	465	465	-	465	-
Liabilities:					
Bank indebtedness	42	42	42	-	-
Long-term debt	8,479	9,957	-	9,957	-
	8,521	9,999	42	9,957	-
<i>December 31, 2011 (millions of dollars)</i>	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. The fair value of the short-term investments is determined using inputs other than quoted prices that are observable for the assets. The Company obtains quotes for the fair value of the short-term investments from an independent third party.

The long-term investment represents the Province of Ontario Floating-Rate Notes. The fair value of the long-term investment is determined using inputs other than quoted prices that are observable for the asset, with unrecognized gains or losses recognized in financing charges. The Company obtains quotes from an independent third party for the fair value of the long-term investment, who uses the market price of similar securities adjusted for changes in observable inputs such as maturity dates and interest rates.

The fair value of the derivative instruments is determined using other than quoted prices that are observable for these assets. The fair value is primarily based on the present value of future cash flows using a swap yield curve to determine the assumptions for interest rates.

The fair value of the hedged portion of the long-term debt is primarily based on the present value of future cash flows using a swap yield curve to determine the assumption for interest rates. The fair value of the unhedged portion of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

There were no significant transfers between any of the levels during the years ended December 31, 2012 and 2011.

See Note 14 – Pension and Post-Retirement and Post-Employment Benefits for further information regarding the fair value and related valuation techniques for pension plan assets.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 (2011 – \$18 million) and Hydro One Networks' Distribution Business' results of operations by approximately \$10 million (2011 – \$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 derivative instruments 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 December 31, 2012 or 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 years ended December 31, 2012 or 2011.

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 years ended December 31, 2012 and 2011 are included in financing charges as follows:

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Unrealized loss (gain) on hedged debt	(14)	25
Unrealized loss (gain) on fair value interest-rate swaps	14	(25)
Net unrealized loss (gain)	-	-

At December 31, 2012, Hydro One had \$750 million (2011 – \$750 million) of notional amounts of fair value hedges outstanding related to interest-rate swaps, with assets at fair value of \$19 million (2011 – \$33 million). During the years ended December 31, 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. At December 31, 2012 and 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. At December 31, 2012 and 2011, there was no significant accounts receivable balance due from any single customer.

HYDRO ONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

At December 31, 2012, the Company's provision for bad debts was \$23 million (2011 – \$18 million). Adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2012, approximately 3% of the Company's accounts receivable were aged more than 60 days (2011 – 3%).

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly-rated counterparties; 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 December 31, 2012, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was \$22 million (2011 – \$36 million). At December 31, 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.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, the revolving standby credit facility, and by holding 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 in June 2017 and the Province of Ontario Floating-Rate Notes with a fair value of \$251 million. The short-term liquidity under this program and anticipated levels of funds from operations should be sufficient to fund normal operating requirements.

At December 31, 2012, accounts payable and accrued liabilities in the amount of \$722 million are expected to be settled in cash at their carrying amounts within the next year.

At December 31, 2012, Hydro One had issued long-term debt in the notional amount of \$8,460 million (2011 – \$7,975 million). Long-term debt maturing during the next year is \$600 million (2011 – \$600 million). Interest payments for the next 12 months on the Company's outstanding long-term debt amount to \$410 million (2011 – \$408 million). Principal outstanding, interest payments and related weighted average interest rates are summarized by the number of years to maturity in the following table.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years to Maturity	Principal Outstanding on Long-term Debt (millions of dollars)	Interest Payments ¹ (millions of dollars)	Weighted Average Interest Rate ¹ (%)
1 year	600	410	5.0
2 years	750	379	3.1
3 years	550	356	2.8
4 years	500	331	4.3
5 years	600	320	5.2
	3,000	1,796	4.1
6 – 10 years	900	1,403	3.6
Over 10 years	4,560	4,138	5.6
	8,460	7,337	4.9

¹ Interest payments and weighted average interest rates beyond 1 year exclude the impact of the \$50 million floating-rate Series 22 notes due 2015 and the \$50 million floating-rate Series 27 notes due 2016.

13. 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, preferred shares, long-term debt, and cash and cash equivalents. At December 31, 2012 and 2011, the Company's capital structure was as follows:

<i>December 31 (millions of dollars)</i>	2012	2011
Long-term debt payable within one year	600	600
Less: Cash and cash equivalents	195	228
	405	372
Long-term debt	7,879	7,408
Preferred shares	323	323
Common shares	3,314	3,314
Retained earnings	3,202	2,827
	6,516	6,141
Total capital	15,123	14,244

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, 2012 and 2011, Hydro One was in compliance with all of these covenants and limitations.

14. PENSION AND POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

Hydro One has a defined benefit pension plan, a supplementary pension plan, and post-retirement and post-employment benefit plans. The defined benefit pension plan (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 supplementary pension plan obligation is included with other post-retirement and post-employment benefit obligations on the Consolidated Balance Sheets.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The OMERS Plan

Hydro One contributions to the OMERS plan for the year ended December 31, 2012 were \$2 million (2011 – \$1 million). Company contributions payable at December 31, 2012 and included in accrued liabilities on the Consolidated Balance Sheets were \$0.2 million (2011 – \$0.2 million). Hydro One contributions do not represent more than 5% of total contributions to the OMERS plan, as indicated in OMERS's most recently available annual report for the year ended December 31, 2011.

At December 31, 2011, the OMERS plan was 88.7% funded, with an unfunded liability of \$7,290 million. This unfunded liability will likely result in future payments by participating employers and members. Hydro One future contributions could be increased substantially if other entities withdraw from the plan.

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-represented staff 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. Annual Pension Plan contributions for 2012 of \$163 million (2011 – \$152 million) were based on an actuarial valuation effective December 31, 2011 and the level of 2012 pensionable earnings. Estimated annual Pension Plan contributions for 2013 are \$162 million, based on the December 31, 2011 valuation and the projected level of pensionable earnings.

Hydro One recognizes the overfunded or underfunded status of the Pension Plan, and post-retirement and post-employment plans (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. For the year ended December 31, 2012, the measurement date for the Plans was December 31.

<i>Year ended December 31 (millions of dollars)</i>	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2012	2011	2012	2011
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	5,461	4,996	1,206	1,178
Current service cost	123	108	29	30
Interest cost	285	286	63	68
Reciprocal transfers	1	4	-	-
Benefits paid	(291)	(289)	(42)	(42)
Net actuarial loss (gain)	928	356	203	(28)
Projected benefit obligation, end of year	6,507	5,461	1,459	1,206
Change in plan assets				
Fair value of plan assets, beginning of year	4,682	4,699	-	-
Actual return on plan assets	425	102	-	-
Reciprocal transfers	1	4	-	-
Benefits paid	(291)	(289)	-	-
Employer's contributions	163	153	-	-
Employees' contributions	27	27	-	-
Administrative expenses	(15)	(14)	-	-
Fair value of plan assets, end of year	4,992	4,682	-	-
Unfunded status	1,515	779	1,459	1,206

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Hydro One presents its benefit obligations and plan assets net on its Consolidated Balance Sheets within the following line items:

<i>December 31 (millions of dollars)</i>	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2012	2011	2012	2011
Accrued liabilities	-	-	43	43
Pension benefit liability	1,515	779	-	-
Post-retirement and post-employment benefit liability	-	-	1,416	1,163
Unfunded status	1,515	779	1,459	1,206

The funded/unfunded status of the pension, post-retirement and post-employment benefit plans refers to the difference between the fair value of plan assets and the projected benefit obligations for 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.

<i>December 31 (millions of dollars)</i>	2012	2011
PBO	6,507	5,461
ABO	6,074	5,038
Fair value of plan assets	4,992	4,682

On an ABO basis, the plans were funded at 82% at December 31, 2012 (2011 – 93%). On a PBO basis, the plans were funded at 77% at December 31, 2012 (2011 – 86%). 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 table provides the components of the net periodic benefit costs for the years ended December 31, 2012 and 2011 for all plans:

<i>Year ended December 31 (millions of dollars)</i>	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2012	2011	2012	2011
Current service cost, net of employee contributions	96	81	30	30
Interest cost	285	286	63	67
Expected return on plan assets net of expenses	(289)	(291)	-	-
Actuarial loss amortization	112	68	8	7
Prior service cost amortization	3	4	3	4
Net Periodic Benefit Cost	207	148	104	108
Charged to results of operations ¹	76	93	48	61

¹ The Company follows the cash basis of accounting consistent with the inclusion of pension costs in OEB-approved rates. During the year ended December 31, 2012, pension costs of \$163 million (2011 – \$153 million) were attributed to labour, of which \$76 million (2011 – \$93 million) was charged to operations and \$87 million (2011 – \$60 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

Assumptions

The measurement of the obligations of the Plans and costs of providing benefits under Plans involves various factors, including the development of valuation assumptions and accounting policy elections. When developing the required assumptions, the Company considers historical information as well as future expectations. The measurement of benefit obligations and costs is impacted by several assumptions including the discount rate applied to benefit obligations, the long-term expected rate of return on plan assets, Hydro One's expected level of contributions to the Plans, the incidence of mortality, the expected remaining service period of plan participants, the level of compensation and rate of compensation increases, employee age, length of service, and the anticipated rate of increase of health care costs, among other factors. The impact of changes in assumptions used to measure the obligations of the Plans is generally recognized over the expected

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

average remaining service period of the plan participants. In selecting the expected rate of return on plan assets, Hydro One considers historical economic indicators (including inflation and GDP growth) that impact asset returns, as well as expectations regarding future long-term capital market performance, weighted by target asset class allocations. In general, equity securities, real estate and private equity investments are forecasted to have higher returns than fixed income securities.

The following weighted average assumptions were used to determine the benefit obligations and benefit expense at December 31, 2012 and 2011. Assumptions used to determine current year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

<i>Year ended December 31</i>	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2012	2011	2012	2011
Significant assumptions:				
For net periodic benefit cost, year ended December 31:				
Weighted average expected rate of return on plan assets	6.25%	6.25%	-	-
Weighted average discount rate	5.25%	5.75%	5.25%	5.75%
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%
Average remaining service life of employees (<i>years</i>)	11	11	11	11
Rate of increase in health care cost trends ¹	-	-	4.41%	4.91%
For projected benefit obligation, at December 31:				
Weighted average discount rate	4.25%	5.25%	4.25%	5.25%
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 trends ²	-	-	4.39%	4.41%

¹ 7.03% per annum in 2012, grading down to 4.41% per annum in and after 2031 (2011 – 7.56% in 2011, grading down to 4.91% per annum in and after 2029)

² 6.91% per annum in 2013, grading down to 4.39% per annum in and after 2031 (2011 – 7.03% in 2012, grading down to 4.41% per annum in and after 2031)

The discount rate used to determine the current year pension obligation and the subsequent year's net periodic benefit costs is based on a yield curve approach. Under the yield curve approach, expected future benefit payments for each plan are discounted by a rate on a third party bond yield curve corresponding to each duration. The yield curve is based on AA long-term corporate bonds. A single discount rate is calculated that would yield the same present value as the sum of the discounted cash flows.

The effect of 1% change in health care cost trends on the post-retirement and post-employment benefits is as follows:

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Effect of 1% increase in health care cost trends on:		
Projected benefit obligation at December 31	246	174
Service cost and interest cost	17	20
Effect of 1% decrease in health care cost trends on:		
Projected benefit obligation at December 31	(191)	(138)
Service cost and interest cost	(13)	(14)

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Estimated Future Benefit Payments

At December 31, 2012, estimated future benefit payments by the Company to Plan participants were:

<i>(millions of dollars)</i>	Pension Benefits	Post-Retirement and Post-Employment Benefits
2013	299	51
2014	306	54
2015	313	57
2016	318	61
2017	324	64
2018 through to 2022	1,690	374
Total estimated future benefit payments through to 2022	3,250	661

Components of Regulatory Assets

A portion of actuarial gains and losses and prior service costs 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 table provides the actuarial gains and losses and prior service costs recorded within regulatory assets:

<i>Year ended December 31 (millions of dollars)</i>	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2012	2011	2012	2011
Actuarial loss (gain) for the year	807	558	203	(27)
Actuarial loss amortization	(112)	(68)	(8)	(7)
Prior service cost amortization	(3)	(4)	(3)	(3)
	692	486	192	(37)

The following table provides the components of regulatory assets that have not been recognized as components of net periodic benefit costs for the years ended December 31, 2012 and 2011:

<i>Year ended December 31 (millions of dollars)</i>	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2012	2011	2012	2011
Prior service cost	5	7	5	7
Actuarial loss	1,510	772	315	116
	1,515	779	320	123

The following table provides the components of regulatory assets at December 31 that are expected to be amortized as components of net periodic benefit costs in the following year:

<i>Year ended December 31 (millions of dollars)</i>	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2012	2011	2012	2011
Prior service cost	2	3	3	3
Actuarial loss	175	112	17	4
	177	115	20	7

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

At December 31, 2012, the Pension Plan target asset allocations and weighted average asset allocations were as follows:

<i>December 31, 2012</i>	Target Allocation (%)	Pension Plan Assets (%)
Equity securities	60.0	64.1
Debt securities	35.0	35.8
Other ¹	5.0	0.1
	100.0	100.0

¹ Other investments include real estate and infrastructure investments.

At December 31, 2012, the Pension Plan held \$20 million of Hydro One corporate bonds (2011 – \$27 million) and \$243 million of debt securities of the Province (2011 – \$214 million).

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, 2012 and 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, 2012 and 2011, there were no significant concentrations (defined as greater than 10% 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 derivative instruments by transacting only with financial institutions rated at least "AA" by S&P or "Aa2" 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.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Fair Value Measurements

The following table presents the Pension Plan assets measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy at December 31, 2012 and 2011:

<i>December 31, 2012 (millions of dollars)</i>	Level 1	Level 2	Level 3	Total
Pooled funds	2	15	104	121
Cash and cash equivalents	125	-	-	125
Short-term securities	-	100	-	100
Real estate	-	-	2	2
Corporate shares – Canadian	920	-	-	920
Corporate shares – Foreign	2,077	-	-	2,077
Bonds and debentures – Canadian	-	1,643	-	1,643
Total fair value of plan assets¹	3,124	1,758	106	4,988

¹ At December 31, 2012, the total fair value of Pension Plan assets excludes \$16 million of interest and dividends receivable, \$4 million relating to accruals for pending sales transactions and \$8 million relating to accruals for pension administration expense.

<i>December 31, 2011 (millions of dollars)</i>	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
Total fair value of plan assets¹	2,771	1,729	167	4,667

¹ At December 31, 2011, the total fair value of Pension Plan assets excludes \$17 million of interest and dividends receivable, \$8 million of receivables relating to pending sales transactions, and \$10 million relating to accruals for pension administration expense.

See Note 12 – Fair Value of Financial Instruments and Risk Management 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 years ended December 31, 2012 and 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.

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Fair value, beginning of year	167	167
Realized and unrealized gains	5	18
Purchases	6	9
Sales and disbursements	(72)	(27)
Fair value, end of year	106	167

There have been no material transfers into or out of Level 3 of the fair value hierarchy.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Valuation Techniques Used to Determine Fair Value

Pooled Funds

The pooled fund category mainly consists of private equity investments. 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 includes 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 investments in the holding companies are valued using net asset values reported by the fund manager. Real estate investments are 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.

15. ENVIRONMENTAL LIABILITIES

The Company has accrued the following discounted amounts for environmental liabilities on the Consolidated Balance Sheets at December 31, 2012 and 2011:

<i>December 31 (millions of dollars)</i>	PCB	LAR	Total
2012			
Environmental liabilities, January 1	199	58	257
Interest accretion	9	2	11
Expenditures	(8)	(10)	(18)
Revaluation adjustment	(3)	2	(1)
Environmental liabilities, December 31	197	52	249
Less: current portion	(13)	(9)	(22)
	184	43	227

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

<i>December 31 (millions of dollars)</i>	PCB	LAR	Total
2011			
Environmental liabilities, January 1	251	58	309
Interest accretion	12	2	14
Expenditures	(9)	(7)	(16)
Revaluation adjustment	(55)	5	(50)
Environmental liabilities, December 31	199	58	257
Less: current portion	(13)	(9)	(22)
	186	49	235

The following table illustrates the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized in the Consolidated Balance Sheets after factoring in the discount rate:

<i>December 31 (millions of dollars)</i>	PCB	LAR	Total
2012			
Undiscounted environmental liabilities, December 31	233	54	287
Less: discounting accumulated liabilities to present value	(36)	(2)	(38)
Discounted environmental liabilities, December 31	197	52	249

<i>December 31 (millions of dollars)</i>	PCB	LAR	Total
2011			
Undiscounted environmental liabilities, December 31	242	61	303
Less: discounting accumulated liabilities to present value	(43)	(3)	(46)
Discounted environmental liabilities, December 31	199	58	257

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2012 and in total thereafter are as follows: 2013 – \$22 million; 2014 – \$38 million; 2015 – \$36 million; 2016 – \$22 million; 2017 – \$17 million; and thereafter – \$152 million. At December 31, 2012, of the total estimated future environmental expenditures, \$233 million relate to PCB (2011 – \$242 million) and \$54 million relate to LAR (2011 – \$61 million).

Consistent with its accounting policy for environmental costs, Hydro One records a liability for the estimated mandatory 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.

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 of the 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, with respect to the PCB environmental liability, 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. The Company records a regulatory asset reflecting its expectation that future environmental costs will be recoverable in rates.

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

In September 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*. These regulations impose

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

timelines for disposal of PCBs based on certain 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, with the exception of specifically exempted equipment. 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. 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 replacement oil that contains PCBs in concentrations of less than 2 ppm.

The Company's best estimate of the total estimated future expenditures to comply with current PCB regulations is approximately \$233 million. These expenditures are expected to be incurred over the period from 2013 to 2025. As a result of its most recent cost estimate to comply with current PCB regulations, the Company recorded a revaluation adjustment to reduce the PCB environmental liability by approximately \$3 million (2011 – \$55 million).

LAR

The Company's best estimate of the total estimated future expenditures to complete its LAR program is approximately \$54 million. These expenditures are expected to be incurred over the period from 2013 to 2020. 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 recorded a revaluation adjustment to increase the LAR environmental liability by approximately \$2 million (2011 – \$5 million).

16. ASSET RETIREMENT OBLIGATIONS

AROs, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected expenditures for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate of fair value can be made. If the asset remains in service at the recognition date, the present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred and this additional carrying amount is depreciated over the remaining life of the asset. If an ARO is recorded in respect of an out-of-service asset, the asset retirement cost is charged to results of operations. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the ARO (with corresponding adjustments to property, plant and equipment), which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired and changes in federal, state or local regulations, as well as for accretion of the liability due to the passage of time until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset.

All factors used in estimating the Company's AROs 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. AROs 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 AROs, 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.

At December 31, 2012, Hydro One had recorded AROs of \$15 million (2011 – \$15 million), consisting of \$7 million (2011 – \$7 million) related to the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities, as well as \$8 million (2011 – \$8 million) related to the future decommissioning and removal of two of its switching stations.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company's liability for the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities is based on management's best estimate of the present value of the estimated future expenditures to comply with current 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 amount of interest recorded is nominal and there have been no expenditures associated with these obligations to date.

In 2011, Hydro One recorded an ARO of \$4 million related to the future decommissioning and removal of one of its switching stations, in addition to the ARO of \$4 million recorded in a prior year related to the future decommissioning and removal of another switching station. The amount of interest recorded is nominal and there have been no expenditures associated with these obligations to date.

17. SHARE CAPITAL

Preferred Shares

The Company has 12,920,000 issued and outstanding 5.5% cumulative preferred shares with a redemption value of \$25 per share or \$323 million total value. The Company is authorized to issue an unlimited number of 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 the redemption 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 the 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 at December 31, 2012. If it becomes probable in the future that the preferred shares will be redeemed, the redemption value would be adjusted.

Common Shares

The Company has 100,000 issued and outstanding common shares. The Company is authorized to issue an unlimited number of common shares.

Common share 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 conditions, cash requirements, and other relevant factors, such as industry practice and shareholder expectations.

Earnings per Share

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. DIVIDENDS

In 2012, preferred share dividends in the amount of \$18 million (2011 – \$18 million) and common share dividends in the amount of \$352 million (2011 – \$150 million) were declared.

19. 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. 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 revenues include \$1,474 million (2011 – \$1,366 million) related to these services. Hydro One receives amounts for rural rate protection from the IESO. Distribution revenues include \$127 million (2011 – \$127 million) related to this program. In 2012, Hydro One also received revenue related to the supply of electricity to remote northern communities from the IESO. Distribution revenues include \$28 million (2011 – \$28 million) related to these services.

In 2012, Hydro One purchased power in the amount of \$2,392 million (2011 – \$2,401 million) from the IESO-administered electricity market; \$10 million (2011 – \$16 million) from OPG; and \$7 million (2011 – \$10 million) 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 transmitters. In 2012, Hydro One incurred \$11 million (2011 – \$11 million) in OEB fees.

Hydro One has service level agreements with OPG. These services include field, engineering, logistics and telecommunications services. In 2012, revenues related to the provision of construction and equipment maintenance services with respect to these service level agreements were \$10 million (2011 – \$7 million), primarily for the Transmission Business. Operation, maintenance and administration costs related to the purchase of services with respect to these service level agreements were \$2 million in 2012 (2011 – \$2 million).

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 2012, Hydro One received \$39 million (2011 – \$39 million) from the OPA related to the 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. At December 31, 2012, the Company held Province of Ontario Floating-Rate Notes with a fair value of \$251 million (2011 – \$250 million).

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

<i>December 31 (millions of dollars)</i>	2012	2011
Due from related parties	154	156
Due to related parties ¹	(257)	(342)
Long-term investment	251	250

¹ Included in due to related parties at December 31, 2012 are amounts owing to the IESO in respect of power purchases of \$199 million (2011 – \$209 million).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Accounts receivable	(30)	(18)
Due from related parties	2	(32)
Materials and supplies	2	(4)
Other assets	(4)	(11)
Accounts payable	(14)	29
Accrued liabilities	10	98
Due to related parties	(85)	61
Accrued interest	10	1
Long-term accounts payable and other liabilities	13	-
Post-retirement and post-employment benefit liability	56	60
	(40)	184
Supplementary information:		
Net interest paid	411	410
Payments in lieu of corporate income taxes	197	80

21. 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 the Company acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on Reserves (as defined in the *Indian Act* (Canada)). Currently, the OEFC holds these assets. Under the terms of the transfer orders, the Company 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 in 2012. If the Company cannot obtain the required consents, 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 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 the Company is not able to recover them in future rate orders.

22. 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.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

At December 31, 2012, the annual commitments under the Inergi agreement are as follows: 2013 – \$136 million; 2014 – \$130 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 December 31, 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 (2011 – \$325 million), and on behalf of two distributors using guarantees of \$0.7 million (2011 – \$0.7 million). 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 \$22 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 letters of credit plus the nominal amount of the parental guarantees.

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 supplementary pension plan trustee is required to draw upon these 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 letters of credit. At December 31, 2012, Hydro One had letters of credit of \$127 million (2011 – \$124 million) outstanding relating to retirement compensation arrangements.

Operating Leases

Hydro One is committed as lessee to irrevocable operating lease contracts for buildings used in administrative and service related functions and storing telecommunication equipment. These leases have an average life of between one and five years with renewal options for periods ranging from one to 10 years included in some of the contracts. All leases include a clause to enable upward revision of the rental charge on an annual basis or on renewal according to prevailing market conditions. There are no restrictions placed upon Hydro One by entering into these leases. Hydro One Networks and Hydro One Telecom are the principal entities concerned.

At December 31, 2012, the future minimum lease payments under non-cancellable operating leases were as follows:

<i>December 31 (millions of dollars)</i>	2012	2011
Within one year	10	8
After one year but not more than five years	29	26
More than five years	14	20
	53	54

During the year ended December 31, 2012, the Company made lease payments totaling \$9 million (2011 – \$6 million).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Business, which comprises the core business of providing electricity 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. Operating segments for the Company are determined based on information used by the chief operating decision maker in deciding how to allocate resources and evaluate the performance at each of the segments. The Company evaluates segment performance based on income before financing charges and provision for PILs from continuing operations (excluding certain allocated corporate governance costs).

The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see Note 2 – Significant Accounting Policies). Segment information on the above basis is as follows:

<i>Year ended December 31, 2012 (millions of dollars)</i>	Transmission	Distribution	Other	Consolidated
Segment profit				
Revenues	1,482	4,184	62	5,728
Purchased power	-	2,774	-	2,774
Operation, maintenance and administration	402	608	61	1,071
Depreciation and amortization	320	329	10	659
Income (loss) before financing charges and provision for PILs	760	473	(9)	1,224
Financing charges				358
Income before provision for PILs				866
Capital expenditures	776	671	7	1,454

<i>Year ended December 31, 2011 (millions of dollars)</i>	Transmission	Distribution	Other	Consolidated
Segment profit				
Revenues	1,389	4,019	63	5,471
Purchased power	-	2,628	-	2,628
Operation, maintenance and administration	422	609	61	1,092
Depreciation and amortization	302	304	10	616
Income (loss) before financing charges and provision for PILs	665	478	(8)	1,135
Financing charges				344
Income before provision for PILs				791
Capital expenditures	810	628	9	1,447

<i>December 31 (millions of dollars)</i>	2012	2011
Total assets		
Transmission	11,586	10,589
Distribution	8,621	7,594
Other	604	653
	20,811	18,836

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. 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. The Company's transition date to US GAAP is January 1, 2011, which is the commencement of the 2011 comparative period to the Company's 2012 Consolidated Financial Statements.

Measurement and classification differences resulting from Hydro One'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 resulting from Hydro One'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:

<i>(millions of dollars)</i>	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:

<i>(millions of dollars)</i>	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

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

<i>January 1, 2011 (millions of dollars)</i>	Notes	Canadian GAAP	Effect of transition to US GAAP	US GAAP
Assets				
Current assets:				
Cash		33	-	33
Short-term investments		139	-	139
Accounts receivable	F	911	(124)	787
Due from related parties	F	-	124	124
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

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

<i>January 1, 2011 (millions of dollars)</i>	Notes	Canadian GAAP	Effect of transition to US GAAP	US GAAP
Liabilities				
Current liabilities:				
Accounts payable and accrued charges	D, F	884	(884)	-
Accounts payable	D	-	125	125
Accrued liabilities	D	-	478	478
Due to related parties	F	-	281	281
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	E	-	323	323
Shareholder's equity				
Preferred shares	E	323	(323)	-
Common shares		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

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

<i>December 31, 2011 (millions of dollars)</i>	Notes	Canadian GAAP	Effect of transition to US GAAP	US GAAP
Assets				
Current assets:				
Short-term investments		228	-	228
Accounts receivable	F	961	(156)	805
Due from related parties	F	-	156	156
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

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

<i>December 31, 2011 (millions of dollars)</i>	Notes	Canadian GAAP	Effect of transition to US GAAP	US GAAP
Liabilities				
Current liabilities:				
Bank indebtedness		39	-	39
Accounts payable and accrued charges	D, F	1,071	(1,071)	-
Accounts payable	D	-	154	154
Accrued liabilities	D	-	575	575
Due to related parties	F	-	342	342
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	E	-	323	323
Shareholder's equity				
Preferred shares	E	323	(323)	-
Common shares		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:

<i>January 1, 2011 (millions of dollars)</i>	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 reclassified outside shareholder's equity	-	(323)	-	-	(323)
US GAAP	3,314	-	(10)	2,354	5,658

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

<i>December 31, 2011</i> <i>(millions of dollars)</i>	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 reclassified 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".

At January 1, 2011 and December 31, 2011, the effect on the Consolidated Balance Sheets is reflected by the following increases:

<i>(millions of dollars)</i>	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 benefit obligations on the Consolidated Balance Sheets. Under US GAAP, the Company recognized the unfunded status of pension, post-retirement and post-employment benefit 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 benefit 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.

At January 1, 2011 and December 31, 2011, the effect on the Consolidated Balance Sheets is reflected by the following increases (decreases):

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

<i>(millions of dollars)</i>	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 offsetting regulatory assets for incremental obligations 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. Derivative Instruments (classification change)

Under Canadian GAAP, the Company classified its derivative instruments 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”.

At January 1, 2011 and December 31, 2011, the effect on the Consolidated Balance Sheets is reflected by the following increases (decreases):

<i>(millions of dollars)</i>	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”.

At January 1, 2011 and December 31, 2011, the effect on the Consolidated Balance Sheets is reflected by the following increases (decreases):

<i>(millions of dollars)</i>	January 1, 2011	December 31, 2011
Current liabilities:		
Accounts payable	125	154
Accrued liabilities	478	575
Accounts payable and accrued charges	(603)	(729)

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 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 accrued as declared (see Note 17 – Share Capital).

At January 1, 2011 and December 31, 2011, the effect on the Consolidated Balance Sheets is reflected by the following increases (decreases):

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

<i>(millions of dollars)</i>	January 1, 2011	December 31, 2011
Preferred shares	323	323
Shareholder's equity:		
Preferred shares	(323)	(323)

F. Related Party Balances (classification change)

Under Canadian GAAP, receivables from related parties and payables to related parties were disclosed as "Accounts receivable" and "Accounts payable and accrued charges", respectively. Under US GAAP, receivables from related parties are recognized in "Due from related parties" and payables to related parties are recognized in "Due to related parties".

At January 1, 2011 and December 31, 2011, the effect on the Consolidated Balance Sheets is reflected by the following increases (decreases):

<i>(millions of dollars)</i>	January 1, 2011	December 31, 2011
Current assets:		
Due from related parties	124	156
Accounts receivable	(124)	(156)
Current liabilities:		
Due to related parties	281	342
Accounts payable and accrued charges	(281)	(342)

25. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2012 Consolidated Financial Statements.

HYDRO ONE INC.
FIVE-YEAR SUMMARY OF FINANCIAL AND OPERATING STATISTICS

Statements of Operations Data

<i>Year ended December 31 (millions of dollars)</i>	2012¹	2011¹	2010²	2009²	2008²
Revenues					
Distribution	4,184	4,019	3,754	3,534	3,334
Transmission	1,482	1,389	1,307	1,147	1,212
Other	62	63	63	63	51
	5,728	5,471	5,124	4,744	4,597
Costs					
Purchased power	2,774	2,628	2,474	2,326	2,181
Operation, maintenance and administration	1,071	1,092	1,078	1,057	965
Depreciation and amortization	659	616	583	537	548
	4,504	4,336	4,135	3,920	3,694
Income before financing charges and provision for payments in lieu of corporate income taxes	1,224	1,135	989	824	903
Financing charges	358	344	342	308	292
Income before provision for payments in lieu of corporate income taxes	866	791	647	516	611
Provision for payments in lieu of corporate income taxes	121	150	56	46	113
Net income	745	641	591	470	498
Basic and fully diluted earnings per common share (dollars)	7,280	6,228	5,727	4,528	4,797
Dividends per common share declared (dollars)	3,523	1,500	100	1,700	2,410

Balance Sheets Data

<i>December 31 (millions of dollars)</i>	2012¹	2011¹	2010¹	2009²	2008²
Assets					
Distribution	8,621	7,594	6,915	6,481	5,873
Transmission	11,586	10,589	9,820	8,993	7,877
Other	604	653	609	161	128
Total Assets	20,811	18,836	17,344	15,635	13,878
Liabilities					
Current liabilities (including current portion of long-term debt)	1,756	1,820	1,540	1,655	1,300
Long-term debt	7,879	7,408	7,283	6,281	5,733
Other long-term liabilities	4,346	3,154	2,540	2,281	1,721
Preferred shares	323	323	323	-	-
Shareholder's equity					
Preferred shares	-	-	-	323	323
Common shares	3,314	3,314	3,314	3,314	3,314
Retained earnings	3,202	2,827	2,354	1,791	1,497
Accumulated other comprehensive income	(9)	(10)	(10)	(10)	(10)
Total liabilities, preferred shares and shareholder's equity	20,811	18,836	17,344	15,635	13,878

¹ Based on US GAAP

² Based on Canadian GAAP

HYDRO ONE INC.

FIVE-YEAR SUMMARY OF FINANCIAL AND OPERATING STATISTICS (continued)

Other Financial Data

Year ended December 31

	2012	2011	2010	2009	2008
Capital expenditures (millions of dollars)					
Distribution	671	628	629	643	570
Transmission	776	810	936	918	704
Other	7	9	5	5	10
Total capital expenditures	1,454	1,447	1,570	1,566	1,284
Ratios					
Net asset coverage on long-term debt ratio ¹	1.81	1.81	1.77	1.79	1.84
Earnings coverage ratio ²	2.83	2.71	2.39	2.15	2.63
Operating statistics					
Transmission					
Units transmitted (TWh) ³	141.3	141.5	142.2	139.2	148.7
Ontario 20-minute system peak demand (MW) ³	24,768	25,505	25,145	24,477	24,231
Ontario 60-minute system peak demand (MW) ³	24,636	25,450	25,075	24,380	24,195
Total transmission lines (circuit-kilometres)	29,327	28,942	28,951	28,924	29,039
Distribution					
Units distributed to Hydro One customers (TWh) ³	29.2	29.2	29.1	28.9	29.9
Units distributed through Hydro One lines (TWh) ^{3,4}	42.4	42.5	42.5	43.5	44.7
Total distribution lines (circuit-kilometres)	121,525	120,514	123,552	123,528	123,260
Customers	1,381,926	1,365,379	1,345,177	1,333,920	1,325,745
Total regular employees	5,811	5,781	5,717	5,427	5,032

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.

HYDRO ONE NETWORKS INC.

DISTRIBUTION BUSINESS

FINANCIAL STATEMENTS

DECEMBER 31, 2013

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

To the Directors of Hydro One Networks Inc.

We have audited the accompanying financial statements of the Distribution Business (a business of Hydro One Networks Inc.), which comprise the balance sheet as at December 31 2013, the statements 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 of 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 audit. We conducted our audit 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 and fair presentation 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 audit 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 Distribution Business (a business of Hydro One Networks Inc.) as at December 31, 2013, and its statement of operations and comprehensive income, and its cash flows for the year then ended, in accordance with the basis of accounting as set out in Note 2 to these financial statements.

Basis of Accounting and Restriction of Use

Without modifying our opinion, we draw attention to Note 2 to these financial statements, which describes the basis of accounting and composition of the Distribution Business (a business of Hydro One Networks Inc.). In particular, in preparing these financial statements, long-term debt, shared functions and service costs, and payments in lieu of corporate income taxes have been allocated to the Distribution 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 Distribution 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.



Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 26, 2014

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2013 and 2012

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Revenues		
Energy sales	3,806	3,536
Rural rate protection (Note 18)	125	125
Other	40	53
	3,971	3,714
Costs		
Purchased power (Note 18)	2,620	2,413
Operation, maintenance and administration (Note 18)	611	553
Depreciation and amortization (Note 4)	321	308
	3,552	3,274
Income before financing charges and provision for payments in lieu of corporate income taxes	419	440
Financing charges (Notes 5, 18)	137	138
Income before provision for payments in lieu of corporate income taxes	282	302
Provision for payments in lieu of corporate income taxes (Notes 6, 18)	24	44
Net income	258	258
Other comprehensive income	—	—
Comprehensive income	258	258

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
BALANCE SHEETS
At December 31, 2013 and 2012

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Assets		
Current assets:		
Inter-company demand facility (<i>Notes 12, 13, 18</i>)	47	5
Accounts receivable (net of allowance for doubtful accounts – \$32; 2012 – \$20) (<i>Notes 7, 18</i>)	853	778
Regulatory assets (<i>Note 10</i>)	15	14
Materials and supplies	6	7
Deferred income tax assets (<i>Note 6</i>)	8	7
Derivative instruments (<i>Note 12</i>)	1	–
Other	11	12
	941	823
Property, plant and equipment (<i>Note 8</i>):		
Property, plant and equipment in service	8,864	8,363
Less: accumulated depreciation	3,279	3,078
	5,585	5,285
Construction in progress	323	314
Future use land, components and spares	45	45
	5,953	5,644
Other long-term assets:		
Regulatory assets (<i>Note 10</i>)	705	612
Intangible assets (net of accumulated amortization – \$145; 2012 – \$178) (<i>Note 9</i>)	204	159
Goodwill	73	73
Deferred debt costs	13	12
Derivative instruments (<i>Note 12</i>)	2	5
	997	861
Total assets	7,891	7,328

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
BALANCE SHEETS (continued)
At December 31, 2013 and 2012

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Liabilities		
Current liabilities:		
Accounts payable	59	58
Accrued liabilities (Notes 6, 14, 15, 18)	592	592
Accrued interest (Note 18)	38	35
Regulatory liabilities (Note 10)	26	38
Long-term debt payable within one year (Notes 11, 12, 13, 18)	176	230
	891	953
Long-term debt (Notes 11, 12, 13, 18)	3,140	2,785
Other long-term liabilities:		
Post-retirement and post-employment benefit liability (Note 14)	824	785
Deferred income tax liabilities (Note 6)	306	230
Environmental liabilities (Note 15)	139	132
Regulatory liabilities (Note 10)	110	96
Net unamortized debt premiums	11	12
Asset retirement obligations (Note 16)	4	3
Long-term accounts payable and other liabilities	1	13
	1,395	1,271
Total liabilities	5,426	5,009
<i>Contingencies and commitments (Notes 20, 21)</i>		
Excess of assets over liabilities (Notes 13, 17)	2,465	2,319
Total liabilities and excess of assets over liabilities	7,891	7,328

See accompanying notes to Financial Statements.

On behalf of the Board of Directors:



Carmine Marcello
Chair



Sandy Struthers
Director

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2013 and 2012

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Operating activities		
Net income	258	258
Environmental expenditures	(9)	(9)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	270	262
Regulatory assets and liabilities	(12)	(5)
Deferred income taxes	3	2
Other	2	1
Changes in non-cash balances related to operations <i>(Note 19)</i>	(30)	(45)
Net cash from operating activities	482	464
Financing activities		
Long-term debt issued	533	454
Long-term debt retired	(230)	(324)
Payments to Hydro One Inc. to finance dividends	(112)	(107)
Other	(2)	—
Net cash from financing activities	189	23
Investing activities		
Capital expenditures <i>(Note 19)</i>		
Property, plant and equipment	(579)	(562)
Intangible assets	(66)	(73)
Other	16	12
Net cash used in investing activities	(629)	(623)
Net change in inter-company demand facility	42	(136)
Inter-company demand facility, beginning of year	5	141
Inter-company demand facility, end of year	47	5

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

1. DESCRIPTION OF THE 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 (Province). The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

Hydro One Networks Inc. (Hydro One Networks or the Company) was incorporated on March 4, 1999 under the *Business Corporations Act* (Ontario) and is a wholly-owned subsidiary of Hydro One. The Company owns and operates Hydro One's regulated transmission and distribution businesses. The regulated distribution business (Distribution Business) operates a low-voltage electrical distribution network that distributes electricity from the transmission system, or directly from generators, to customers within Ontario. The Distribution Business is regulated by the Ontario Energy Board (OEB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These Financial Statements are prepared and presented in accordance with the accounting policies summarized below and in Canadian dollars. These policies are consistent with United States (US) Generally Accepted Accounting Principles (GAAP). 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, 2013 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 Distribution Business on a basis approved by the OEB. The Financial Statements are considered by management to be a reasonable representation, prepared on a rational, systematic and consistent basis, of the financial results of the Company's Distribution Business. As a result of this basis of accounting, these Financial Statements may not necessarily be identical to the financial position and results of operations that would have resulted had the Distribution Business historically operated on a stand-alone basis.

The Financial Statements have been constructed primarily through specific identification of assets, liabilities (other than debt), revenues and expenses that relate to the Distribution Business. The Company's long-term debt is allocated based on the respective borrowing requirements of the Company's transmission and distribution businesses. A portion of the Company's shared functions and services costs is allocated to the Distribution 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 and Comprehensive Income as though the Distribution Business was a separate taxpaying entity. Certain other amounts presented in these Financial Statements represent allocations subject to review and approval by the OEB. Certain comparative figures have been reclassified to conform to the presentation of these Financial Statements (see Note 19 – Statements of Cash Flows).

Hydro One Networks performed an evaluation of subsequent events through to March 26, 2014, the date these Financial Statements were available to be issued, to determine whether any events or transactions warranted recognition and disclosure in these financial statements. See Note 22 – Subsequent Events.

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, expenses, gains and losses 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 assumptions are made with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, post-retirement and post-employment benefits, asset retirement obligations (AROs), goodwill and asset impairments, contingencies, unbilled revenues, allowance for doubtful accounts, derivative instruments, 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.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

Rate Setting

The OEB has approved the use of US GAAP for rate setting and regulatory accounting and reporting by the Company's Distribution Business beginning with the year 2012.

In 2010, the OEB approved a revised 2011 revenue requirement of \$1,218 million and 2011 distribution rates. Hydro One Networks elected to retain the same distribution rates for 2012 as approved by the OEB for the 2011 rate year. In June 2012, Hydro One Networks filed an Incentive Regulation Mechanism (IRM) application with the OEB for 2013 distribution rates. In December 2012, the OEB approved an increase in average distribution rates of approximately 1.3%, with an effective date of January 1, 2013.

Regulatory Accounting

The OEB has the general power to include or exclude revenues, costs, gains or losses 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 Distribution 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 Distribution Business has recorded regulatory liabilities that generally represent amounts that are refundable to future customers. The Distribution Business 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 Distribution Business 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

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 electricity 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 are recorded net of indirect taxes.

Accounts Receivable and Allowance for Doubtful Accounts

Billed accounts receivable are recorded at the invoiced amount, net of allowance for doubtful accounts. Unbilled accounts receivable are estimated and recorded based on wholesale electricity purchases. Overdue amounts related to regulated billings bear interest at OEB-approved rates. The allowance for doubtful accounts reflects the Distribution Business' best estimate of losses on billed accounts receivable balances. The allowance is based on accounts receivable aging, historical experience and other currently available information. The Distribution Business 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 110 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.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

Corporate Income Taxes

Under the *Electricity Act, 1998*, Hydro One Networks is required to remit 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% 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 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 Financial Statements and their 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 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 realized.

The Distribution Business has recognized regulatory assets and liabilities associated with deferred income taxes that will be included in the rate-setting process.

The Distribution Business uses the flow-through method to account for investment tax credits (ITCs) earned on eligible scientific research and experimental development expenditures, and apprenticeship job creation. Under this method, only non-refundable ITCs are recognized as a reduction to income tax expense.

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 its subsidiaries. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Distribution Business to and from the pooled bank accounts. Interest is earned on

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

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, small spare parts and construction materials held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost, 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 Balance Sheets as property, plant and equipment.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized 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 costs such as finance, treasury, human resources, information technology and executive costs. Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

Property, plant and equipment in service consists of 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.

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 amounts incurred to acquire land rights and other access rights.

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), consulting, engineering, overheads and attributable capitalized financing charges. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses. The Distribution Business' intangible assets primarily represent major administrative computer applications.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of property, plant and equipment or development of intangible assets. The financing 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 Statements of Operations and Comprehensive Income. Capitalized financing costs are calculated using the Company's weighted average effective cost of debt.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of constructed assets that are not yet complete 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, except for transport and work equipment, which is depreciated on a declining balance basis.

Hydro One 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 OEB approval of 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, 2013. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average	Range	Rate (%)
	Service Life		Average
Distribution	40 years	1% – 20%	2%
Communication	10 years	2% – 9%	9%
Administration and service	17 years	3% – 9%	7%

The cost of intangible assets is included primarily within the administration and service classification above. Amortization rates for computer applications software assets range from 9% to 11%.

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 and amortization, 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 such gain or loss 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 that is in excess of the fair value of the net identifiable assets acquired at the acquisition date. Goodwill is not included in rate base.

Goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require. The Company performs a qualitative assessment to determine whether it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount. If the Company determines, as a result of its qualitative assessment, that it is not more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, no further testing is required. If the Company determines, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, a goodwill impairment assessment is performed using a two-step, fair value-based test. The first step compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the carrying amount of the applicable reporting unit exceeds its fair value, a second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities using purchase price allocation in

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

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.

For the year ended December 31, 2013, based on the qualitative assessment performed as at September 30, 2013, the Company has determined that it is not more-likely-than-not that the fair value of each applicable reporting unit assessed is less than its carrying amount. As a result, no further testing was performed, and the Company has concluded that goodwill was not impaired at December 31, 2013.

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.

The carrying costs of most of the Distribution Business' long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable. As at December 31, 2013, no asset impairment had been recorded.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Company defers its proportionate share of the relevant Hydro One external transaction costs related to obtaining debt financing and presents such amounts as deferred debt costs on the 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 within financing charges in the Statements of Operations and Comprehensive Income. 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 amortization of net unamortized hedging losses on the Company's proportionate share of Hydro One's discontinued 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 share of unamortized hedging losses on discontinued cash flow hedges to financing charges using the effective interest method over the term of the allocated hedged debt. OCI and net income are presented in a single continuous 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. Hydro One Networks determines the classification of its financial assets and liabilities at the

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

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 its risk management policy disclosed in Note 12 – Fair Value of Financial Instruments and Risk Management.

All financial instrument transactions are recorded at trade date.

Derivative Instruments and Hedge Accounting

Hydro One closely monitors the risks associated with changes in interest rates on its operations and, where appropriate, uses various derivative 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. Hydro One's derivative instruments, or portions thereof, are mirrored down to Hydro One Networks, and are allocated between the Company's transmission and distribution businesses. The derivative instruments are classified as fair value hedges or undesignated contracts, consistent with Hydro One's derivative instruments classification.

The accounting guidance for derivative instruments 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 on the Balance Sheets. For derivative instruments that qualify for hedge accounting, Hydro One may elect to designate such derivative instruments as either cash flow hedges or fair value hedges. Hydro One offsets fair value amounts recognized in its 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, net of tax, is reported as a component of accumulated OCI (AOCI) and is 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 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 Statements of Operations and Comprehensive Income. Additionally, Hydro One 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 derivative instruments are separated from their host contracts and carried at fair value on the 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. Hydro One does not engage in derivative trading or speculative activities and had no embedded derivatives at December 31, 2013.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where Hydro One has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. Hydro One also assesses, both at the inception of the hedge and on a quarterly 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 pension, post-retirement and post-employment benefit plans are recorded over the periods during which employees render service.

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Hydro One 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 on the Consolidated Balance Sheets of Hydro One 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 post-retirement and post-employment benefit plans are unfunded because there are no related plan assets. For the year ended December 31, 2013, the measurement date for the Plans was December 31.

Pension benefits

Hydro One has a contributory defined benefit pension plan covering all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton Networks Inc. The Hydro One pension plan does not segregate assets in a separate account for individual subsidiaries, nor is the accrual cost of the pension plan allocated to, or funded separately by, entities within the consolidated group. Consequently, 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.

A detailed description of Hydro One pension benefits is provided in Note 15 – Pension and Post-Retirement and Post-Employment Benefits, to the Consolidated Financial Statements of Hydro One for the year ended December 31, 2013.

Post-retirement and post-employment benefits

Post-retirement and post-employment benefits are recorded and included in rates 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.

The Company records a regulatory asset equal to the incremental net unfunded projected benefit obligation for post-retirement and post-employment plans at each year end based on annual actuarial reports. The regulatory asset for the incremental net unfunded projected benefit obligation for 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 post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process.

For post-retirement benefits, 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. The post-retirement benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to associated regulatory asset, to the extent of the remeasurement adjustment.

For post-employment obligations, the actuarial gains and losses that are incurred during the year are recognized immediately to results of operations. The post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to associated regulatory asset, to the extent of the remeasurement adjustment.

All post-retirement and post-employment 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.

A detailed description of Hydro One post-retirement and post-employment benefits is provided in Note 15 – Pension and Post-Retirement and Post-Employment Benefits, to the Consolidated Financial Statements of Hydro One for the year ended December 31, 2013.

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Loss Contingencies

Hydro One and its subsidiaries are involved in certain legal and environmental matters that arise in the normal course of business. In the preparation of the Distribution Business' 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. Where the loss amount is recoverable in future rates, a regulatory asset is also recorded. When a range estimate for the probable loss exists and no amount within the range is a better estimate than any other amount, the Distribution Business 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 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 Distribution Business.

Provisions are based upon current estimates and are subject to greater uncertainty where the projection period is lengthy. A significant upward or downward trend in the number of claims filed, the nature of the alleged injuries, and the average cost of resolving each 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 could also change the estimated liability. 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. The Distribution Business records a liability for the estimated future expenditures associated with the contaminated land assessment and remediation (LAR) 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 present value is determined 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 it is anticipated 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. The estimates of future environmental expenditures are reviewed 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. Where an asset is no longer in-service when an ARO is recorded, the asset retirement cost is recorded in results of operations.

Some 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 Distribution Business expects to use the majority of its facilities in perpetuity, no ARO currently exists for these assets. If, at

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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 case, an ARO would be recorded at that time.

The Distribution Business' 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

Recently Adopted Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. This ASU requires an entity to disclose both gross and net information about financial instruments and transactions eligible for offset on the Balance Sheets as well as financial instruments and transactions executed under a master netting or similar arrangement. The ASU was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on an entity's financial position. This ASU was required to be applied retrospectively and was effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of this ASU did not have a significant impact on the Distribution Business' Financial Statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under US GAAP that provide additional detail about those amounts. This ASU was required to be applied prospectively and was effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of this ASU did not have a significant impact on the Distribution Business' Financial Statements.

Recent Accounting Guidance Not Yet Adopted

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This ASU provides guidance on the presentation of unrecognized tax benefits. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this ASU is not anticipated to have a significant impact on the Distribution Business' Financial Statements.

4. DEPRECIATION AND AMORTIZATION

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Depreciation of property, plant and equipment	235	229
Amortization of intangible assets	26	24
Asset removal costs	51	46
Amortization of regulatory assets	9	9
	321	308

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5. FINANCING CHARGES

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Interest on long-term debt	150	154
Other	5	8
Interest on inter-company demand facility	1	–
Less: Interest capitalized on construction and development in progress	(16)	(18)
Gain on interest-rate swap agreements	(3)	(4)
Interest earned on inter-company demand facility	–	(2)
	137	138

6. 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 the effective tax rates is provided as follows:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Income before provision for PILs	282	302
Canadian Federal and Ontario statutory income tax rate	26.50%	26.50%
Provision for PILs at statutory rate	75	80

Increase (decrease) resulting from:

Net temporary differences included in amounts charged to customers:

Capital cost allowance in excess of depreciation and amortization	(28)	(8)
Pension contributions in excess of pension expense	(10)	(12)
Overheads capitalized for accounting but deducted for tax purposes	(6)	(6)
Prior year's adjustment	(5)	–
Interest capitalized for accounting but deducted for tax purposes	(4)	(4)
Environmental expenditures	(2)	(2)
Non-refundable ITCs	(2)	(6)
Post-retirement and post-employment benefit expense in excess of cash payments	3	–
Other	2	1
Net temporary differences	(52)	(37)
Net permanent differences	1	1
Total provision for PILs	24	44
Current provision for PILs	21	42
Deferred provision for PILs	3	2
Total provision for PILs	24	44
Effective income tax rate	8.51%	14.57%

The current provision for PILs is remitted to, or received from, the OEFC. At December 31, 2013, \$19 million receivable from the OEFC was included in accounts receivable on the Balance Sheet (December 31, 2012 – payable of \$7 million included in accrued liabilities).

The total provision for PILs includes deferred provision for PILs of \$3 million (2012 – \$2 million) that is 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.

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Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Company's assets and liabilities. At December 31, deferred income tax assets and liabilities consisted of the following:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Deferred income tax liabilities		
Capital cost allowance in excess of depreciation and amortization	(547)	(458)
Regulatory amounts not recognized for tax	(87)	(84)
Goodwill	(8)	(8)
Post-retirement and post-employment benefits expense in excess of cash payments	304	290
Environmental expenses	39	36
Other	1	1
Total deferred income tax liabilities	(298)	(223)
Less: current portion	8	7
	(306)	(230)

During 2013, there was no change in the rate applicable to future taxes (2012 – a change in rate applicable to future rates generated a \$14 million increase).

7. ACCOUNTS RECEIVABLE

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Accounts receivable – billed	238	200
Accounts receivable – unbilled	647	598
Accounts receivable, gross	885	798
Allowance for doubtful accounts	(32)	(20)
Accounts receivable, net	853	778

The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2013 and 2012.

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Allowance for doubtful accounts – January 1	(20)	(15)
Write-offs	23	16
Additions to allowance for doubtful accounts	(35)	(21)
Allowance for doubtful accounts – December 31	(32)	(20)

8. PROPERTY, PLANT AND EQUIPMENT

<i>December 31, 2013 (millions of Canadian dollars)</i>	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Distribution	7,939	2,763	307	5,483
Communication	106	29	–	77
Administration and Service	855	483	16	388
Easements	9	4	–	5
	8,909	3,279	323	5,953

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<i>December 31, 2012 (millions of Canadian dollars)</i>	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Distribution	7,476	2,602	220	5,094
Communication	100	21	—	79
Administration and Service	824	451	94	467
Easements	8	4	—	4
	8,408	3,078	314	5,644

Financing charges capitalized on property, plant and equipment under construction were \$13 million (2012 – \$15 million).

9. INTANGIBLE ASSETS

<i>December 31, 2013 (millions of Canadian dollars)</i>	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	347	144	1	204
Other	1	1	—	—
	348	145	1	204

<i>December 31, 2012 (millions of Canadian dollars)</i>	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	228	176	107	159
Other	2	2	—	—
	230	178	107	159

Financing charges capitalized on intangible assets under development were \$3 million (2012 – \$3 million). The estimated annual amortization expense for intangible assets is as follows: 2014 – \$31 million; 2015 – \$31 million; 2016 – \$31 million; 2017 – \$31 million; and 2018 – \$28 million.

10. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-making process. The Distribution Business has recorded the following regulatory assets and liabilities:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Regulatory assets:		
Deferred income tax regulatory asset	310	239
Post-retirement and post-employment benefits	172	180
Environmental	152	140
Pension cost variance	59	46
OEB cost assessment differential	9	—
DSC exemption	7	—
Rider 2	—	10
Other	11	11
Total regulatory assets	720	626
Less: current portion	15	14
	705	612

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<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Regulatory liabilities:		
Rider 8	54	45
Retail settlement variance accounts	35	46
Rider 9	19	–
PST savings deferral	14	10
Deferred income tax regulatory liability	7	7
Rider 3	–	9
Rural and remote rate protection variance	–	6
Other	7	11
Total regulatory liabilities	136	134
Less: current portion	26	38
	110	96

Deferred Income Tax Regulatory Asset and Liability

Deferred 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 Distribution Business has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Distribution Business' provision for PILs would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be reflected in future rates. As a result, the 2013 provision for PILs would have been higher by approximately \$53 million (2012 – \$41 million).

Post-Retirement and Post-Employment Benefits

The Distribution Business recognizes the net unfunded status of post-retirement and post-employment obligations on the Balance Sheets with an incremental offset to the associated regulatory assets. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2013 OCI would have been higher by \$8 million (2012 – lower by \$110 million).

Environmental

The Distribution Business records a liability for the estimated future expenditures required to remediate past environmental contamination. Because such expenditures are expected to be recoverable in future rates, an equivalent amount was recorded as a regulatory asset. In 2013, the environmental regulatory asset decreased by \$3 million (2012 – \$2 million) to reflect related changes in the PCB liability, and increased by \$18 million (2012 – \$2 million) due to changes in the LAR liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudence and the timing of recovery of all of the Distribution Business' actual environmental expenditures. In the absence of rate-regulated accounting, 2013 operation, maintenance and administration expenses would have been higher by 15 million (2012 – no change). In addition, 2013 amortization expense would have been lower by \$9 million (2012 – \$9 million), and 2013 financing charges would have been higher by \$6 million (2012 – \$6 million).

Pension Cost Variance

A pension cost variance account was established for the Distribution Business to track the difference between the actual pension expense incurred and estimated pension costs approved by the OEB. The balance in this regulatory account reflects the excess of pension costs paid as compared to OEB-approved amounts. In the absence of rate-regulated accounting, 2013 revenue would have been lower by \$13 million (2012 – \$17 million).

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OEB Cost Assessment Differential

In April 2010, the OEB announced its decision regarding the Distribution Business' rate application for 2010 and 2011. As part of this decision, the OEB also approved the distribution-related OEB Cost Assessment Differential Account to record the difference between the amounts approved in rates and actual expenditures with respect to the OEB's cost assessments.

DSC Exemption

In June 2010, Hydro One Networks filed an application with the OEB regarding the OEB's new cost responsibility rules contained in the OEB's October 2009 Notice of Amendment to the Distribution System Code (DSC), with respect to the connection of certain renewable generators that were already connected or that had received a connection impact assessment prior to October 21, 2009. The application sought approval to record and defer the unanticipated costs incurred by the Company that resulted from the connection of certain renewable generation facilities. The OEB ruled that expenditures for identified specific expenditures can be recorded in a deferral account, subject to the OEB's review at a future date.

Rider 2

In April 2006, the OEB approved Hydro One Networks' distribution-related deferral account balances. The Rider 2 regulatory asset includes retail settlement and cost variance amounts and distribution low-voltage service amounts, plus accrued interest. In December 2012, as part of Hydro One Networks' 2013 IRM distribution rate application, the OEB approved the balance of the Rider 2 regulatory account for disposition as part of Rider 9, including accrued interest, to be disposed over a 24-month period from January 1, 2013 to December 31, 2014.

Rider 8

In April 2010, the OEB requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and the actual recoveries received.

Retail Settlement Variance Accounts (RSVA)

The Company has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In December 2012, the OEB approved the disposition of the total RSVA balance accumulated from January 2010 to December 2011, including accrued interest, to be disposed over a 24-month period from January 1, 2013 to December 31, 2014. The Company has continued to accumulate a net liability in its RSVAs since December 31, 2011.

Rider 9

In December 2012, as part of Hydro One Networks' 2013 IRM distribution rate application, the OEB approved for disposition certain distribution-related deferral account balances, including RSVA amounts and balances of Rider 2 and Rider 3, accumulated up to December 2011, including accrued interest, to be disposed over a 24-month period from January 1, 2013 to December 31, 2014.

PST Savings Deferral Account

The provincial sales tax (PST) and goods and services tax (GST) were harmonized in July 2010. Unlike the GST, the PST was included in operation, maintenance and administrative expenses or capital expenditures for past revenue requirements approved during a full cost of service hearing. Under the harmonized sales tax (HST) regime, the HST included in operation, maintenance and administrative expenses or capital expenditures is not a cost ultimately borne by the Company and as such, a refund of the prior PST element in the approved revenue requirement is applicable and calculations for tracking and refund were requested by the OEB. For the Distribution Business, PST was included in rates between July 1, 2010 and December 31, 2013 and recorded in a deferral account per direction from the OEB.

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Rider 3

In December 2008, the OEB approved certain distribution-related deferral account balances sought by the Company, including RSVA amounts, deferred tax changes, OEB costs and smart meters. The OEB approved the disposition of the Rider 3 balance accumulated up to April 2008, including accrued interest, to be disposed over a 27-month period from February 1, 2009 to April 30, 2011. In December 2012, as part of Hydro One Networks' 2013 IRM distribution rate application, the OEB approved the balance of Rider 3 for disposition as part of Rider 9.

Rural and Remote Rate Protection Variance (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. The OEB has approved a mechanism to collect the RRRP through the Wholesale Market Service Charge. Variances between the amounts remitted by the IESO to Hydro One Networks and the fixed entitlements defined in the regulation, and subsequent OEB utility rate decisions, are tracked in the RRRP variance account. At December 31, 2013, the RRRP variance account had a \$2 million debit balance, which is included in Other regulatory assets.

11. DEBT

Hydro One issues notes for long-term financing under its Medium-Term Note (MTN) Program. The terms of certain issuances are mirrored down to Hydro One Networks through the issuance of inter-company debt, which is then allocated between the Company's transmission and distribution businesses.

The following table presents the outstanding long-term debt of the Distribution Business as at December 31, 2013 and 2012:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Long-term debt	3,313	3,010
Add: Unrealized marked-to-market loss ¹	3	5
Less: Long-term debt payable within one year	(176)	(230)
Long-term debt	3,140	2,785

¹ The unrealized marked-to-market loss relates to \$100 million of Distribution Business' \$175 million note due 2014, and \$100 million of Distribution Business' \$200 million note due 2015. The unrealized marked-to-market loss is offset by a \$3 million (2012 – \$5 million) unrealized marked-to-market gain on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges. See Note 12 – Fair Value of Financial Instruments and Risk Management for details of fair value hedges.

The long-term debt is unsecured and denominated in Canadian dollars. The long-term debt is summarized by the number of years to maturity in Note 12 – Fair Value of Financial Instruments and Risk Management.

12. 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.

The Company 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.

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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

At December 31, 2013 and 2012, the carrying amounts of accounts receivable, inter-company demand facility, and accounts payable 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 Distribution Business' long-term debt at December 31, 2013 and 2012 are as follows:

<i>December 31 (millions of Canadian dollars)</i>	2013 Carrying Value	2013 Fair Value	2012 Carrying Value	2012 Fair Value
Long-term debt				
\$100 million of \$175 million notes due 2014 ¹	101	101	102	102
\$100 million of \$200 million notes due 2015 ²	102	102	103	103
Other notes and debentures ³	3,113	3,370	2,810	3,338
	3,316	3,573	3,015	3,543

¹ The fair value of \$100 million of Distribution Business' \$175 million notes due 2014, 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 \$100 million of Distribution Business' \$200 million notes due 2015, 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 Distribution Business' \$175 million and \$200 million notes 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 Derivative Instruments

Hydro One enters into interest-rate swaps agreements with respect to its long-term debt. The terms of these interest-rate swap agreements are mirrored down to Hydro One Networks, and are then allocated between the Company's transmission and distribution businesses.

At December 31, 2013, the Distribution Business' share of the Company's derivative instruments include \$200 million of interest-rate swaps that were used to convert fixed-rate debt to floating-rate debt (2012 – \$200 million). These interest-rate swaps are classified as fair value hedges. The Distribution Business' fair value hedge exposure was equal to about 6% (2012 – 7%) of its long-term debt. At December 31, 2013, the Distribution Business' interest-rate swaps designated as fair value hedges were as follows:

- (a) a \$100 million fixed-to-floating interest-rate swap agreement to convert \$100 million of the \$175 million notes maturing November 19, 2014 into three-month variable rate debt; and
- (b) two \$50 million fixed-to-floating interest-rate swap agreements to convert \$100 million of the \$200 million notes maturing September 11, 2015 into three-month variable rate debt.

HYDRO ONE NETWORKS INC.
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NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

At December 31, 2013, the Distribution Business' share of interest-rate swaps classified as undesignated contracts consisted of the following:

- (c) three \$100 million floating-to-fixed interest-rate swap agreements that lock in the floating-rate on a portion of the above fixed-to-floating interest-rate swaps from December 11, 2013 to December 11, 2014, from February 19, 2013 to February 19, 2014, and from February 19, 2014 to November 19, 2014, respectively;
- (d) two \$20 million floating-to-fixed interest-rate swap agreements that lock in the floating-rate on the \$20 million floating-rate notes maturing July 24, 2015, from January 24, 2013 to January 24, 2014, and from January 24, 2014 to January 24, 2015, respectively, and;
- (e) a \$20 million floating-to-fixed interest-rate swap agreement that locks in the floating-rate on the \$20 million floating-rate notes maturing December 3, 2016, from December 3, 2013 to December 3, 2014.

At December 31, 2013 and 2012, the carrying amounts of derivative instruments were representative of fair value.

Fair Value Hierarchy

Fair value hierarchy information for financial assets and liabilities at December 31, 2013 and 2012 was as follows:

<i>December 31, 2013 (millions of Canadian dollars)</i>	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Inter-company demand facility	47	47	47	—	—
Derivative instruments					
Fair value hedges – interest-rate swaps	3	3	—	3	—
	50	50	47	3	—
Liabilities:					
Long-term debt	3,316	3,573	—	3,573	—
	3,316	3,573	—	3,573	—
<i>December 31, 2012 (millions of dollars)</i>	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Inter-company demand facility	5	5	5	—	—
Derivative instruments					
Fair value hedges – interest-rate swaps	5	5	—	5	—
	10	10	5	5	—
Liabilities:					
Long-term debt	3,015	3,543	—	3,543	—
	3,015	3,543	—	3,543	—

The fair value of the derivative instruments is determined using inputs other than quoted prices that are observable for these assets. The fair value is primarily based on the present value of future cash flows using a swap yield curve to determine the assumptions for interest rates.

The fair value of the hedged portion of the long-term debt is primarily based on the present value of future cash flows using a swap yield curve to determine the assumption for interest rates. The fair value of the un-hedged portion of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

There were no significant transfers between any of the levels during the years ended December 31, 2013 and 2012.

HYDRO ONE NETWORKS INC.
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NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

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 Hydro One 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. This could be mirrored in the Company. The Company is exposed to fluctuations in interest rates as the regulated rate of return for its Distribution Business 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 Distribution Business' rate of return would reduce the Distribution Business' results of operations by approximately \$10 million (2012 – \$10 million).

Hydro One uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. Hydro One also uses derivative financial instruments to manage interest-rate risk. Hydro One 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, Hydro One may utilize interest-rate derivative instruments 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. The Company's derivative instrument policy is consistent with Hydro One. No cash flow hedge agreements were outstanding as at December 31, 2013 or 2012.

A hypothetical 10% increase in the interest rates associated with variable-rate debt would not have resulted in a significant decrease in the Distribution Business' results of operations for the years ended December 31, 2013 or 2012.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instruments as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Statements of Operations and Comprehensive Income. The Distribution Business' net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the years ended December 31, 2013 and 2012 are included in financing charges as follows:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Unrealized loss (gain) on hedged debt	(2)	(4)
Unrealized loss (gain) on fair value interest-rate swaps	2	4
Net unrealized loss (gain)	–	–

At December 31, 2013, the amount of the Distribution Business' fair value hedges outstanding related to interest-rate swaps was \$200 million (2012 – \$200 million), with assets at fair value of \$3 million (2012 – \$5 million). During the years ended December 31, 2013 and 2012, there was no significant impact on the Distribution Business' 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. At December 31, 2013 and 2012, there were no significant concentrations of credit risk with respect to any class of financial assets. The Distribution Business did not earn a significant amount of revenue from any individual customer. At December 31, 2013 and 2012, there was no significant accounts receivable balance due from any single customer.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

At December 31, 2013, the Distribution Business' allowance for doubtful accounts was \$32 million (2012 – \$20 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2013, approximately 4% of the Distribution Business' net accounts receivable were aged more than 60 days (2012 – 2%).

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly-rated counterparties; 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. In addition to payment netting language in master agreements, Hydro One 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. Hydro One 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 Hydro One as specified in each agreement. Hydro One monitors current and forward credit exposure to counterparties both on an individual and an aggregate basis. The Company's counterparty credit risk policy is consistent with Hydro One. The Distribution Business' credit risk for accounts receivable is limited to the carrying amounts on its Balance Sheets.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. The Company meets its short-term liquidity requirements 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.

At December 31, 2013, accounts payable and accrued liabilities in the amount of \$651 million (2012 – \$650 million) were expected to be settled in cash at their carrying amounts within the next year.

At December 31, 2013, the principal amount of the Distribution Business' long-term debt was \$3,313 million (2012 – \$3,010 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 Long-term Debt <i>(millions of Canadian dollars)</i>	Interest Payments <i>(millions of Canadian dollars)</i>	Weighted Average Interest Rate <i>(%)</i>
1 year	175	154	3.2
2 years	220	148	2.9
3 years	200	138	4.4
4 years	195	133	5.2
5 years	338	123	2.8
	1,128	696	3.6
6 – 10 years	381	537	3.6
Over 10 years	1,804	1,588	5.5
	3,313	2,821	4.6

HYDRO ONE NETWORKS INC.
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NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

13. CAPITAL MANAGEMENT

The Distribution Business' objective is to manage its capital structure consistent with the deemed capital structure for rate-setting purposes as prescribed by the OEB.

The Distribution Business considers its capital structure to consist of excess of assets over liabilities, long-term debt, and the inter-company demand facility. The following table summarizes this capital structure:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Long-term debt payable within one year	176	230
Inter-company demand facility	(47)	(5)
	129	225
Long-term debt	3,140	2,785
Excess of assets over liabilities	2,465	2,319
Total capital	5,734	5,329

The following table shows the movements in the excess of assets over liabilities for the years ended December 31, 2013 and 2012:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Excess of assets over liabilities, January 1	2,319	2,168
Net income	258	258
Payments to Hydro One to finance dividends	(112)	(107)
Excess of assets over liabilities, December 31	2,465	2,319

14. PENSION AND POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

Hydro One has a defined benefit pension plan, a supplementary pension plan, and post-retirement and post-employment benefit plans. The defined benefit pension plan (Pension Plan) is contributory and covers all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton Networks Inc. 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 supplementary pension plan obligation is included in post-retirement and post-employment benefit liability on the Balance Sheets.

Pension Benefits

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 represented staff hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation.

Hydro One and employee contributions to the Pension Plan are based on actuarial valuations performed at least every three years. Hydro One's annual Pension Plan contributions for 2013 of \$160 million (2012 – \$163 million) were based on an actuarial valuation effective December 31, 2011 and the level of 2013 pensionable earnings. Hydro One's estimated annual Pension Plan contributions for 2014 are approximately \$160 million, based on the December 31, 2011 valuation and the projected level of pensionable earnings.

At December 31, 2013, based on the December 31, 2011 actuarial valuation, the present value of Hydro One's projected pension benefit obligation was estimated to be \$6,576 million (2012 – \$6,507 million). The fair value of Pension Plan assets available for these benefits was \$5,731 million (2012 – \$4,992 million).

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

Post-Retirement and Post-Employment Benefits

During the year ended December 31, 2013, the Distribution Business charged \$36 million (2012 – \$26 million) of post-retirement and post-employment benefit costs to operations, and capitalized \$35 million (2012 – \$28 million) as part of the cost of property, plant and equipment and intangible assets. Benefits paid in 2013 were \$24 million (2012 – \$25 million). In addition, the associated post-retirement and post-employment benefits regulatory asset decreased by \$8 million (2012 – increased by \$110 million).

The Distribution Business presents its post-retirement and post-employment benefit liabilities on its Balance Sheets within the following line items:

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Accrued liabilities	22	22
Post-retirement and post-employment benefit liability	824	785
	846	807

15. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2013 and 2012:

<i>Year ended December 31, 2013 (millions of Canadian dollars)</i>	PCB	LAR	Total
Environmental liabilities, January 1	116	24	140
Interest accretion	6	–	6
Expenditures	(2)	(7)	(9)
Revaluation adjustment	(3)	18	15
Environmental liabilities, December 31	117	35	152
Less: current portion	7	6	13
	110	29	139

<i>Year ended December 31, 2012 (millions of Canadian dollars)</i>	PCB	LAR	Total
Environmental liabilities, January 1	116	27	143
Interest accretion	6	–	6
Expenditures	(4)	(5)	(9)
Revaluation adjustment	(2)	2	–
Environmental liabilities, December 31	116	24	140
Less: current portion	3	5	8
	113	19	132

The following tables show the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized on the Balance Sheets after factoring in the discount rate:

<i>December 31, 2013 (millions of Canadian dollars)</i>	PCB	LAR	Total
Undiscounted environmental liabilities	136	37	173
Less: discounting accumulated liabilities to present value	(19)	(2)	(21)
Discounted environmental liabilities	117	35	152

<i>December 31, 2012 (millions of Canadian dollars)</i>	PCB	LAR	Total
Undiscounted environmental liabilities	135	25	160
Less: discounting accumulated liabilities to present value	(19)	(1)	(20)
Discounted environmental liabilities	116	24	140

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

At December 31, 2013, the estimated future environmental expenditures were as follows:

(millions of Canadian dollars)

2014	13
2015	15
2016	22
2017	20
2018	19
Thereafter	84
	<hr/> 173

At December 31, 2013, of the total estimated future environmental expenditures, \$136 million relates to PCBs (2012 – \$135 million) and \$37 million relates to LAR (2012 – \$25 million).

The Distribution Business records a liability for the estimated future expenditures for the contaminated LAR and for the phase-out and destruction of PCB-contaminated mineral oil removed from electrical equipment. 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. 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 rate 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 3.3% to 6.3%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Distribution Business' environmental liabilities represent management's best estimates of the present value of 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, with respect to the PCB environmental liability, 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. Environmental liabilities are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively. The Distribution Business records a regulatory asset reflecting the expectation that future environmental costs will be recoverable in rates.

PCBs

In September 2008, Environment Canada published regulations governing the management, storage and disposal of PCBs, enacted under the *Canadian Environmental Protection Act, 1999*. The regulations impose timelines for disposal of PCBs based on certain criteria, including type of equipment, in-use status, and PCB-contamination thresholds. Under these regulations and the Company's approved end-of-use extension, PCBs in concentrations of 500 parts per million (ppm) or more have to be disposed of by the end of 2014, with the exception of specifically exempted equipment, and PCBs 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 Distribution Business currently has very few PCB-contaminated assets in excess of 500 ppm. Contaminated equipment will generally be replaced, or will be decontaminated by removing PCB-contaminated insulating oil and retro filling with replacement oil that contains PCBs in concentrations of less than 2 ppm.

The Distribution Business' best estimate of the total estimated future expenditures to comply with current PCB regulations is \$136 million. These expenditures are expected to be incurred over the period from 2014 to 2025. As a result of the Company's annual review of environmental liabilities, the Distribution Business recorded a revaluation adjustment in 2013 to reduce the PCB environmental liability by \$3 million (2012 – \$2 million).

LAR

The Distribution Business' best estimate of the total estimated future expenditures to complete its LAR program is \$37 million. These expenditures are expected to be incurred over the period from 2014 to 2022. As a result of the Company's

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
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For the years ended December 31, 2013 and 2012

annual review of environmental liabilities, the Distribution Business recorded a revaluation adjustment in 2013 to increase the LAR environmental liability by \$18 million (2012 – \$2 million).

16. ASSET RETIREMENT OBLIGATIONS

The Company records a liability for the estimated future expenditures for the removal and disposal of asbestos-containing materials installed in some of its facilities and for the decommissioning of specific switching stations located on unowned sites. AROs, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected expenditures for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate of fair value can be made. If the asset remains in service at the recognition date, the present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred and this additional carrying amount is depreciated over the remaining life of the asset. If an ARO is recorded in respect of an out-of-service asset, the asset retirement cost is charged to results of operations. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the ARO, which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired, changes in legislation or regulations, as well as for accretion of the liability due to the passage of time until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset.

In determining the amounts to be recorded as AROs, the Company estimates the current fair value for 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 expenditures have been discounted using factors ranging from approximately 3.0% to 5.0%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Distribution Business' AROs represent management's best estimates of the 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. AROs are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively.

At December 31, 2013, the Company had recorded AROs of \$4 million (2012 – \$3 million), related to its Distribution Business, consisting of the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The amount of interest recorded is nominal and there have been no expenditures associated with these obligations in 2013.

17. HYDRO ONE NETWORKS' SHARE CAPITAL

Hydro One Networks has 14,875,720 issued and outstanding cumulative preferred shares and 148,821,741 issued and outstanding common shares. The Company is authorized to issue an unlimited number of preferred shares and common shares.

Hydro One Networks makes common share and preferred share dividend payments to Hydro One. The Distribution Business makes payments to finance its share of the Company's common share and preferred share dividends. During 2013, the Distribution Business' payments to finance these dividends totaled \$112 million (2012 – \$107 million).

18. RELATED PARTY TRANSACTIONS

The Distribution Business is a separately regulated business of a subsidiary of Hydro One, and 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 the Distribution Business because they are controlled or significantly influenced by the Province. Transactions between these parties and the Distribution Business are described below.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

The Distribution Business receives amounts for rural rate protection from the IESO. 2013 revenues include \$125 million (2012 – \$125 million) related to this program.

In 2013, the Distribution Business purchased power in the amount of \$2,077 million (2012 – \$2,031 million) from the IESO-administered electricity market, \$15 million (2012 – \$10 million) from OPG, and \$8 million (2012 – \$7 million) from power contracts administered by 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 transmitters. In 2013, the Distribution Business incurred \$6 million (2012 – \$6 million) in OEB fees.

The Company has service level agreements with OPG. These services include field and engineering, logistics, corporate, telecommunications and information technology services. Operation, maintenance and administration costs of the Distribution Business related to the purchase of services with respect to these service level agreements were less than \$1 million in both 2013 and 2012.

The OPA funds substantially all of the Company's conservation and demand management programs. The funding includes program costs, incentives, and management fees. In 2013, the Distribution Business received \$26 million (2012 – \$32 million) from the OPA related to these programs.

Hydro One pays a \$5 million annual fee to the OEFC for indemnification against adverse claims in excess of \$10 million paid by the OEFC with respect to certain of Ontario Hydro's businesses transferred to Hydro One on April 1, 1999. The Distribution Business' allocation of this fee is \$1 million.

PILs and payments in lieu of property taxes were paid or payable to the OEFC.

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

<i>December 31 (millions of Canadian dollars)</i>	2013	2012
Accounts receivable	56	32
Accrued liabilities ¹	(189)	(185)

¹ Included in accrued liabilities at December 31, 2013 are amounts owing to the IESO in respect of power purchases of \$185 million (2012 – \$172 million).

Hydro One and Subsidiaries

The Distribution Business provides services to, and receives services from, Hydro One and its 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 other subsidiaries related to the provision of shared corporate functions and services, such as legal, financial and human resources services, and operational services, such as environmental, forestry, and line services. 2013 revenues of the Distribution Business include \$3 million (2012 – \$2 million) related to the provision of services to Hydro One and its subsidiaries. Operation, maintenance and administration costs of the Distribution Business include \$12 million (2012 – \$11 million) related to the services received from Hydro One and its subsidiaries.

The Distribution Business' long-term debt is due to Hydro One. In addition, balances payable or receivable under the inter-company demand facility are due to or due from Hydro One. Financing charges include interest expense on the long-term debt in the amount of \$150 million (2012 – \$154 million), and interest income on the inter-company demand facility in the amount of \$1 million (2012 – interest expense of \$2 million). At December 31, 2013, the Distribution Business had accrued interest payable to Hydro One totaling \$38 million (2012 – \$35 million).

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

19. STATEMENTS OF CASH FLOWS

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

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Accounts receivable	(75)	(34)
Materials and supplies	1	(3)
Other assets	1	(5)
Accounts payable	9	8
Accrued liabilities	(4)	(53)
Accrued interest	3	4
Long-term accounts payable and other liabilities	(12)	9
Post-retirement and post-employment benefit liability	47	29
	(30)	(45)

Capital Expenditures

The following table illustrates the reconciliation between investments in property, plant and equipment and the amount presented in the Statements of Cash Flows after factoring in the net change in related accruals:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Capital investments in property, plant and equipment	(572)	(562)
Net change in accruals included in capital investments in property, plant and equipment	(7)	–
Capital expenditures – property, plant and equipment	(579)	(562)

The following table illustrates the reconciliation between investments in intangible assets and the amount presented in the Statements of Cash Flows after factoring in the net change in related accruals:

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Capital investments in intangible assets	(65)	(74)
Net change in accruals included in capital investments in intangible assets	(1)	1
Capital expenditures – intangible assets	(66)	(73)

Supplementary Information

<i>Year ended December 31 (millions of Canadian dollars)</i>	2013	2012
Net interest paid	144	150
PILs	41	81

20. CONTINGENCIES

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

21. COMMITMENTS

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

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2013 and 2012

22. SUBSEQUENT EVENTS

On January 29, 2014, Hydro One issued \$50 million notes under its MTN Program, with a maturity date of January 29, 2064 and a coupon rate of 4.29%. This issuance was mirrored down to Hydro One Networks through the issuance of inter-company debt, of which \$20 million was allocated to the Company's Distribution Business.

On March 21, 2014, Hydro One issued \$125 million floating-rate notes under its MTN Program, with a maturity date of March 21, 2019. This issuance was mirrored down to Hydro One Networks through the issuance of inter-company debt, of which \$50 million was allocated to the Company's Distribution Business.

HYDRO ONE NETWORKS INC.

DISTRIBUTION BUSINESS

FINANCIAL STATEMENTS

DECEMBER 31, 2012

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

To the Directors of Hydro One Networks Inc.

We have audited the accompanying financial statements of the Distribution Business (a business of Hydro One Networks Inc.), which comprise the balance sheets as at December 31, 2012, and December 31, 2011, the statements of operations and comprehensive income, and cash flows for the year ended December 31, 2012, and December 31, 2011, 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 consolidated financial statements based on our audits. We conducted our audit 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 and fair presentation 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 consolidated financial statements present fairly, in all material respects, the financial position of the Distribution Business (a business of Hydro One Networks Inc.) as at December 31, 2012, and December 31, 2011, and its statements of operations and comprehensive income, and cash flows for the year ended December 31, 2012, and December 31, 2011, in accordance with basis of accounting as set out in note 2 to these financial statements.

Basis of Accounting and Restriction of Use

Without modifying our opinion, we draw attention to Note 2 to these financial statements, which describes the basis of accounting and composition of Hydro One Networks Inc.'s Distribution Business. In particular, in preparing these financial statements, long-term debt, shared functions and services costs, and payments in lieu of corporate income taxes have been allocated to the Distribution 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 Distribution Business (a business of Hydro One Networks Inc.) historically operated as 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.



Chartered Accountants, Licensed Public Accountants
Toronto, Canada
April 18, 2013

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Revenues		(Note 22)
Energy sales	3,536	3,398
Rural rate protection (Note 18)	125	125
Other	53	46
	<u>3,714</u>	<u>3,569</u>
Costs		
Purchased power (Note 18)	2,413	2,285
Operation, maintenance and administration (Note 18)	553	555
Depreciation and amortization (Note 4)	308	287
	<u>3,274</u>	<u>3,127</u>
Income before financing charges and provision for payments in lieu of corporate income taxes	440	442
Financing charges (Notes 5, 18)	138	140
	<u>302</u>	<u>302</u>
Income before provision for payments in lieu of corporate income taxes	302	302
Provision for payments in lieu of corporate income taxes (Notes 6, 18)	44	66
Net income	<u>258</u>	<u>236</u>
Other comprehensive income	-	-
Comprehensive income	<u>258</u>	<u>236</u>

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
BALANCE SHEETS

<i>December 31 (millions of dollars)</i>	2012	2011
Assets		<i>(Note 22)</i>
Current assets:		
Inter-company demand facility <i>(Notes 12, 13, 18)</i>	5	141
Accounts receivable (net of allowance for doubtful accounts - \$20; 2011 - \$15) <i>(Notes 7,18)</i>	778	744
Regulatory assets <i>(Note 10)</i>	14	9
Materials and supplies	7	4
Deferred income tax assets <i>(Note 6)</i>	7	8
Other	12	7
	823	913
Property, plant and equipment <i>(Note 8)</i> :		
Property, plant and equipment in service	8,363	7,863
Less: accumulated depreciation	3,078	2,870
	5,285	4,993
Construction in progress	314	293
Future use land, components and spares	45	39
	5,644	5,325
Other long-term assets:		
Regulatory assets <i>(Note 10)</i>	612	431
Intangible assets (net of accumulated amortization - \$178; 2011 - \$154) <i>(Note 9)</i>	159	108
Goodwill	73	73
Deferred debt costs	12	11
Derivative instruments <i>(Note 12)</i>	5	9
	861	632
Total assets	7,328	6,870

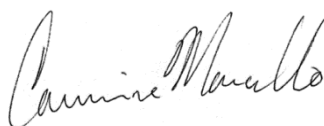
See accompanying notes to Financial Statements.

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

<i>December 31 (millions of dollars)</i>	2012	2011
Liabilities		(Note 22)
Current liabilities:		
Accounts payable	58	49
Accrued liabilities (Notes 6, 14, 15, 18)	592	643
Accrued interest (Note 18)	35	31
Regulatory liabilities (Note 10)	38	16
Long-term debt payable within one year (Notes 11, 12, 13, 18)	230	324
	953	1,063
Long-term debt (Notes 11, 12, 13, 18)	2,785	2,565
Other long-term liabilities:		
Post-retirement and post-employment benefit liability (Note 14)	785	646
Deferred income tax liabilities (Note 6)	230	171
Environmental liabilities (Note 15)	132	134
Regulatory liabilities (Note 10)	96	105
Net unamortized debt premiums	12	11
Asset retirement obligations (Note 16)	3	3
Long-term accounts payable and other liabilities	13	4
	1,271	1,074
Total liabilities	5,009	4,702
<i>Contingencies and commitments (Notes 20, 21)</i>		
Excess of assets over liabilities (Notes 13, 17)	2,319	2,168
Total liabilities and excess of assets over liabilities	7,328	6,870

See accompanying notes to Financial Statements.

On behalf of the Board of Directors:



Carmine Marcello
Chair



Sandy Struthers
Director

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
STATEMENTS OF CASH FLOWS

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Operating activities		<i>(Note 22)</i>
Net income	258	236
Environmental expenditures	(9)	(8)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	262	242
Regulatory assets and liabilities	(5)	40
Deferred income taxes	2	(9)
Other	1	1
Changes in non-cash balances related to operations <i>(Note 19)</i>	(44)	128
Net cash from operating activities	465	630
Financing activities		
Long-term debt issued	454	225
Long-term debt retired	(324)	(176)
Payments to Hydro One Inc. to finance dividends	(107)	(45)
Other	-	(1)
Net cash from financing activities	23	3
Investing activities		
Capital expenditures		
Property, plant and equipment	(562)	(539)
Intangible assets	(74)	(57)
Other	12	18
Net cash used in investing activities	(624)	(578)
Net change in inter-company demand facility	(136)	55
Inter-company demand facility, beginning of year	141	86
Inter-company demand facility, end of year	5	141

See accompanying notes to Financial Statements.

**HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS**

1. DESCRIPTION OF THE 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 (Province). The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

Hydro One Networks Inc. (Hydro One Networks or the Company) was incorporated on March 4, 1999 under the *Business Corporations Act* (Ontario) and is a wholly-owned subsidiary of Hydro One. The Company owns and operates Hydro One's regulated transmission and distribution businesses. The regulated distribution business (Distribution Business) operates a low-voltage electrical distribution network that distributes electricity from the transmission system, or directly from generators, to customers within Ontario. The Distribution Business is regulated by the Ontario Energy Board (OEB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These Financial Statements are prepared and presented in accordance with the accounting policies summarized below and in Canadian dollars. These policies are consistent with United States (US) Generally Accepted Accounting Principles (GAAP). These Financial Statements are to be read in conjunction with Note 22 - Transition to US GAAP, which discloses information on the Canadian GAAP, per Part V of the Canadian Institute of Chartered Accountants Handbook (Canadian GAAP), to US GAAP transition and related reconciliations from Canadian GAAP to US GAAP. The results of operations for the year ended December 31, 2011, and the Balance Sheets as at December 31, 2011 have been restated under US GAAP for comparative purposes.

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, 2012 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 Distribution Business on a basis approved by the OEB. The Financial Statements are considered by management to be a reasonable representation, prepared on a rational, systematic and consistent basis, of the financial results of the Company's Distribution Business. As a result of this basis of accounting, these Financial Statements may not necessarily be identical to the financial position and results of operations that would have resulted had the Distribution Business historically operated on a stand-alone basis.

The Financial Statements have been constructed primarily through specific identification of assets, liabilities (other than debt), revenues and expenses that relate to the Distribution Business. The Company's long-term debt is allocated based on the respective borrowing requirements of the Company's transmission and distribution businesses. A portion of the Company's shared functions and services costs is allocated to the Distribution 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 and Comprehensive Income as though the Distribution Business was a separate taxpaying entity. Certain other amounts presented in these Financial Statements represent allocations subject to review and approval by the OEB.

Hydro One Networks performed an evaluation of subsequent events for the accompanying Financial Statements and notes included through to April 18, 2013, the date these Financial Statements were available to be issued, to determine whether the circumstances warranted recognition and disclosure of any events or transactions. No such events or transactions were identified.

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, expenses, gains and losses 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 assumptions are made with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets

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

and regulatory liabilities, environmental liabilities, post-retirement and post-employment benefits, asset retirement obligations (AROs), goodwill, asset impairments, contingencies, unbilled revenues, allowance for doubtful accounts, derivative instruments, 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 OEB has approved the Company's request to use US GAAP as the basis for rate setting and regulatory accounting and reporting for its Distribution Business, effective January 1, 2012.

In 2009, Hydro One Networks filed a cost-of-service application with the OEB for 2011 distribution rates, seeking approval for a revenue requirement of approximately \$1,264 million. The application reflected 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 to make investments required by the Green Energy Act. In April 2010, the OEB approved a revenue requirement of \$1,236 million for 2011. The OEB also approved certain distribution regulatory account balances sought by Hydro One Networks in its application, including retail settlement variance accounts, retail cost variance accounts and smart meters. In November 2010, the OEB issued its cost-of-capital parameter updates for rates effective January 1, 2011. A lowering of the return on equity produced a revised revenue requirement of \$1,218 million. Hydro One Networks elected to retain the same distribution rates for 2012 as approved by the OEB for the 2011 rate year.

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 Distribution 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 Distribution Business has recorded regulatory liabilities that generally represent amounts that are refundable to electricity customers. The Distribution Business 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 Distribution Business 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

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 electricity 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 are recorded net of indirect taxes.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount or net realizable value, if unbilled. Overdue amounts related to regulated billings bear interest at OEB-approved rates. The allowance for doubtful accounts reflects the Distribution Business' best estimate of losses on accounts receivable balances. The allowance is based on accounts receivable aging, historical experience and other currently available information. The Distribution Business estimates the allowance for doubtful accounts on customer receivables by applying internally developed loss rates to the outstanding receivable balances

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

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.

Corporate Income Taxes

Under the *Electricity Act, 1998*, Hydro One Networks is required to remit 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% 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 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 Financial Statements and their 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 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 realized.

The Distribution Business has recognized regulatory assets and liabilities associated with deferred income taxes that will be included in the rate-setting process.

The Distribution Business uses the flow-through method to account for investment tax credits (ITCs) earned on eligible scientific research and experimental development expenditures, and apprenticeship job creation. Under this method, only the ITCs are recognized as a reduction to income tax expense.

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

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 its subsidiaries. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Distribution Business to and from the pooled bank 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, small spare parts and construction materials held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost, 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 Balance Sheets as property, plant and equipment.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized 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 costs such as finance, treasury, human resources, information technology and executive costs. Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

Property, plant and equipment in service consists of 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.

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 amounts incurred to acquire land rights and other access rights.

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), consulting, engineering, overheads and attributable capitalized financing charges. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses. The Distribution Business' intangible assets primarily represent major administrative computer applications.

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

Capitalized Financing Costs

Capitalized financing costs represent interest costs directly attributable to the construction of property, plant and equipment or development of intangible assets. The financing 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 Statements of Operations and Comprehensive Income. Capitalized financing costs are calculated using the Distribution Business' weighted average effective cost of debt.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of assets that are not yet complete 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, except for transport and work equipment, which is depreciated on a declining balance basis.

Hydro One 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 OEB approval of 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	Rate (%)	
	Service Life	Range	Average
Distribution	42 years	1% - 5%	2%
Communication	11 years	1% - 13%	5%
Administration and service	17 years	1% - 15%	8%

The cost of intangible assets is included primarily within the administration and service classification above. Amortization rates for computer applications software assets range from 9% to 11%.

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 and amortization, 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 such gain or loss is included in depreciation expense. Depreciation expense also includes the costs incurred to remove property, plant and equipment assets where no ARO has been recorded.

Goodwill

Goodwill represents the cost of acquired local distribution companies that is in excess of the fair value of the net identifiable assets acquired at the acquisition date. Goodwill is not included in rate-base.

Goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require. Per Accounting Standards Update (ASU) 2011-08, Intangibles – Goodwill and Other (Topic 350), Testing Goodwill for Impairment, issued by the Financial Accounting Standards Board (FASB) in September 2011, the Company performs a qualitative assessment to determine whether it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount. If the Company determines, as a result of its qualitative assessment, that it is not more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, no further testing is required. If the Company determines, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, a goodwill impairment assessment is performed using a two-step, fair value-

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

based test. The first step compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the carrying amount of the applicable reporting unit exceeds its fair value, a 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.

For the year ended December 31, 2012, based on the qualitative assessment performed, the Company has determined that it is not more-likely-than-not that the fair value of each applicable reporting unit assessed is less than its carrying amount. As a result, no further testing was performed, and the Company has concluded that goodwill was not impaired at December 31, 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.

The carrying costs of most of the Distribution Business' long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable. As at December 31, 2012, no asset impairment had been recorded.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Company defers its proportionate share of the relevant Hydro One external transaction costs related to obtaining debt financing and presents such amounts as deferred debt costs on the 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 within financing charges in the Statements of Operations and Comprehensive Income. 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 amortization of net unamortized hedging losses on the Company's proportionate share of Hydro One's discontinued 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 share of unamortized hedging losses on discontinued cash flow hedges to financing charges using the effective interest method over the term of the allocated hedged debt. OCI and net income are presented in a single continuous 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.

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

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. Hydro One Networks 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 its risk management policy disclosed in Note 12 – Fair Value of Financial Instruments and Risk Management.

All financial instrument transactions are recorded at trade date.

Derivative Instruments and Hedge Accounting

Hydro One closely monitors the risks associated with changes in interest rates on its operations and, where appropriate, uses various derivative 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. Hydro One's derivative instruments, or portions thereof, are mirrored down to Hydro One Networks, and are then allocated between the Company's transmission and distribution businesses.

The accounting guidance for derivative instruments 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 Balance Sheets. For derivative instruments that qualify for hedge accounting, Hydro One may elect to designate such derivative instruments as either cash flow hedges or fair value hedges. Hydro One offsets fair value amounts recognized in its 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, net of tax, is reported as a component of accumulated OCI (AOCI) and is 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 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 Statements of Operations and Comprehensive Income. Additionally, Hydro One 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 derivative instruments are separated from their host contracts and carried at fair value on the 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. Hydro One does not engage in derivative trading or speculative activities and had no embedded derivatives at December 31, 2012.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where Hydro One has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. Hydro One also assesses, both at the inception of the hedge and on a quarterly 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 pension, post-retirement and post-employment benefit plans are recorded over the periods during which employees render service.

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

Hydro One 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. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets. For the year ended December 31, 2012, the measurement date for the Plans was December 31.

Pension benefits

Hydro One has a contributory defined benefit pension plan covering all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton Networks Inc. The Hydro One pension plan does not segregate assets in a separate account for individual subsidiaries, nor is the accrual cost of the pension plan 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.

A detailed description of Hydro One pension benefits is provided in Note 14 - Pension and Post-Retirement and Post-Employment Benefits, to the Consolidated Financial Statements of Hydro One for the year ended December 31, 2012.

Post-retirement and post-employment benefits

The Company records a regulatory asset equal to the incremental net unfunded projected benefit obligation for post-retirement and post-employment plans recorded on transition to US GAAP and at each year end based on annual actuarial reports. The regulatory asset for the incremental net unfunded projected benefit obligation for 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 post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process.

Post-retirement and post-employment benefits, are recorded and included in rates 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.

For post-retirement benefits, 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. The post-retirement benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to associated regulatory asset, to the extent of the remeasurement adjustment.

For post-employment obligations, the associated regulatory liabilities representing actuarial gains on transition to US GAAP are amortized to results of operations based on the "corridor" approach. Post transition, the actuarial gains and losses on post-employment obligations that are incurred during the year are recognized immediately to results of operations. The post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to associated regulatory asset, to the extent of the remeasurement adjustment.

All post-retirement and post-employment 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.

A detailed description of Hydro One post-retirement and post-employment benefits is provided in Note 14 - Pension and Post-Retirement and Post-Employment Benefits, to the Consolidated Financial Statements of Hydro One for the year ended December 31, 2012.

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

Loss Contingencies

Hydro One and its subsidiaries are involved in certain legal and environmental matters that arise in the normal course of business. In the preparation of the Distribution Business' 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. Where the loss amount is recoverable in future rates, a regulatory asset is also recorded. When a range estimate for the probable loss exists and no amount within the range is a better estimate than any other amount, the Distribution Business 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 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 Distribution Business.

Provisions are based upon current estimates and are subject to greater uncertainty where the projection period is lengthy. A significant upward or downward trend in the number of claims filed, the nature of the alleged injuries, and the average cost of resolving each 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 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. The Distribution Business records a liability for the estimated future expenditures associated with the contaminated land assessment and remediation (LAR) 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 present value is determined 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 it is anticipated 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. The estimates of future environmental expenditures are reviewed 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. Where an asset is no longer in-service when an ARO is recorded, the asset retirement cost is recorded in results of operations.

Some 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 Distribution Business expects to use the majority of its facilities in perpetuity, no ARO currently exists for these assets. If, at

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

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 Distribution Business' 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

Recently Adopted Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other (Topic 350), Testing Goodwill for Impairment. This ASU 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 adoption of this ASU did not have a significant impact on the Distribution Business' Financial Statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, 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 ASU do not change the items that must be reported in OCI or when an item of OCI must be reclassified to net income. The Distribution Business has elected to present OCI and net income in a single continuous Statement of Operations and Comprehensive Income.

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 US GAAP and IFRSs. This 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. This ASU is largely consistent with existing US GAAP fair value measurement principles under Accounting Standards Codification 820. However, this 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 Balance Sheets but for which the fair value is required to be disclosed. Required disclosures have been included in Note 12 – Fair Value of Financial Instruments and Risk Management. As this ASU only requires enhanced disclosures, the adoption of this ASU did not have a significant impact on the Distribution Business' Financial Statements.

Recent Accounting Guidance Not Yet Adopted

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. This ASU requires an entity to disclose both gross and net information about financial instruments and transactions eligible for offset in the Balance Sheets as well as financial 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 ASU only requires enhanced disclosures, the adoption of this ASU is not anticipated to have a significant impact on the Distribution Business' Financial Statements.

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

4. DEPRECIATION AND AMORTIZATION

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Depreciation of property, plant and equipment	229	212
Amortization of intangible assets	24	22
Asset removal costs	46	45
Amortization of regulatory assets	9	8
	308	287

5. FINANCING CHARGES

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Interest on long-term debt	154	152
Other	8	4
Less: Interest capitalized on construction and development in progress	(18)	(11)
Gain on interest-rate swap agreements	(4)	(3)
Interest earned on inter-company demand facility	(2)	(2)
	138	140

6. 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 the effective tax rates is provided as follows:

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Income before provision for PILs	302	302
Canadian Federal and Ontario statutory income tax rate	26.50%	28.25%
Provision for PILs at statutory rate	80	85

Increase (decrease) resulting from:

Net temporary differences included in amounts charged to customers:

Capital cost allowance in excess of depreciation and amortization	(8)	(4)
Interest capitalized for accounting but deducted for tax purposes	(4)	(3)
Pension contributions in excess of pension expense	(12)	(10)
Overheads capitalized for accounting but deducted for tax purposes	(6)	(5)
Environmental expenditures	(2)	(2)
Non-refundable ITCs	(6)	-
Post-retirement and post-employment benefit expense in excess of cash payments	-	3
Other	1	1
Net temporary differences	(37)	(20)
Net permanent differences	1	1
Total provision for PILs	44	66
Current provision for PILs	42	75
Deferred provision for PILs	2	(9)
Total provision for PILs	44	66

Effective income tax rate	14.57%	21.85%
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HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)

The current provision for PILs of \$42 million (2011 - \$75 million) represents the amount paid or payable to the OEFC with respect to current year income. The outstanding balance due to the OEFC at December 31, 2012 was \$7 million (2011 - \$30 million).

The total provision for PILs includes deferred provision for PILs of \$2 million (2011 - recovery of \$9 million) that is 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.

Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Company's assets and liabilities. At December 31, deferred income tax assets and liabilities consisted of the following:

<i>December 31 (millions of dollars)</i>	2012	2011
Deferred income tax assets		
Post-retirement and post-employment benefits expense in excess of cash payments	290	200
Environmental expenses	36	36
Other	1	1
Total deferred income tax assets	327	237
Less: current portion	10	10
	317	227

<i>December 31 (millions of dollars)</i>	2012	2011
Deferred income tax liabilities		
Capital cost allowance in excess of depreciation and amortization	458	374
Distribution amounts received but not recognized for accounting purposes	84	19
Goodwill	8	7
Total deferred income tax liabilities	550	400
Less: current portion	3	2
	547	398

The deferred income tax assets and liabilities are presented on the Balance Sheets as follows:

<i>December 31 (millions of dollars)</i>	2012	2011
Current deferred income tax assets	10	10
Current deferred income tax liabilities	(3)	(2)
Net current deferred income tax assets	7	8
Long-term deferred income tax assets	317	227
Long-term deferred income tax liabilities	(547)	(398)
Net long-term deferred income tax liabilities	(230)	(171)

During 2012, the deferred tax liability increased by \$14 million as a result of the change in the rate applicable to future taxes.

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

7. ACCOUNTS RECEIVABLE

<i>December 31 (millions of dollars)</i>	2012	2011
Accounts receivable – billed	200	214
Accounts receivable – unbilled	598	545
Accounts receivable, gross	798	759
Allowance for doubtful accounts	(20)	(15)
Accounts receivable, net	778	744

The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2012 and 2011.

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Allowance for doubtful accounts – January 1	(15)	(22)
Write-offs	16	29
Additions to allowance for doubtful accounts	(21)	(22)
Allowance for doubtful accounts – December 31	(20)	(15)

8. PROPERTY, PLANT AND EQUIPMENT

<i>December 31 (millions of dollars)</i>	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
2012				
Distribution	7,476	2,602	220	5,094
Communication	100	21	-	79
Administration and Service	824	451	94	467
Easements	8	4	-	4
	8,408	3,078	314	5,644
2011				
Distribution	7,090	2,440	243	4,893
Communication	30	16	-	14
Administration and Service	774	410	50	414
Easements	8	4	-	4
	7,902	2,870	293	5,325

Financing charges capitalized on property, plant and equipment under construction were \$15 million (2011 - \$10 million).

9. INTANGIBLE ASSETS

<i>December 31 (millions of dollars)</i>	Intangible Assets	Accumulated Amortization	Development in Progress	Total
2012				
Computer applications software	228	176	107	159
Other assets	2	2	-	-
	230	178	107	159
2011				
Computer applications software	217	153	44	108
Other assets	1	1	-	-
	218	154	44	108

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

Financing charges capitalized on intangible assets under development were \$3 million (2011 - \$1 million). The estimated annual amortization expense for intangible assets for each of the next five years is \$21 million.

10. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-making process. The Distribution Business has recorded the following regulatory assets and liabilities:

<i>December 31 (millions of dollars)</i>	2012	2011
Regulatory assets:		
Deferred income tax	239	181
Post-retirement and post-employment benefits	180	70
Environmental	140	142
Pension cost variance	46	29
Rider 2	10	11
Other	11	7
Total regulatory assets	626	440
Less: current portion	14	9
	612	431
Regulatory liabilities:		
Retail settlement variance accounts	46	40
Rider 8	45	42
PST savings deferral	10	6
Rider 3	9	9
Deferred income tax	7	7
Rural and remote rate protection variance	6	8
Other	11	9
Total regulatory liabilities	134	121
Less: current portion	38	16
	96	105

Deferred Income Tax

Deferred 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 Distribution Business has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-making process. In the absence of rate-regulated accounting, the Distribution Business' provision for PILs would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be reflected in future rates. As a result, the 2012 provision for PILs would have been higher by approximately \$41 million (2011 - \$22 million), including the impact of a change in enacted tax rates.

Post-Retirement and Post-Employment Benefits

The Distribution Business recognizes the net unfunded status of post-retirement and post-employment obligations on the Balance Sheets with an incremental offset to the associated regulatory assets. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2012 OCI would have been lower by \$110 million (2011 – higher by \$16 million).

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

Environmental

The Distribution Business records a liability for the estimated future expenditures required to remediate past environmental contamination (see Note 15 – Environmental Liabilities). Because such expenditures are expected to be recoverable in future rates, the Distribution Business has recorded an equivalent amount as a regulatory asset. In 2012, the Company's PCB liability decreased by \$2 million (2011 - \$23 million) to reflect a revaluation adjustment in the Company's PCB liability and increased by \$2 (2011 – no change) for a revision to the Company's LAR liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudence and the timing of recovery of all of the Distribution Business' actual environmental expenditures. In the absence of rate-regulated accounting, there would have been no change in 2012 operation, maintenance and administration expenses (2011 – lower by \$23 million). In addition, 2012 amortization expense would have been lower by \$9 million (2011 – \$8 million), and 2012 financing charges would have been higher by \$6 million (2011 – \$8 million).

Pension Cost Variance

A pension cost variance account was established for the Distribution Business to track the difference between the actual pension expense incurred and estimated pension costs approved by the OEB. The balance in this account reflects the excess of pension contributions as compared to OEB-approved amounts. In December 2010, 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, 2012 revenue would have been lower by \$17 million (2011 - \$13 million).

Rider 2

In April 2006, the OEB announced its decision regarding the Company's rate application in respect of the Distribution Business. As part of this decision, the OEB also approved the distribution-related deferral account balances sought by the Company. The Rider 2 regulatory asset includes retail settlement and cost variance amounts and distribution low-voltage service amounts, plus accrued interest.

Retail Settlement Variance Accounts (RSVA)

The Company has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In April 2010, the OEB approved the disposition of the total RSVA balance accumulated from May 2008 to December 2009, including accrued interest, to be disposed over a 20-month period from May 1, 2010 to December 31, 2011. The Company has continued to accumulate a net liability in its RSVA accounts since December 31, 2009.

Rider 8

In April 2010, the OEB requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and the actual recoveries received.

PST Savings Deferral Account

The provincial sales tax (PST) and goods and services tax (GST) were harmonized in July 2010. Unlike the GST, the PST was included in operation, maintenance and administrative expenses or capital expenditures for past revenue requirements approved during a full cost of service hearing. Under the harmonized sales tax (HST) regime, the HST included in operation, maintenance and administrative expenses or capital expenditures is not a cost ultimately borne by the Company and as such, a refund of the prior PST element in the approved revenue requirement is applicable and calculations for tracking and refund were requested by the OEB. For the Distribution Business, PST was included in rates between July 1, 2010 and December 31, 2012 and this amount has been recorded in a deferral account per direction from the OEB.

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

Rider 3

In December 2008, the OEB approved certain distribution-related deferral account balances sought by the Company, including RSVA amounts, deferred tax changes, OEB costs and smart meters. The OEB approved the disposition of the Rider 3 balance accumulated up to April 2008, including accrued interest, to be disposed over a 27-month period from February 1, 2009 to April 30, 2011.

Rural and Remote Rate Protection Variance (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. The OEB has 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 in the RRRP variance account.

11. DEBT

Hydro One issues notes for long-term financing under its Medium-Term Note Program. The terms of certain issuances are mirrored down to Hydro One Networks through the issuance of inter-company debt, which is then allocated between the Company's transmission and distribution businesses.

The following table presents the outstanding long-term debt of the Distribution Business as at December 31, 2012 and 2011:

<i>December 31 (millions of dollars)</i>	2012	2011
Long-term debt	3,010	2,880
Add: Unrealized marked-to-market loss ¹	5	9
Less: Long-term debt payable within one year	(230)	(324)
Long-term debt	2,785	2,565

¹ The unrealized marked-to-market loss relates to \$100 million of Distribution Business' \$175 million note due 2014, and \$100 million of Distribution Business' \$200 million note due 2015. The unrealized marked-to-market loss is offset by a \$5 million (2011 - \$9 million) unrealized marked-to-market gain on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges. See Note 12 – Fair Value of Financial Instruments and Risk Management for details of fair value hedges.

The long-term debt is unsecured and denominated in Canadian dollars. The long-term debt is summarized by the number of years to maturity in Note 12 – Fair Value of Financial Instruments and Risk Management.

12. 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.

The Company 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

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

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

At December 31, 2012 and 2011, the carrying amounts of accounts receivable, inter-company demand facility, 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 Distribution Business' long-term debt at December 31, 2012 and 2011 are as follows:

<i>December 31 (millions of dollars)</i>	2012 Carrying Value	2012 Fair Value	2011 Carrying Value	2011 Fair Value
Long-term debt				
\$100 million of \$175 million notes due 2014 ¹	102	102	104	104
\$100 million of \$200 million notes due 2015 ²	103	103	105	105
Other notes and debentures ³	2,810	3,338	2,680	3,180
	3,015	3,543	2,889	3,389

¹ The fair value of \$100 million of Distribution Business' \$175 million notes due 2014, 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 \$100 million of Distribution Business' \$200 million notes due 2015, 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 Distribution Business' \$175 million and \$200 million notes 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 Derivative Instruments

Hydro One enters into interest-rate swaps agreements with respect to its long-term debt. The terms of these interest-rate swap agreements are mirrored down to Hydro One Networks, and are then allocated between the Company's transmission and distribution businesses.

At December 31, 2012, the Distribution Business' share of the Company's derivative instruments include \$200 million of interest-rate swaps that were used to convert fixed-rate debt to floating-rate debt (2011 - \$200 million). These interest-rate swaps are classified as fair value hedges. The Distribution Business' fair value hedge exposure was equal to about 7% (2011 - 7%) of its long-term debt. At December 31, 2012, the Distribution Business' interest-rate swaps designated as fair value hedges were as follows:

- (a) a \$100 million fixed-to-floating interest-rate swap agreement to convert \$100 million of the \$175 million notes maturing November 19, 2014 into three-month variable rate debt; and
- (b) two \$50 million fixed-to-floating interest-rate swap agreements to convert \$100 million of the \$200 million notes maturing September 11, 2015 into three-month variable rate debt.

At December 31, 2012, the Distribution Business' share of interest-rate swaps classified as undesignated contracts consisted of the following:

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NOTES TO FINANCIAL STATEMENTS (continued)

- (c) three \$100 million floating-to-fixed interest-rate swap agreements that lock in the floating-rate on a portion of the above fixed-to-floating interest-rate swaps from December 11, 2012 to December 11, 2013, from February 21, 2012 to February 19, 2013, and from February 19, 2013 to February 19, 2014, respectively;
- (d) two \$20 million floating-to-fixed interest-rate swap agreements that lock in the floating-rate on the \$20 million floating-rate notes maturing July 24, 2015, from January 24, 2012 to January 24, 2013, and from January 24, 2013 to January 24, 2014, respectively, and;
- (e) a \$20 million floating-to-fixed interest-rate swap agreement that locks in the floating-rate on the \$20 million floating-rate notes maturing December 3, 2016, from March 4, 2013 to December 3, 2013.

At December 31, 2012 and 2011, the carrying amounts of derivative instruments were representative of fair value.

Fair Value Hierarchy

Fair value hierarchy information for financial assets and liabilities at December 31, 2012 and 2011 was as follows:

<i>December 31, 2012 (millions of dollars)</i>	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Inter-company demand facility	5	5	5	-	-
Derivative instruments					
Fair value hedges – interest-rate swaps	5	5	-	5	-
	10	10	-	10	-
Liabilities:					
Long-term debt	3,015	3,543	-	3,543	-
	3,015	3,543	-	3,543	-
<i>December 31, 2011 (millions of dollars)</i>	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Inter-company demand facility	141	141	141	-	-
Derivative instruments					
Fair value hedges – interest-rate swaps	9	9	-	9	-
	150	150	141	9	-
Liabilities:					
Long-term debt	2,889	3,389	-	3,389	-
	2,889	3,389	-	3,389	-

The fair value of the derivative instruments is determined using other than quoted prices that are observable for these assets. The fair value is primarily based on the present value of future cash flows using a swap yield curve to determine the assumptions for interest rates.

The fair value of the hedged portion of the long-term debt is primarily based on the present value of future cash flows using a swap yield curve to determine the assumption for interest rates. The fair value of the un-hedged portion of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

There were no significant transfers between any of the levels during the years ended December 31, 2012 and 2011.

Risk Management

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

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

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 Hydro One 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. This could be mirrored in the Company. The Company is exposed to fluctuations in interest rates as the regulated rate of return for its Distribution Business 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 Distribution Business' rate of return would reduce the Distribution Business' results of operations by approximately \$10 million (2011 - \$10 million).

Hydro One uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. Hydro One also uses derivative financial instruments to manage interest-rate risk. Hydro One 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, Hydro One may utilize interest-rate derivative instruments 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. The Company's derivative instrument policy is consistent with Hydro One. No cash flow hedge agreements outstanding as at December 31, 2012 or 2011.

A hypothetical 10% increase in the interest rates associated with variable-rate debt would not have resulted in a significant decrease in the Distribution Business' results of operations for the years ended December 31, 2012 or 2011.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instruments as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Statements of Operations and Comprehensive Income. The Distribution Business' net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the years ended December 31, 2012 and 2011 are included in financing charges as follows:

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Unrealized (gain) loss on hedged debt	(4)	7
Unrealized loss (gain) on fair value interest-rate swaps	4	(7)
Net unrealized loss (gain)	-	-

At December 31, 2012, the notional amount of the Distribution Business' fair value hedges outstanding related to interest-rate swaps was \$200 million (2011 - \$200 million), with assets at fair value of \$5 million (2011 - \$9 million). During the years ended December 31, 2012 and 2011, there was no significant impact on the Distribution Business' 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. At December 31, 2012 and 2011, there were no significant concentrations of credit risk with respect to any class of financial assets. The Distribution Business did not earn a significant amount of revenue from any individual customer. At December 31, 2012 and 2011, there was no significant accounts receivable balance due from any single customer.

At December 31, 2012, the Distribution Business' allowance for doubtful accounts was \$20 million (2011 - \$15 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2012, approximately 2% of the Distribution Business' accounts receivable were aged more than 60 days (2011 - 1%).

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

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly-rated counterparties; 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. In addition to payment netting language in master agreements, Hydro One 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. Hydro One 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 Hydro One as specified in each agreement. Hydro One monitors current and forward credit exposure to counterparties both on an individual and an aggregate basis. The Company's counterparty credit risk policy is consistent with Hydro One. The Distribution Business' credit risk for accounts receivable is limited to the carrying amounts on its 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 December 31, 2012, the counterparty credit risk exposure on the fair value of the Distribution Business' share of these interest-rate swap contracts was \$6 million (2011 - \$10 million). At December 31, 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.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. The Company meets its short-term liquidity requirements 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.

At December 31, 2012, accounts payable and accrued liabilities in the amount of \$650 million (2011 - \$692 million) were expected to be settled in cash at their carrying amounts within the next year.

At December 31, 2012, the notional amount of the Distribution Business' long-term debt was \$3,010 million (2011 - \$2,880 million). Long-term debt maturing over the next twelve months was \$230 million (2011 - \$324 million). Interest payments for the next 12 months on the outstanding long-term debt were \$146 million (2011 - \$150 million). Principal outstanding, interest payments and related weighted average interest rates are summarized by the number of years to maturity in the following table.

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

Years to Maturity	Principal Outstanding on Long-term Debt (millions of dollars)	Interest Payments ¹ (millions of dollars)	Weighted Average Interest Rate ¹ (%)
1 year	230	146	5.0
2 years	175	135	3.2
3 years	220	129	2.9
4 years	200	119	4.4
5 years	195	115	5.2
	1,020	644	4.1
6 - 10 years	381	506	3.6
Over 10 years	1,609	1,498	5.7
	3,010	2,648	4.9

¹ Interest payments and weighted average interest rates beyond one year exclude the impact of Distribution Business' \$20 million floating-rate notes due 2015 and Distribution Business' \$20 million floating-rate notes due 2016.

13. CAPITAL MANAGEMENT

The Distribution Business' objective is to manage its capital structure consistent with the deemed capital structure for rate-setting purposes as prescribed by the OEB.

The Distribution Business considers its capital structure to consist of excess of assets over liabilities, long-term debt, and the inter-company demand facility. The following table summarizes this capital structure:

<i>December 31 (millions of dollars)</i>	2012	2011
Long-term debt payable within one year	230	324
Inter-company demand facility	(5)	(141)
	225	183
Long-term debt	2,785	2,565
Excess of assets over liabilities	2,319	2,168
Total capital	5,329	4,916

The following table shows the movements in the excess of assets over liabilities for the years ended December 31, 2012 and 2011:

<i>December 31 (millions of dollars)</i>	2012	2011
Excess of assets over liabilities, January 1	2,168	1,976
Net income	258	236
OCI	-	-
Payments to Hydro One to finance dividends	(107)	(45)
Excess of assets over liabilities, December 31	2,319	2,168

14. PENSION AND POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

Hydro One has a defined benefit pension plan, a supplementary pension plan, and post-retirement and post-employment benefit plans. The defined benefit pension plan (Pension Plan) is contributory and covers all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton Networks Inc. 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 supplementary pension plan obligation is included in post-retirement and post-employment benefit liability on the Balance Sheets.

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

Pension Benefits

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 represented staff hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation.

Hydro One and employee contributions to the Pension Plan are based on actuarial valuations performed at least every three years. Hydro One's annual Pension Plan contributions for 2012 of \$163 million (2011 – \$152 million) were based on an actuarial valuation effective December 31, 2011 and the level of 2012 pensionable earnings. Hydro One's estimated annual Pension Plan contributions for 2013 are approximately \$160 million, based on the December 31, 2011 valuation and the projected level of pensionable earnings.

At December 31, 2012, based on the December 31, 2011 actuarial valuation, the present value of Hydro One's projected pension benefit obligation was estimated to be \$6,507 million (2011 - \$5,461 million). The fair value of Pension Plan assets available for these benefits was \$4,992 million (2011 - \$4,682 million).

Post-Retirement and Post-Employment Benefits

During the year ended December 31, 2012, the Distribution Business charged \$26 million (2011 – \$33 million) of post-retirement and post-employment benefit costs to operations, and capitalized \$28 million (2011 - \$23 million) as part of the cost of property, plant and equipment and intangible assets. Benefits paid in 2012 were \$25 million (2011 - \$23 million). In addition, the associated post-retirement and post-employment benefits regulatory asset was increased by \$110 million (2011 – decreased by \$15 million).

The Distribution Business presents its post-retirement and post-employment benefit liabilities on its Balance Sheets within the following line items:

<i>December 31 (millions of dollars)</i>	2012	2011
Accrued liabilities	22	22
Post-retirement and post-employment benefit liability	785	646
	807	668

15. ENVIRONMENTAL LIABILITIES

The following discounted amounts for environmental liabilities were recorded on the Balance Sheets at December 31, 2012 and 2011:

<i>December 31 (millions of dollars)</i>	PCB	LAR	Total
2012			
Environmental liabilities, January 1	116	27	143
Interest accretion	6	-	6
Expenditures	(4)	(5)	(9)
Revaluation adjustment	(2)	2	-
Environmental liabilities, December 31	116	24	140
Less: current portion	3	5	8
	113	19	132

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

<i>December 31 (millions of dollars)</i>	PCB	LAR	Total
2011			
Environmental liabilities, January 1	135	31	166
Interest accretion	7	1	8
Expenditures	(3)	(5)	(8)
Revaluation adjustment	(23)	-	(23)
Environmental liabilities, December 31	116	27	143
Less: current portion	5	4	9
	111	23	134

The following table illustrates the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized in the Balance Sheets after factoring in the discount rate:

<i>December 31 (millions of dollars)</i>	PCB	LAR	Total
2012			
Undiscounted environmental liabilities, December 31	135	25	160
Less: discounting accumulated liabilities to present value	(19)	(1)	(20)
Discounted environmental liabilities, December 31	116	24	140

<i>December 31 (millions of dollars)</i>	PCB	LAR	Total
2011			
Undiscounted environmental liabilities, December 31	138	28	166
Less: discounting accumulated liabilities to present value	(22)	(1)	(23)
Discounted environmental liabilities, December 31	116	27	143

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2012 and in total thereafter are as follows: 2013 - \$9 million; 2014 - \$22 million; 2015 - \$22 million; 2016 - \$19 million; 2017 - \$15 million; and thereafter - \$73 million. At December 31, 2012, of the total estimated future environmental expenditures, \$135 million related to PCB (2011 - \$138 million) and \$25 million related to LAR (2011 - \$28 million).

Consistent with the Company's accounting policy for environmental costs, the Distribution Business records a liability for the estimated mandatory 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.

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 Distribution Business' environmental liabilities represent management's best estimates of the present value of the 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 current assumptions. In addition, with respect to the PCB environmental liability, 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. The Distribution Business records a regulatory asset reflecting its expectation that future environmental costs will be recoverable in rates.

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. The Distribution Business' 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.

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

PCBs

In September 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*. These regulations impose timelines for disposal of PCBs based on certain 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, with the exception of specifically exempted equipment. 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 Distribution Business currently has very few PCB-contaminated assets in excess of 500 ppm. Assets to be disposed of by 2025 primarily consist of pole-mounted distribution line transformers and light ballasts. Contaminated distribution station equipment will generally be replaced or will be decontaminated by removing PCB-contaminated insulating oil and retro filling with replacement oil that contains a PCB concentration of less than 2 ppm.

The Distribution Business' best estimate of the total estimated future expenditures to comply with current PCB regulations is approximately \$135 million. These expenditures are expected to be incurred over the period from 2013 to 2025. As a result of the Company's most recent cost estimate to comply with current PCB regulations, the Distribution Business recorded a revaluation adjustment to reduce the PCB environmental liability by approximately \$2 million (2011 – \$23 million).

LAR

The Distribution Business' best estimate of the total estimated future expenditures to complete its LAR Program is approximately \$25 million. These expenditures are expected to be incurred over the period from 2013 to 2020. As part of its annual review of environmental liabilities, the Company also reviewed its liability for LAR. As a result of this review, the Distribution Business recorded a revaluation adjustment to increase the LAR environmental liability by approximately \$2 million (2011 - \$nil).

16. ASSET RETIREMENT OBLIGATIONS

AROs, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected expenditures for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate of fair value can be made. If the asset remains in service at the recognition date, the present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred and this additional carrying amount is depreciated over the remaining life of the asset. If an ARO is recorded in respect of an out-of-service asset, the asset retirement cost is charged to results of operations. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the ARO (with corresponding adjustments to property, plant, and equipment), which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired and changes in federal, state or local regulations, as well as for accretion of the liability due to the passage of time until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset.

All factors used in estimating the Distribution Business' AROs 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 current assumptions. AROs 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 AROs, 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 NETWORKS INC.
DISTRIBUTION BUSINESS
NOTES TO FINANCIAL STATEMENTS (continued)

At December 31, 2012, the Company had recorded AROs of \$3 million (2011 – \$3 million) related to its Distribution Business, consisting of the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The amount of interest recorded is nominal and there have been no expenditures associated with these obligations to date.

The Company's liability for the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities is based on management's best estimate of the present value of the estimated future expenditures to comply with current regulations. In 2010, the Company completed a study with the aid of an external expert to estimate the future expenditures required to remove asbestos prior to facility demolition.

17. HYDRO ONE NETWORKS' SHARE CAPITAL

Hydro One Networks has 14,875,720 issued and outstanding cumulative preferred shares and 148,821,741 issued and outstanding common shares. The Company is authorized to issue an unlimited number of preferred shares and common shares.

Hydro One Networks makes common share and preferred share dividend payments to Hydro One. The Distribution Business makes payments to finance its share of the Company's common share and preferred share dividends. During 2012, the Distribution Business' payments to finance these dividends totaled \$107 million (2011 - \$45 million).

18. RELATED PARTY TRANSACTIONS

The Distribution Business is a separately regulated business of a subsidiary of Hydro One, and 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 the Distribution Business because they are controlled or significantly influenced by the Province. Transactions between these parties and the Distribution Business are described below.

The Distribution Business receives amounts for rural rate protection from the IESO. 2012 revenues include \$125 million (2011 – \$125 million) related to this program.

In 2012, the Distribution Business purchased power in the amount of \$2,031 million (2011 - \$2,057 million) from the IESO-administered electricity market, \$10 million (2011 - \$16 million) from OPG, and \$7 million (2011 - \$10 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 2012, the Distribution Business incurred \$6 million (2011 - \$7 million) in OEB fees.

The Company has service level agreements with OPG. These services include field and engineering, logistics, corporate, telecommunications and information technology services. Operation, maintenance and administration costs of the Distribution Business related to the purchase of services with respect to these service level agreements were less than \$1 million in both 2012 and 2011.

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 2012, the Distribution Business received \$32 million (2011 - \$38 million) from the OPA related to these CDM programs.

PILs were paid or payable to the OEFC.

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

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

<i>December 31 (millions of dollars)</i>	2012	2011
Accounts receivable	32	36
Accrued liabilities ¹	(184)	(237)

¹ Included in accrued liabilities at December 31, 2012 are amounts owing to the IESO in respect of power purchases of \$172 million (2011 – \$182 million).

Hydro One and Subsidiaries

The Distribution Business provides services to, and receives services from, Hydro One and its 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 other subsidiaries related to the provision of shared corporate functions and services, such as legal, financial and human resources services, and operational services, such as environmental, forestry, and line services. 2012 revenues of the Distribution Business include \$2 million (2011 - \$2 million) related to the provision of services to Hydro One and its subsidiaries. Operation, maintenance and administration costs of the Distribution Business include \$11 million (2011 - \$10 million) related to the services received from Hydro One and its subsidiaries.

The Distribution Business' long-term debt is due to Hydro One. In addition, balances payable or receivable under the inter-company demand facility are due to or due from Hydro One. Financing charges include interest expense on the long-term debt in the amount of \$154 million (2011 - \$152 million), and interest income on the inter-company demand facility in the amount of \$2 million (2011 - \$2 million). At December 31, 2012, the Distribution Business had accrued interest payable to Hydro One totaling \$35 million (2011 - \$31 million).

19. STATEMENTS OF CASH FLOWS

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

<i>Year ended December 31 (millions of dollars)</i>	2012	2011
Accounts receivable	(34)	(34)
Materials and supplies	(3)	1
Other assets	(5)	(4)
Accounts payable	9	6
Accrued liabilities	(53)	123
Accrued interest	4	-
Long-term accounts payable and other liabilities	9	-
Post-retirement and post-employment benefit liability	29	33
	(44)	125

Supplementary information:

Net interest paid	150	152
PILs	81	31

20. CONTINGENCIES

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

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

21. COMMITMENTS

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

22. 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. The Distribution Business' transition date to US GAAP is January 1, 2011, which is the commencement of the 2011 comparative period to its 2012 Financial Statements.

Measurement and classification differences resulting from the Distribution Business' 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 Balance Sheets 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. Balance Sheets 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 resulting from the Distribution Business' adoption of US GAAP on the 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 Canadian GAAP 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 to total assets:

<i>(millions of dollars)</i>	Notes	January 1, 2011	December 31, 2011
Total assets – Canadian GAAP		6,344	6,789
Deferred debt costs	A	11	11
Regulatory assets	B	86	70
Total assets – US GAAP		6,441	6,870

The following table summarizes the increases (decreases) to total liabilities:

<i>(millions of dollars)</i>	Notes	January 1, 2011	December 31, 2011
Total liabilities – Canadian GAAP		4,368	4,621
Long-term debt	A	(2)	-
Net unamortized debt premiums	A	13	11
Post-retirement and post-employment benefit liability	B	86	70
Total liabilities – US GAAP		4,465	4,702

US GAAP Differences

The reconciliations of the January 1, 2011 and December 31, 2011 Balance Sheets from Canadian GAAP to US GAAP are as follows:

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

<i>January 1, 2011 (millions of dollars)</i>	Notes	Canadian GAAP	Effect of transition to US GAAP	US GAAP
Assets				
Current assets:				
Inter-company demand facility		86	-	86
Accounts receivable		710	-	710
Regulatory assets		25	-	25
Materials and supplies		5	-	5
Deferred income tax assets		12	-	12
Other		2	-	2
		840	-	840
Property, plant and equipment:				
Property, plant and equipment in service (net of accumulated depreciation)		4,707	-	4,707
Construction in progress		269	-	269
Future use land, components and spares		39	-	39
		5,015	-	5,015
Other long-term assets:				
Regulatory assets	B	338	86	424
Intangible assets (net of accumulated amortization)		76	-	76
Goodwill		73	-	73
Deferred debt costs	A	-	11	11
Derivative instruments	C	-	1	1
Other	C	2	(1)	1
		489	97	586
Total assets		6,344	97	6,441
Liabilities				
Current liabilities:				
Accounts payable and accrued charges	D	561	(561)	-
Accounts payable	D	-	43	43
Accrued liabilities	D	-	518	518
Accrued interest		31	-	31
Regulatory liabilities		47	-	47
Long-term debt payable within one year		176	-	176
		815	-	815
Long-term debt				
	A	2,658	(2)	2,656
Other long-term liabilities:				
Post-retirement and post-employment benefit liability	B	543	86	629
Deferred income tax liabilities		154	-	154
Environmental liabilities		157	-	157
Regulatory liabilities		34	-	34
Net unamortized debt premiums	A	-	13	13
Asset retirement obligations		3	-	3
Long-term accounts payable and other liabilities		4	-	4
		895	99	994
Total liabilities		4,368	97	4,465
Excess of assets over liabilities		1,976	-	1,976
Total liabilities and excess of assets over liabilities		6,344	97	6,441

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

<i>December 31, 2011 (millions of dollars)</i>	Notes	Canadian GAAP	Effect of transition to US GAAP	US GAAP
Assets				
Current assets:				
Inter-company demand facility		141	-	141
Accounts receivable		744	-	744
Regulatory assets		9	-	9
Materials and supplies		4	-	4
Deferred income tax assets		8	-	8
Other		7	-	7
		913	-	913
Property, plant and equipment:				
Property, plant and equipment in service (net of accumulated depreciation)		4,993	-	4,993
Construction in progress		293	-	293
Future use land, components and spares		39	-	39
		5,325	-	5,325
Other long-term assets:				
Regulatory assets	B	361	70	431
Intangible assetss (net of accumulated amortization)		108	-	108
Goodwill		73	-	73
Deferred debt costs	A	-	11	11
Derivative instruments	C	-	9	9
Other	C	9	(9)	-
		551	81	632
Total assets		6,789	81	6,870
Liabilities				
Current liabilities:				
Accounts payable and accrued charges	D	692	(692)	-
Accounts payable	D	-	49	49
Accrued liabilities	D	-	643	643
Accrued interest		31	-	31
Regulatory liabilities		16	-	16
Long-term debt payable within one year		324	-	324
		1,063	-	1,063
Long-term debt				
		2,565	-	2,565
Other long-term liabilities:				
Post-retirement and post-employment benefit liability	B	576	70	646
Deferred income tax liabilities		171	-	171
Environmental liabilities		134	-	134
Regulatory liabilities		105	-	105
Net unamortized debt premiums	A	-	11	11
Asset retirement obligations		3	-	3
Long-term accounts payable and other liabilities		4	-	4
		993	81	1,074
Total liabilities		4,621	81	4,702
Excess of assets over liabilities		2,168	-	2,168
Total liabilities and excess of assets over liabilities		6,789	81	6,870

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

Notes to the Transitional Adjustments

Under US GAAP, the Distribution Business (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 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”.

At January 1, 2011 and December 31, 2011, the effect on the Balance Sheets is reflected by the following increases (decreases):

<i>(millions of dollars)</i>	January 1, 2011	December 31, 2011
Other long-term assets:		
Deferred debt costs	11	11
Other long-term liabilities:		
Net unamortized debt premiums	13	11
Long-term debt	(2)	-

B. Post-Retirement and Post-Employment Benefits (measurement change)

Under Canadian GAAP, the Distribution Business disclosed, but was not required to recognize, the net unfunded status of post-retirement and post-employment benefit obligations on the Balance Sheets. Under US GAAP, the Distribution Business recognized the unfunded status of post-retirement and post-employment benefit obligations on the 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 post-retirement and post-employment benefit obligations and the associated regulatory assets offset each other, with no material impact on the 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 \$22 million on January 1, 2011 and \$18 million on December 31, 2011.

At January 1, 2011 and December 31, 2011, the effect on the Balance Sheets is reflected by the following increases (decreases):

<i>(millions of dollars)</i>	January 1, 2011	December 31, 2011
Other long-term assets:		
Regulatory assets	86	70
Other long-term liabilities:		
Post-retirement and post-employment benefit liability	(86)	(70)

C. Derivative Instruments (classification change)

Under Canadian GAAP, the Distribution Business classified its derivative instruments in designated hedging relationships and in economic hedging relationships under the category of “Other assets” on the Balance Sheets. Under US GAAP, the Distribution Business has included these balances in “Derivative instruments”.

At January 1, 2011 and December 31, 2011, the effect on the Balance Sheets is reflected by the following increases (decreases):

<i>(millions of dollars)</i>	January 1, 2011	December 31, 2011
Other long-term assets:		
Derivative instruments	1	9
Other	(1)	(9)

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

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”.

At January 1, 2011 and December 31, 2011, the effect on the Balance Sheets is reflected by the following increases (decreases):

<i>(millions of dollars)</i>	January 1, 2011	December 31, 2011
Current liabilities:		
Accounts payable	43	49
Accrued liabilities	518	643
Accounts payable and accrued charges	(561)	(692)

23. COMPARATIVE FIGURES

The comparative Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2012 Financial Statements.

Financial Statements of

WOODSTOCK HYDRO SERVICES INC.

Year ended December 31, 2013



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Woodstock Hydro Services Inc.

We have audited the accompanying financial statements of Woodstock Hydro Services Inc., which comprise the balance sheet as at December 31, 2013, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 audit. We conducted our audit 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 and fair presentation 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 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 Woodstock Hydro Services Inc. as at December 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Professional Accountants, Licensed Public Accountants

April 22, 2014

London, Canada

KPMG Confidential

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WOODSTOCK HYDRO SERVICES INC.

Balance Sheet

December 31, 2013, with comparative information for 2012

	2013	2012
Assets		
Current assets:		
Cash	\$ 3,863,274	\$ 4,378,360
Trade receivables	4,831,421	4,889,821
Unbilled revenue	5,274,339	3,947,741
Payments in lieu of income tax receivable	245,958	38,297
Due from company under common control	468	147
Inventories (note 2)	474,513	506,440
Prepaid expenses and deposits	329,707	247,289
	15,019,680	14,008,095
Plant and equipment (note 3)	25,979,699	23,945,736
Intangible assets (note 5)	693,265	636,571
Future payments in lieu of income tax asset (note 6)	2,280,764	3,181,764
	\$ 43,973,408	\$ 41,772,166
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,567,852	\$ 5,451,961
Accrued payroll and vacation pay	179,216	175,948
Current portion of long-term debt (note 7)	586,713	474,773
Current portion of customer deposits (note 9)	795,968	578,968
	7,129,749	6,681,650
Sick leave liability	27,432	55,912
Long-term debt (note 7)	16,412,919	16,134,299
Long-term customer deposits (note 9)	1,480,903	1,360,127
Unrealized loss on interest rate swaps (note 7)	1,534,016	3,173,588
Other long-term liabilities	156,373	277,130
Regulatory liabilities, net (note 4)	1,653,770	1,029,865
Employee future benefit obligation (note 8)	1,168,528	1,157,539
Shareholder's equity:		
Share capital (note 11)	10,941,862	10,941,862
Retained earnings	3,467,856	960,194
	14,409,718	11,902,056
Contingency (note 16)		
	\$ 43,973,408	\$ 41,772,166

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director _____ Director

WOODSTOCK HYDRO SERVICES INC.

Statement of Earnings and Retained Earnings

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Revenue:		
Residential	\$ 8,763,447	\$ 7,946,838
General service	19,032,435	16,922,167
Street/sentinel lighting	219,837	201,184
Retail energy sales	6,253,810	5,846,374
Distribution	8,596,893	7,832,719
Non-competitive charges	6,741,450	6,323,762
Service revenue adjustment	(458,397)	(459,516)
	49,149,475	44,613,528
Cost of power purchased	40,552,582	36,780,809
	8,596,893	7,832,719
Other operating revenue	833,476	806,526
Expenses:		
Administration and general	2,541,375	2,220,574
Operating and maintenance	1,758,470	1,734,099
Amortization	1,748,086	1,359,111
Interest	922,383	918,317
MIFRS regulatory adjustment (note 4 (e))	507,474	603,173
Unrealized loss (gain) on interest rate swaps (note 7)	(1,639,572)	53,090
	5,838,216	6,888,364
Earnings before payments in lieu of income taxes	3,592,153	1,750,881
Payments in lieu of income taxes (note 6):		
Current	176,000	289,000
Future	434,000	(14,000)
	610,000	275,000
Net earnings	2,982,153	1,475,881
Retained earnings (deficit), beginning of year	960,194	(250,687)
Dividends on common shares	(474,491)	(265,000)
Retained earnings, end of year	\$ 3,467,856	\$ 960,194

See accompanying notes to financial statements.

WOODSTOCK HYDRO SERVICES INC.

Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 2,982,153	\$ 1,475,881
Items not involving cash:		
Accrued benefit obligation	10,989	8,913
Amortization of plant and equipment	1,800,474	1,410,230
Smart meter regulatory recovery	(112,249)	-
Future payments in lieu of income taxes	901,000	(14,000)
Unrealized loss (gain) on interest rate swap	(1,639,572)	53,090
Sick leave	(28,480)	(44,253)
MIFRS regulatory adjustment	507,474	603,173
	4,421,789	3,493,034
Change in non-cash operating working capital (note 12)	(1,407,512)	(36,132)
	3,014,277	3,456,902
Financing activities:		
Capital contributions	499,420	1,049,065
Proceeds from issuance long-term debt	865,333	1,698,508
Repayments of long-term debt	(474,773)	(243,089)
Customer deposits	217,000	(105,122)
Other long-term liabilities	(120,757)	81,381
Dividends on common shares	(474,491)	(265,000)
	511,732	2,215,743
Investing activities:		
Regulatory liabilities	(671,621)	(357,468)
Long-term deposit	120,776	477,898
Additions to plant and equipment	(3,296,762)	(4,147,806)
Additions to intangible assets	(193,488)	(292,612)
	(4,041,095)	(4,319,988)
Increase (decrease) in cash	(515,086)	1,352,657
Cash, beginning of year	4,378,360	3,025,703
Cash, end of year	\$ 3,863,274	\$ 4,378,360
Supplemental cash flow information:		
Interest paid	\$ 835,713	\$ 783,041
Payments in lieu of income taxes paid	226,376	194,054

See accompanying notes to financial statements.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2013

Woodstock Hydro Services Inc. (the "Company") was incorporated on July 17, 2000 under the laws of the Province of Ontario and is licensed by the Ontario Energy Board ("OEB") as an electricity distributor. The principal activity of the Company is to operate distribution facilities and distribute electricity to customers within their licensed territory as defined in the distribution license.

The Company is regulated by the OEB, under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Company's distribution and ancillary rates. The Company's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Company's distribution territory, as established by its distribution license granted by the OEB.

1. Significant accounting policies:

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("CGAAP") including accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electric Distribution Utilities. The more significant accounting policies are summarized below:

(a) Financial effects of distribution rate regulation:

The financial results presented are in accordance with generally accepted accounting principles and within that framework the Company accounts for the impact of regulatory actions in the following manner:

(i) Regulatory decisions to adjust distribution rates:

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Company's distribution rates, such occurrences are immediately reflected in the Company's accounts.

(ii) Regulatory direction and practice:

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(a) Financial effects of distribution rate regulation (continued):

(ii) Regulatory direction and practice (continued):

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in note 4 to the financial statements.

(iii) Rate setting:

The distribution rates of the Company are based on rates approved by the OEB on an annual basis. Rates are typically effective May 1 to April 30 of the following year. Accordingly, for the first four months of 2013, distribution revenue is based on the rates approved for 2012. Once every four years, the Company files an Electricity Distribution Rate ("EDR") application where rates are rebased through a cost of service review. In the intervening years an Incentive Rate Mechanism ("IRM") application is filed. A cost of service EDR application is based upon a forecast of the amount of operating and capital expenses, debt and shareholder's equity required to support the Company's business. An IRM application results in a formulaic adjustment to distribution rates to adjust distribution rates for the annual change in the GDP IPI-FDD net of productivity factor and a "Stretch Factor" determined by the relative efficiency of an electricity distributor.

The Company's last cost of service EDR application was made in 2010 and approved on April 20, 2011, with rates effective May 1, 2011. Such decision provided for 2011 service distribution revenue requirement and rate base of \$8,198,345 and \$28,117,605 respectively.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(a) Financial effects of distribution rate regulation (continued):

(iv) Green Energy and Green Economy Act:

In early 2009, the government tabled the Green Energy and Green Economy Act. This new legislation makes fundamental changes to the roles and responsibilities of LDC's in the areas of renewable power generation, conservation and demand management delivery, and the development of smart distribution grids.

The Green Energy and Green Economy Act provides LDC's with the freedom to own and operate a portfolio of renewable power generation and will permit them to provide district heating services in their communities through co-generation. LDC's will also bear added responsibilities to assist and enable consumers to reduce their peak demand and conserve energy in an effort to meet provincial conservation targets. LDC's will also gain new responsibilities in transforming their local distribution networks into smart grids harnessing advanced technologies to facilitate the connection of small-scale generators and the two-way flow of information.

(v) LDC License Requirements - Conservation and Demand Management Targets:

As a condition of its distribution license, the Company is required to meet specified Conservation and Demand Management ("CDM") targets for reductions in electricity consumption and peak electricity demand. The Company delivers Ontario Power Authority ("OPA") funded programs in order to meet its targets.

Effective January 1, 2011, the Company entered into a Master CDM Agreement ("Agreement") with the OPA for the 2011 to 2014 period. The Agreement specifies terms under which the Company may engage the OPA to design and pay for Province-wide CDM programs. Subject to the terms of the Agreement, all OPA CDM program costs are paid by the OPA.

To December 31, 2013, the Company has received funds totaling \$1,888,802 and cumulative expenditures were \$1,732,429.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(b) Revenue recognition:

Distribution revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the period. Estimated customer usage from the last meter reading date to the period end (unbilled revenue) is included in revenue.

Distribution and energy related revenues attributable to the supply and delivery of electricity are based on OEB-approved rates and are recognized as electricity is delivered to customers. Other revenues, which include pole attachment fees, customer demand work, and other miscellaneous revenues are recognized at the time the service is provided.

(c) Inventories:

Inventories are measured at the lower of cost and net realizable value. Any items considered to be major components of plant and equipment are recorded in plant and equipment.

(d) Plant and equipment:

Amortization is provided on a straight-line basis using the following annual rates:

Asset	Rate
Buildings and distribution system	15-75 years
Organization expense	40 years
Machinery and equipment	3-15 years
Other plant and equipment	20 years

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(e) Contributed capital:

Contributions are received from developers and contractors for capital costs incurred by the Company. These contributions are included as a reduction to the cost of the related plant and equipment when those assets are placed in service.

(f) Intangible assets:

Intangible assets are measured initially at cost. The assets are amortized over their useful lives unless the life is determined to be indefinite.

(g) Impairment of long-lived assets:

Long-lived assets, including plant and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(h) Payments in lieu of income taxes:

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by a municipality. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company is required, under the Electricity Act, 1998 to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation. 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 Corporations Tax Act (Ontario) as modified by the EA, 1998 and related regulations.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(i) Related party transactions:

Transactions with related parties represent the culmination of the earnings process and are measured at the exchange amount.

(j) Financial instruments:

The standards require that as financial assets and liabilities are initially recognized that they be measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value depend on their initial classification, as follows: held-for-trading are measured at fair value and changes in fair value are recognized in the statement of earnings.

The Company has classified its financial instruments as follows:

Cash	Held-for-trading
Trade receivables	Loans and receivables
Unbilled revenue	Loans and receivables
Payments in lieu of income taxes receivable	Loans and receivables
Due from company under common control	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Accrued payroll and vacation pay	Other liabilities
Customer deposits	Other liabilities
Long-term debt	Other liabilities
Other long-term liabilities	Other liabilities
Unrealized loss on interest rate swaps	Held-for-trading

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(k) Employee future benefits:

(i) Pension benefits:

The Company has a pension agreement with the Ontario Municipal Employee Retirement System which is a multi-employer contributory defined benefit plan. Company contributions to the plan are recognized as an expense in the period incurred. As this is a multi-employer plan, no liability is recorded in the Company's financial statements.

(ii) Post-retirement benefits:

The Company provides post-retirement life insurance benefits to eligible retired employees. The benefits earned by employees are actuarially determined using management's best estimate of salary escalation, retirement ages of employees and expected benefit costs.

Actuarial gains and losses in a year are combined with the unamortized balance of gains and losses from prior years. The portion of the total that exceeds ten percent of the accrued benefit obligation is amortized over the average remaining service period of the active employees. Past service costs arising from plan amendments are amortized over the future years of service of active employees.

(l) Derivative instruments:

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Company uses derivative financial instruments, primarily interest rate swaps, in order to manage interest rate exposure. The Company's policy is not to utilize financial instruments for trading or speculative purposes. From January 1, 2007, derivatives are carried at fair value and are reported on the balance sheet as other assets where they have a positive fair value and as derivative financial liabilities where they have a negative fair value.

(m) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

2. Inventories:

Inventories, which consists of parts and supplies acquired for internal construction, consumption or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

	2013	2012
Plant materials	\$ 474,513	\$ 506,440

3. Plant and equipment:

	2013			2012
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 39,365	\$ -	\$ 39,365	\$ 39,365
Buildings and distribution system	41,572,677	17,678,704	23,893,973	22,162,017
Machinery and equipment	4,712,067	3,328,742	1,383,325	1,232,074
Organization expense	16,365	5,447	10,918	11,322
Other plant and equipment	372,702	44,820	327,882	344,017
Work-in-progress	324,236	-	324,236	156,941
	\$ 47,037,412	\$ 21,057,713	\$ 25,979,699	\$ 23,945,736

At December 31, 2013, the net book value of stranded meters related to the deployment of smart meters included in buildings and distribution systems was \$416,683 net of accumulated amortization (2012 - \$719,008). In the absence of rate-regulation, plant and equipment would have been reduced by this amount as of December 31, 2013. Disposition of these costs will be determined in future proceedings of the OEB.

No amortization is taken on work-in-progress assets as these assets are not available for use at December 31.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

4. Regulatory balances:

	2013	2012
Assets:		
Smart meters	\$ -	\$ 774,388
Other regulatory assets	310,092	176,799
Incremental capital module (note 5)	2,478,342	2,786,362
	2,788,434	3,737,549
Liabilities:		
Settlement sales variance	1,214,866	887,130
Future payments in lieu of income tax regulatory liability	1,873,987	2,340,987
MIFRS regulatory adjustment	1,110,647	603,173
Regulatory asset recovery account	242,704	936,124
	4,442,204	4,767,414
Regulatory liability, net	\$ (1,653,770)	\$ (1,029,865)

For most of the regulatory assets and liabilities identified the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. These costs have been deferred in accordance with OEB regulatory requirements.

Amounts recorded are subject to review and approval of the OEB.

The regulatory asset and liability balances of the company are defined as follows:

(a) Settlement sales variance:

In May 1, 2002 the Ontario energy market opened to competition. Since May 1, 2002, the difference between the cost of power based on time-of-use rates and amounts billed to non time-of-use customers charged at an average rate are recorded in settlement variance accounts as directed by the OEB; variances resulting from energy line-loss are also included. These sales variance accounts ensure that a utility's gross profit is limited to distribution revenue and service charges.

(b) Smart meter initiative:

In 2013, the Company received approval for the final disposition of smart meter costs. The residual net book value of stranded meters will be addressed in the 2015 rate application.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

4. Regulatory balances (continued):

(c) Regulatory Assets Recovery Account ("RARA"):

The RARA consist of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and related rates.

On April 22, 2010, the OEB approved the disposition of regulatory liabilities of (\$1,978,155) for settlement variances and a 2008 RARA residual debit balance of \$35,035. The net credit amount of (\$1,943,070) was approved for disposition over a four-year period commencing on May 1, 2010 and ending on April 30, 2014.

On March 22, 2012, the OEB approved the disposition of regulatory liabilities of (\$934,693) over a one year period from May 1, 2012, to April 30, 2013.

(d) Other regulatory assets:

(i) International Financial Reporting Standards ("IFRS") costs:

In 2009, an OEB deferral account was established to record one-time administrative costs related to the transition to IFRS. In 2013, one-time costs incurred for IFRS transition were nil (2012 - nil). The Company also incurred OEB prescribed carrying charges of \$937 (2012 - \$937).

(ii) Renewable generation connection costs:

In 2009, an OEB deferral account was established to record costs associated with renewable energy costs. The deferral of costs includes those associated with demonstration projects, planning, education and training related to renewable energy development. In 2013, costs incurred for renewable energy education were nil (2012 - nil). In addition, capital costs of nil were incurred in 2013 (2012 - nil), and carrying charges of \$43 were incurred in 2013 (2012 - credit of \$114).

(iii) Smart grid development costs:

In 2009, an OEB deferral account was established to record costs associated with smart grid development costs. The deferral of costs includes those related to smart grid demonstration projects, studies and planning exercises, and education and training. This deferral account is also used to record the cost of smart grid investments that are undertaken as part of a project to accommodate renewable generation. In 2013, capital costs incurred for smart grid development were \$12,899 (2012 - \$32,806), expenses were \$30,144 (2012 - \$16,250) and carrying charges were incurred totaling \$1,821 (2012 - \$948).

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

4. Regulatory balances (continued):

(e) MIFRS regulatory adjustment:

On July 17, 2012, the OEB issued a letter that permits LDC's who elect to remain under Canadian generally accepted accounting principles in 2012 to implement Modified International Financial Reporting Standards ("MIFRS") for depreciation expense and capitalization policies effective on January 1, 2012. The financial differences arising from these accounting changes as they relate to plant and equipment are included in a new OEB variance Account "Accounting Changes under CGAAP." The Company recognized a regulatory liability and corresponding expense of \$507,474 in 2013 (2012 - \$603,173) bringing the total liability as at December 31, 2013 to \$1,110,647 (2012 - \$603,173).

(f) Incremental Capital Module:

Chapter 3 of the OEB Filing Requirements allow an LDC to request an Incremental Capital Module ("ICM") during an Incentive Regulation Mechanism ("IRM") term. The ICM is intended to address new, specific, capital investment needs that are not otherwise funded through existing rates. The OEB reviews the application and evidence in detail, giving consideration to materiality, need and prudence.

Effective May 1, 2012 the OEB approved the company's application for an ICM in relation to its capital contribution and other capital costs for the Hydro One Commerce Way Transformer Station Project. During 2013, ICM revenues from rate riders of \$347,153 (2012 - \$228,462), capital additions of nil (2012 - \$3,015,564), and OEB prescribed carrying charges of \$39,133 (2012 - \$740) were recognized in the ICM deferral account.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

5. Intangible assets:

In 2013, construction of the Hydro One Networks Inc. ("HONI") Commerce Way Transformer Station was completed and the station went into service. The final true-up for the Company's capital contribution requirement was calculated to be \$3,275,200. The Company received a refund in 2013 of \$824,800 for amounts previously paid to HONI. Of this amount, \$2,792,612 was recognized in the ICM Regulatory account, and \$482,588 was recognized as an intangible asset. As at December 31, 2013, the remaining unamortized intangible assets were as follows:

			2013	2012
	Cost	Accumulated amortization	Net book value	Net book value
HONI capital contribution	\$ 482,588	\$ 19,849	\$ 462,739	\$ 507,388
Software and other licenses	1,731,294	1,500,768	230,526	129,183
	\$ 2,213,882	\$ 1,520,617	\$ 693,265	\$ 636,571

6. Payments in lieu of income taxes:

Payments in lieu of income taxes expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 26.50% (2012 - 26.50%) to earnings before payments in lieu of income taxes. The reasons for the differences and related tax effects are as follows:

	2013	2012
Earnings before payments in lieu of income taxes	\$ 3,592,153	\$ 1,750,881
Payments in lieu of income taxes expense	\$ 952,000	\$ 464,000
Permanent differences	(1,000)	1,000
Tax effect of temporary differences	(193,000)	(154,000)
Other	3,000	(36,000)
	761,000	275,000
Recoveries	(151,000)	-
Payments in lieu of income taxes expense	\$ 610,000	\$ 275,000

Recoveries of \$151,000 relate to prior year amended returns filed during 2013.

Future payments in lieu of income tax assets of \$2,280,764 (2012 - \$3,181,764) have been recorded at year end based on statutory income tax rates. Such future payments in lieu of income tax assets relate in part to the tax basis of assets and liabilities in excess of amounts recorded for accounting purposes, and in part to the timing difference between the recognition of revenue and expenses for accounting and income tax purposes.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

7. Long-term debt:

	2013	2012
CIBC Committed term installment loan, bearing interest at 4.91%, payable \$63,293 principal and interest monthly until April, 2037	\$ 10,554,580	\$ 10,790,734
CIBC Committed term installment loan, bearing interest at 5.59%, payable \$33,697 principal and interest beginning January, 2013 through February, 2027	3,762,651	3,300,000
Ontario Infrastructure Projects Corporation debenture bearing interest at 4.21%, payable \$81,535 principal and interest semi-annually, due September, 2025	1,523,957	1,619,830
Ontario Infrastructure and Lands Corporation promissory note, bearing interest at 3.60%, payable \$10,180 principal and interest semi-annually, due December, 2032	278,444	288,508
Ontario Infrastructure and Lands Corporation promissory note, bearing interest at 4.06%, payable \$32,339 principal and interest semi-annually, due July, 2033	880,000	610,000
	16,999,632	16,609,072
Current portion of long-term debt	586,713	474,773
	\$ 16,412,919	\$ 16,134,299

Principal repayments for the next five years and thereafter are as follows:

2014	\$ 586,713
2015	616,417
2016	647,645
2017	680,476
2018	714,994
Thereafter	13,753,387
	\$ 16,999,632

The Company entered into an interest rate swap agreement on a notional principal of \$10,941,862 as at October 1, 2008, maturing on April 1, 2037. The swap is a receive variable, pay fixed swap with the CIBC World Markets. This agreement has effectively converted variable interest rates on the unsecured Banker's Acceptances to an effective fixed interest rate of 5.15% plus stamping fee to December 1, 2011 and 4.91% thereafter.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

7. Long-term debt (continued):

The Company entered into an interest rate swap agreement on a notional principal of \$2,500,000 as at May 31, 2010, maturing on February 26, 2027. The swap is a receive variable, pay fixed swap with the CIBC World Markets. This agreement has effectively converted variable interest rates on the unsecured Banker's Acceptances to an effective fixed interest rate of 5.59% plus stamping fee. In 2012, the Company was advanced an additional \$800,000 bringing the notional principal to \$3,300,000 as at December 31, 2012. In 2013, the Company was advanced an additional \$620,273 bringing the notational principal to \$3,762,651 as at December 31, 2013.

The swaps entered into by the Company do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are marked to market at each year end with the gain or loss recorded in the statement of earnings. The gain recorded in 2013 was \$1,639,572 (2012 - loss of \$53,090).

The Company has available an operating credit facility of up to \$3,000,000 from the Canadian Imperial Bank of Commerce at the corporate bank prime rate of interest plus 0.15%. At December 31, 2013, there were no amounts drawn under the facility (2012 – nil).

The financial covenants associated with the company's credit facilities with CIBC are as follows:

- (i) maximum debt to capitalization ratio of 60% at any time;
- (ii) minimum cash flow debt service ratio of 1.25 at any time; and
- (iii) for any increase in the Credit Limits under the CIBC Credit Agreement, the Company is to provide documentation satisfactory to CIBC evidencing the prior written consent of Ontario Infrastructure and Lands Corporation as set out in the Pari Passu Agreement of October 19, 2012 or as amended, between CIBC, OILC, and the Company.

The financial covenants associated with the Ontario Infrastructure Projects Corporation loans are as follows:

- (i) maximum debt to capitalization ratio of 60% at any time;
- (ii) minimum debt service coverage ratio of 1.15:1 at any time; and
- (iii) minimum current ratio of 1.1:1 at any time.

As at December 31, 2013, the Company was in compliance with all of the above financial covenants.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

8. Employee future benefit obligation:

The accrued benefit obligation for post-employment benefits is based on an actuarial valuation for accounting purposes. The latest actuarial valuation was performed as at January 1, 2011, and there have been no significant changes in the employee demographics since that valuation. The next required valuation has been scheduled for 2014. The actuarial valuation was based on assumptions about future events. The significant assumptions used in determining the accrued benefit obligation are as follows:

	2013	2012
Discount rate	4.60 %	3.75 %
Withdrawal rate	2.00 %	2.00 %
Salary increase	3.30 %	3.30 %
Health care costs	7.63 %	7.63 %
Dental	5.00 %	5.00 %

The transition obligation has been amortized over the average remaining service life of current employees, which is ten years (2012 - eleven years). This results in a liability on the balance sheet at year end as follows:

	2013	2012
Accrued benefit obligation	\$ 1,052,806	\$ 1,250,002
Less: unrecognized actuarial gain (loss)	115,722	(92,463)
	\$ 1,168,528	\$ 1,157,539

Other information about the Company's plan for the year ended December 31, is as follows:

	2013	2012
Service cost	\$ 28,552	\$ 24,882
Interest cost	46,740	49,454
Benefits paid	(64,303)	(65,424)
	\$ 10,989	\$ 8,912

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

9. Customer deposits:

Customer deposits include security deposits for energy consumption and developer deposits held in accordance with OEB regulation.

Revenue guarantees collected from third party developers are held by the Company up to a five year period from the date the offer to connect is signed. Once this period has expired, the deposit or letter of credit is returned to the developer, less a 10% holdback. The holdback is retained for a two year warranty period to be applied to any required repairs. The balance remaining is returned to the developer following the 2 year warranty period.

10. Financial instruments:

The Company's financial instruments consist of cash, trade receivables, unbilled revenue, payments in lieu of income tax receivable, due from company under common control, accounts payable and accrued liabilities, accrued payroll and vacation pay, customer deposits, long-term debt, and other long-term liabilities. Management is of the opinion that the fair values of all financial assets and liabilities are not materially different from their carrying values due to the short-term maturity of these instruments.

(a) Credit risk:

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Corporation reducing the expected cash inflow from Company assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions.

The Company has assessed that there are no significant concentrations of credit risk other than the present uncertainty relating to the recovery of regulatory assets. The final regulatory amount recoverable will be assessed in future years by the regulator after the audit of those costs.

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Company has entered into interest rate swaps, as described in note 7, to reduce its exposure to fluctuations in interest expense on two of its debt instruments, while the remaining debt instrument was signed at a fixed rate.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

11. Share capital:

	2013	2012
Authorized:		
Unlimited Class A Special shares, non-voting redeemable and retractable at \$100 per share, entitled to non-cumulative annual dividend, determined by the Directors		
Unlimited Class B Special shares, voting, redeemable and retractable at \$100 per share, entitled to non-cumulative dividend determined by the Directors		
Unlimited common shares		
Issued:		
360 common shares (2012 - 360)	\$ 10,941,862	\$ 10,941,862

12. Change in non-cash working capital:

Cash provided by (used in) non-cash working capital balances consists of:

	2013	2012
Accounts receivable	\$ 58,400	\$ (207,121)
Unbilled revenue	(1,326,598)	21,095
Payments in lieu of income tax receivable	(207,661)	94,946
Due from company under common control	(321)	69
Inventories	31,927	(1,864)
Prepaid expenses and deposits	(82,418)	22,182
Accounts payable and accrued liabilities	115,891	22,272
Accrued payroll and vacation pay	3,268	12,289
	\$ (1,407,512)	\$ (36,132)

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

13. Public liability insurance:

The Company is a member of the Municipal Electricity Distributors Association Reciprocal Insurance Exchange (MEARIE) which is a pooling of the public liability insurance risks of many of the municipal utilities in Ontario. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they are members on a pro-rata basis based on the total of their respective service revenues.

It is anticipated that, should such an assessment occur, it would be funded over a period of up to five years. As at December 31, 2013, no assessments have been made.

14. Capital management:

The Company's objectives when managing its capital are to:

- (i) maintain a financial position that supports the company's operations and growth strategies;
- (ii) provide an adequate return to its shareholder;
- (iii) comply with covenants related to its credit facilities; and
- (iv) align its capital structure for regulated activities with the debt to equity structure recommended by the OEB, which is 60% debt and 40% equity.

The Company defines capital as shareholder's equity. As of December 31, 2013, shareholder's equity amounted to \$14,409,718 (2012 - \$11,902,056).

The Company has externally imposed capital requirements in the form of credit facility agreements that contain various financial and non-financial covenants (note 7).

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

15. Future changes in accounting standards:

(a) Transition to International Financial Reporting Standards:

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that has had Canadian GAAP converge with IFRS, effective January 1, 2011 which requires entities to restate, for comparative purposes, their interim and annual financial statements and their opening financial position. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

In October 2010, the AcSB approved the incorporation of a one year deferral of Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation.

The AcSB has provided deferrals which allow rate regulated entities to defer the adoption of IFRS until January 1, 2015. The Company has elected to implement IFRS commencing on January 1, 2015. The impact of the adoption to IFRS on the Company's financial position and results of operations is not yet fully determined.

(b) Accounting for rate regulated activities under IFRS:

In January 2014, the International Accounting Standards Board ("IASB") published IFRS 14 *Regulatory Deferral Accounts*. This standard provides specific guidance on accounting for the effects of rate regulation and permits first-time adopters of IFRS to continue using previous GAAP to account for regulatory deferral account balances while the IASB completes its comprehensive project in this area. Adoption of this standard is optional for entities eligible to use it. Deferral account balances and movements in the balances will be required to be presented as separate line items on the face of the financial statements distinguished from assets, liabilities, income and expenses that are recognized in accordance with other IFRS's. Extensive disclosures will be required to enable users of the financial statements to understand the features and nature of and risks associated with rate regulation and the effect of rate regulation on the entity's financial position, performance and cash flows.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2013

16. Contingency:

As a purchaser of electricity through the IESO, the Company is required to provide security to minimize the risk of default, based on its expected activity in the market. The IESO may draw on this security if the Company fails to make payment required by a default notice issued by the IESO. To satisfy this requirement, the Company has provided the IESO with an irrevocable standby letter of credit in the amount of \$1,960,005 (2012 - \$1,960,005) which renews automatically on an annual basis.

17. Comparative information:

Certain of the 2012 comparative information have been reclassified to conform with the financial statement presentation adopted in the current year.

Financial Statements of

WOODSTOCK HYDRO SERVICES INC.

Year ended December 31, 2012



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Woodstock Hydro Services Inc.

We have audited the accompanying financial statements of Woodstock Hydro Services Inc., which comprise the balance sheet as at December 31, 2012, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 audit. We conducted our audit 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 and fair presentation 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 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 Woodstock Hydro Services Inc. as at December 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

April 24, 2013

London, Canada

KPMG Confidential

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WOODSTOCK HYDRO SERVICES INC.

Balance Sheet

December 31, 2012, with comparative information for 2011

	2012	2011
Assets		
Current assets:		
Cash	\$ 4,378,360	\$ 3,025,703
Trade receivables	4,889,821	4,682,700
Unbilled revenue	3,947,741	3,968,836
Payments in lieu of income tax receivable	38,297	133,243
Due from company under common control	147	216
Inventories (note 2)	506,440	504,576
Prepaid expenses and deposits	247,289	269,471
	14,008,095	12,584,745
Plant and equipment (note 3)	23,945,736	22,893,796
Intangible assets (note 5)	636,571	2,500,000
Future payments in lieu of income tax asset (note 6)	3,181,764	3,275,764
	\$ 41,772,166	\$ 41,254,305
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,451,961	\$ 5,429,689
Accrued payroll and vacation pay	175,948	163,659
Current portion of long-term debt (note 7)	474,773	243,089
Current portion of customer deposits (note 9)	578,968	684,090
	6,681,650	6,520,527
Sick leave liability	55,912	100,165
Long-term debt (note 7)	16,134,299	14,910,564
Long-term customer deposits (note 9)	1,360,127	882,229
Unrealized loss on interest rate swaps (note 7)	3,173,588	3,120,498
Other long-term liabilities	277,130	195,749
Regulatory liabilities, net (note 4)	1,029,865	3,684,772
Employee future benefit obligation (note 8)	1,157,539	1,148,626
Shareholder's equity:		
Share capital (note 11)	10,941,862	10,941,862
Retained earnings (deficit)	960,194	(250,687)
	11,902,056	10,691,175
Commitment (note 5)		
Contingency (note 16)		
	\$ 41,772,166	\$ 41,254,305

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

WOODSTOCK HYDRO SERVICES INC.

Statement of Earnings and Retained Earnings (Deficit)

Year ended December 31, 2012, with comparative information for 2011

	2012	2011
Revenue:		
Residential	\$ 7,946,838	\$ 6,817,301
General service	16,922,167	15,363,690
Street/sentinel lighting	201,184	91,021
Retail energy sales	5,846,374	5,154,053
Distribution	7,832,719	7,525,213
Non-competitive charges	6,323,762	6,041,433
Service revenue adjustment	(459,516)	(211,305)
	44,613,528	40,781,406
Cost of power purchased	36,780,809	33,256,193
	7,832,719	7,525,213
Other operating revenue	806,526	695,256
Expenses:		
Administration and general	2,220,574	2,194,375
Operating and maintenance	1,734,099	1,741,537
Amortization	1,359,111	2,161,742
Interest	918,317	817,663
MIFRS regulatory adjustment (note 4 (h))	603,173	-
Unrealized loss on interest rate swaps (note 7)	53,090	1,511,241
	6,888,364	8,426,558
Net earnings (loss) before payments in lieu of income taxes	1,750,881	(206,089)
Payments in lieu of income taxes (note 6):		
Current	289,000	307,000
Future	(14,000)	(344,000)
	275,000	(37,000)
Net earnings (loss)	1,475,881	(169,089)
Retained earnings (deficit), beginning of year	(250,687)	33,402
Dividends on common shares	(265,000)	(115,000)
Retained earnings (deficit), end of year	\$ 960,194	\$ (250,687)

See accompanying notes to financial statements.

WOODSTOCK HYDRO SERVICES INC.

Statement of Cash Flows

Year ended December 31, 2012, with comparative information for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	\$ 1,475,881	\$ (169,089)
Items not involving cash:		
Accrued benefit obligation	8,913	6,010
Amortization of plant and equipment	1,458,567	2,303,478
Gain on disposal of plant and equipment	-	(45,000)
Future payments in lieu of income taxes	(14,000)	(344,000)
Unrealized loss on interest rate swap	53,090	1,511,241
Sick leave liability	(44,253)	2,989
	2,938,198	3,265,629
Change in non-cash operating working capital (note 12)	(36,132)	(579,040)
	2,902,066	2,686,589
Financing activities:		
Capital contributions	1,049,065	765,206
Proceeds from issuance long-term debt	1,698,508	2,500,000
Repayments of long-term debt	(243,089)	(88,209)
Customer deposits	(105,122)	(205,294)
Other long-term liabilities	81,381	195,749
Dividends on common shares	(265,000)	(115,000)
	2,215,743	3,052,452
Investing activities:		
Regulatory assets	245,705	1,239,002
Long-term deposit	477,898	162,000
Proceeds from disposal of plant and equipment	-	45,000
Additions to plant and equipment	(4,196,143)	(4,911,058)
Intangible assets	(292,612)	(2,500,000)
	(3,765,152)	(5,965,056)
Increase (decrease) in cash	1,352,657	(226,015)
Cash, beginning of year	3,025,703	3,251,718
Cash, end of year	\$ 4,378,360	\$ 3,025,703
Supplemental cash flow information:		
Interest paid	\$ 783,041	\$ 752,795
Payments in lieu of income taxes paid	194,054	31,796

See accompanying notes to financial statements.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2012

Woodstock Hydro Services Inc. (the "Company") was incorporated on July 17, 2000 under the laws of the Province of Ontario and is licensed by the Ontario Energy Board ("OEB") as an electricity distributor. The principal activity of the Company is to operate distribution facilities and distribute electricity to customers within their licensed territory as defined in the distribution license.

The Company is regulated by the OEB, under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Company's distribution and ancillary rates. The Company's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Company's distribution territory, as established by its distribution license granted by the OEB.

1. Significant accounting policies:

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("CGAAP") including accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electric Distribution Utilities. The more significant accounting policies are summarized below:

(a) Financial effects of distribution rate regulation:

The financial results presented are in accordance with generally accepted accounting principles and within that framework the Company accounts for the impact of regulatory actions in the following manner:

(i) Regulatory decisions to adjust distribution rates:

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Company's distribution rates, such occurrences are immediately reflected in the Company's accounts.

(ii) Regulatory direction and practice:

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(a) Financial effects of distribution rate regulation (continued):

(ii) Regulatory direction and practice (continued):

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in note 4 to the financial statements.

(iii) Rate setting:

The distribution rates of the Company are based on rates approved by the OEB on an annual basis. Rates are typically effective May 1 to April 30 of the following year. Accordingly, for the first four months of 2012, distribution revenue is based on the rates approved for 2011. Once every four years, the Company files an Electricity Distribution Rate ("EDR") application where rates are rebased through a cost of service review. In the intervening years an Incentive Rate Mechanism ("IRM") application is filed. A cost of service EDR application is based upon a forecast of the amount of operating and capital expenses, debt and shareholder's equity required to support the Company's business. An IRM application results in a formulaic adjustment to distribution rates to adjust distribution rates for the annual change in the GDP IPI-FDD net of productivity factor and a "Stretch Factor" determined by the relative efficiency of an electricity distributor.

The Company's last cost of service EDR application was made in 2010 and approved on April 20, 2011, with rates effective May 1, 2011. Such decision provided for 2011 service distribution revenue requirement and rate base of \$8,198,345 and \$28,117,605 respectively. Such amounts do not include provision for the investment of the Company in the Smart Meter Initiative, further elaborated below.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(a) Financial effects of distribution rate regulation (continued):

(iii) Rate setting (continued):

In December 2009, the OEB concluded a Cost of Capital proceeding with the issuance of a final report. The report principally dealt with the adequacy and determination of the Maximum Allowable Return on Equity ("MARE"). The Board has acknowledged that it needs to refine and reset its current formula for determining MARE to:

- (a) acknowledge and incorporate a utility spread off of Canada long-bonds within the Equity Risk Premium ("ERP") to better reflect utility borrowing costs (initially 141.5 bps);
- (b) to include a 50 bps transaction cost component within the ERP to reflect estimated transaction costs related to utility borrowings;
- (c) reduce MARE volatility from annual changes in the Canada long-bond and by reducing the annual adjustment factor from 0.75 to 0.5; and
- (d) reflect a more realistic and fair base risk premium for local distribution companies.

(iv) Smart Meter Initiative:

The Province of Ontario committed to have "smart meter" electricity meters installed in all homes and small businesses throughout Ontario by the end of 2010. Smart Meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals.

In support of this initiative, the Company completed its deployment of smart meters throughout 2009 and 2010. As at December 31, 2011, 15,056 smart meters have been changed out in the Company's service territory. Testing with the Meter Data Management Repository ("MDMR") was completed on May 31, 2011. The Company began issuing Time of Use invoices to residential customers on September 1, 2011 and to general service <50 kW customers on December 1, 2011 based on actual consumption. An application was made in 2012 for the final disposition of Smart Meter initiative costs.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(a) Financial effects of distribution rate regulation (continued):

(v) Green Energy and Green Economy Act:

In early 2009, the government tabled the Green Energy and Green Economy Act. This new legislation makes fundamental changes to the roles and responsibilities of LDC's in the areas of renewable power generation, conservation and demand management delivery, and the development of smart distribution grids.

The Green Energy and Green Economy Act provides LDC's with the freedom to own and operate a portfolio of renewable power generation and will permit them to provide district heating services in their communities through co-generation. LDC's will also bear added responsibilities to assist and enable consumers to reduce their peak demand and conserve energy in an effort to meet provincial conservation targets. LDC's will also gain new responsibilities in transforming their local distribution networks into smart grids harnessing advanced technologies to facilitate the connection of small-scale generators and the two-way flow of information.

(vi) New LDC License Requirements - Conservation and Demand Management Targets:

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Company's CDM targets include a demand reduction target of 4.49 MW and a consumption reduction target of 18.88 MWh. LDC's must also comply with a new CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC-specific CDM targets, annual accounting and reporting to the OEB, and eligibility criteria for performance incentive payments. The Company has filed its CDM Strategy with the OEB. As at December 31, 2012, the Company has received funds totaling \$1,256,942 and accumulated expenditures totaling \$979,812.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(b) Revenue recognition:

Distribution revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the period. Estimated customer usage from the last meter reading date to the period end (unbilled revenue) is included in revenue.

Distribution and energy related revenues attributable to the supply and delivery of electricity are based on OEB-approved rates and are recognized as electricity is delivered to customers. Other revenues, which include pole attachment fees, customer demand work, and other miscellaneous revenues are recognized at the time the service is provided.

(c) Inventories:

Inventories are measured at the lower of cost and net realizable value. Any items considered to be major components of plant and equipment are recorded in plant and equipment.

(d) Plant and equipment:

Plant and equipment are amortized over their estimated useful lives using the straight-line method. During 2012, the Company changed its estimate of the useful lives of depreciable assets effective January 1, 2012 following a comprehensive third party review as follows:

Asset	Rate
Buildings and distribution system	15-75 years
Organization expense	40 years
Machinery and equipment	3-15 years
Other plant and equipment	20 years

The changes have been applied prospectively and has had the effect of decreasing depreciation expense by \$603,173.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(e) Contributed capital:

Contributions are received from developers and contractors for capital costs incurred by the Company. These contributions are included as a reduction to the cost of the related plant and equipment when those assets are placed in service.

(f) Intangible assets:

Intangible assets are measured initially at cost. The assets are amortized over their useful lives unless the life is determined to be indefinite.

(g) Impairment of long-lived assets:

Long-lived assets, including plant and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(h) Payments in lieu of income taxes:

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by a municipality. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company is required, under the Electricity Act, 1998 to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation. 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 Corporations Tax Act (Ontario) as modified by the EA, 1998 and related regulations.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(i) Related party transactions:

Transactions with related parties represent the culmination of the earnings process and are measured at the exchange amount.

(j) Financial instruments:

The standards require that as financial assets and liabilities are initially recognized that they be measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value depend on their initial classification, as follows: held-for-trading are measured at fair value and changes in fair value are recognized in the statement of earnings.

The Company has classified its financial instruments as follows:

Cash	Held-for-trading
Trade receivables	Loans and receivables
Unbilled revenue	Loans and receivables
Payments in lieu of income taxes receivable	Loans and receivables
Due from company under common control	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Accrued payroll and vacation pay	Other liabilities
Customer deposits	Other liabilities
Long-term debt	Other liabilities
Other long-term liabilities	Other liabilities

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(k) Employee future benefits:

(i) Pension benefits:

The Company has a pension agreement with the Ontario Municipal Employee Retirement System which is a multi-employer contributory defined benefit plan. Company contributions to the plan are recognized as an expense in the period incurred. As this is a multi-employer plan, no liability is recorded in the Company's financial statements.

(ii) Post-retirement benefits:

The Company provides post-retirement life insurance benefits to eligible retired employees. The benefits earned by employees are actuarially determined using management's best estimate of salary escalation, retirement ages of employees and expected benefit costs.

Actuarial gains and losses in a year are combined with the unamortized balance of gains and losses from prior years. The portion of the total that exceeds ten percent of the accrued benefit obligation is amortized over the average remaining service period of the active employees. Past service costs arising from plan amendments are amortized over the future years of service of active employees.

(l) Derivative instruments:

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Company uses derivative financial instruments, primarily interest rate swaps, in order to manage interest rate exposure. The Company's policy is not to utilize financial instruments for trading or speculative purposes. From January 1, 2007, derivatives are carried at fair value and are reported on the balance sheet as other assets where they have a positive fair value and as derivative financial liabilities where they have a negative fair value.

(m) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

2. Inventories:

Inventories, which consists of parts and supplies acquired for internal construction, consumption or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

	2012		2011	
Plant materials	\$	506,440	\$	434,642
Smart meters		-		69,934
	\$	506,440	\$	504,576

3. Plant and equipment:

	2012		2011	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 39,365	\$ -	\$ 39,365	\$ 39,365
Buildings and distribution system	38,542,433	16,380,416	22,162,017	21,338,681
Machinery and equipment	5,546,469	4,314,395	1,232,074	1,370,619
Organization expense	16,365	5,043	11,322	11,727
Other plant and equipment	370,202	26,185	344,017	74,967
Work-in-progress	156,941	-	156,941	58,437
	\$ 44,671,775	\$ 20,726,039	\$ 23,945,736	\$ 22,893,796

At December 31, 2012, the net book value of stranded meters related to the deployment of smart meters included in buildings and distribution systems was \$719,008 net of accumulated amortization (2011 - \$851,056). In the absence of rate-regulation, plant and equipment would have been reduced by this amount as of December 31, 2012. Disposition of these costs will be determined in future proceedings of the OEB.

No amortization is taken on work-in-progress assets as these assets are not available for use at December 31.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

4. Regulatory balances:

	2012	2011
Assets:		
Deferred payments in lieu of income taxes	\$ -	\$ 310,756
Late payment penalties settlement	-	38,749
Smart meters	774,388	712,593
Special purpose charge variance	-	4,988
Other regulatory assets	176,799	126,103
Incremental capital module (note 5)	2,786,362	-
	3,737,549	1,193,189
Liabilities:		
Settlement sales variance	(887,130)	(1,248,734)
Future payments in lieu of income tax regulatory liability	(2,340,987)	(2,448,987)
MIFRS regulatory adjustment	(603,173)	-
Regulatory Asset Recovery Account	(936,124)	(1,180,240)
	(4,767,414)	(4,877,961)
Regulatory liability, net	\$ (1,029,865)	\$ (3,684,772)

For most of the regulatory assets and liabilities identified the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. These costs have been deferred in accordance with OEB regulatory requirements.

Amounts recorded are subject to review and approval of the OEB.

The regulatory asset and liability balances of the company are defined as follows:

(a) Deferred payments in lieu of income taxes:

The company applied for disposition of the PILs variance account balance as part of its 2012 IRM/ICM application, for amounts accumulated for the period from October 1, 2001 to April 30, 2006. On March 22, 2012, the OEB issued its decision with respect to disposition of the balances and approved the recovery of \$247,830 over a one year period from May 1, 2012 to April 30, 2013. The 2012 OEB prescribed carrying charges were \$917 (2011 - \$3,536). The residual amount remaining in the PILs variance account for \$63,843 was recognized as an administrative expense.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

4. Regulatory balances (continued):

(b) Late payment penalties settlement:

The late payment penalties settlement regulatory account relates to the settlement costs associated with the late payment charges class action. All of the MEUs involved in the settlement, including the Company, requested an order from the OEB allowing for the future recovery from customers of all costs related to the settlement. On February 22, 2011, the OEB approved the recovery of \$17,000,000 plus costs and taxes in settlement of all claims. The recovery is occurring over a 12-month period which commenced on August 1, 2011. The Company's portion of the settlement was \$57,744. At December 31, 2011, there was \$38,749 remaining to be recovered through future rates.

In 2012, the OEB clarified direction to LDC's to record revenues derived from the associated rate rider for recovery of the approved LPP costs as distribution service revenue, and not in a variance account. The 2011 balance remaining to be recovered through future rates was transferred to administrative expense and was offset by distribution service revenue.

(c) Settlement sales variance:

In May 1, 2002 the Ontario energy market opened to competition. Since May 1, 2002, the difference between the cost of power based on time-of-use rates and amounts billed to non time-of-use customers charged at an average rate are recorded in settlement variance accounts as directed by the OEB; variances resulting from energy line-loss are also included. These sales variance accounts ensure that a utility's gross profit is limited to distribution revenue and service charges.

(d) Smart meter initiative:

Effective May 1, 2006, the OEB has allowed the company to defer revenues, capital expenditures, operating expenditures and amortization relating to smart meters. Accordingly, the Company has deferred these items in accordance with criteria set out in the Accounting Procedures Handbook.

In connection with the smart meter initiative, the Company has incurred capital costs relating to their installation of nil in 2012 (2011 - \$1,304) net of amortization. Along with the capital expenditures incurred, the company also incurred operating, maintenance and amortization expenses in 2012 of \$223,925 (2011 - \$163,800), and incurred OEB prescribed carrying charges of \$10,089 (2011 - \$16,061).

For the year ended December 31, 2012, the Company collected smart meter customer revenues of \$38,099 (2011 - \$178,113) from rate riders. The Company applied for final disposition of the remaining smart meter variance amounts as part of its 2013 IRM application.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

4. Regulatory balances (continued):

(e) Special purpose charge variance:

On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment under Section 26.1 of the Ontario Energy Board Act, 1998, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed the Company \$151,689 for its apportioned share of the total provincial amount. The Company is permitted to recover this balance and is expected to occur over a one year period, which began on May 1, 2010 and ended on April 30, 2011. The Company applied for final disposition of the special purpose charge variance account balance as part of its 2012 IRM/ICM application. On March 22, 2012, the OEB issued its decision with respect to disposition of the balances and approved the recovery of \$4,988 over a one year period from May 1, 2012 to April 30, 2013.

(f) Regulatory Assets Recovery Account ("RARA"):

The RARA consist of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and related rates.

On April 22, 2010, the OEB approved the disposition of regulatory liabilities of (\$1,978,155) for settlement variances and a 2008 RARA residual debit balance of \$35,035. The net credit amount of (\$1,943,070) was approved for disposition over a four-year period commencing on May 1, 2010 and ending on April 30, 2014.

On April 20, 2011, the OEB approved the disposition regulatory liabilities of (\$338,224), and other regulatory assets of 397,744. The net debit amount of \$59,520, was approved for disposition over a one-year period commencing May 1, 2011 and ending on April 30, 2012.

On March 22, 2012, the OEB approved the disposition of regulatory liabilities of (\$934,693) over a one year period from May 1 2012, to April 30, 2013.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

4. Regulatory balances (continued):

(g) Other regulatory assets:

(i) International Financial Reporting Standards ("IFRS") costs:

In 2009, an OEB deferral account was established to record one-time administrative costs related to the transition to IFRS. In 2012, one-time costs incurred for IFRS transition were \$nil (2011 - \$288). The company also incurred OEB prescribed carrying charges of \$937 (2011 - \$933).

(ii) Renewable generation connection costs:

In 2009, an OEB deferral account was established to record costs associated with renewable energy costs. The deferral of costs includes those associated with demonstration projects, planning, education and training related to renewable energy development. In 2012, costs incurred for renewable energy education were nil (2011 - \$2,129). In addition, capital costs of nil were incurred in 2012 (2011 - \$2,875), and carrying charges of \$(114) were incurred in 2012 (2011 - \$91).

(iii) Smart grid development costs:

In 2009, an OEB deferral account was established to record costs associated with smart grid development costs. The deferral of costs includes those related to smart grid demonstration projects, studies and planning exercises, and education and training. This deferral account is also used to record the cost of smart grid investments that are undertaken as part of a project to accommodate renewable generation. In 2012, capital costs incurred for smart grid development were \$32,806 (2011 - nil), expenses were \$16,250 (2011 - \$31,048) and carrying charges were incurred totaling \$948 (2011 - \$408).

(h) MIFRS regulatory adjustment:

On July 17, 2012, the OEB issued a letter that permits LDC's who elect to remain under Canadian generally accepted accounting principles in 2012 to implement Modified International Financial Reporting Standards ("MIFRS") for depreciation expense and capitalization policies effective on January 1, 2012. The financial differences arising from these accounting changes as they relate to plant and equipment are included in a new OEB variance Account "Accounting Changes under CGAAP." The Company recognized a regulatory liability and corresponding expense of \$603,173 in 2012.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

4. Regulatory balances (continued):

(i) Incremental Capital Module:

Chapter 3 of the OEB Filing Requirements allow an LDC to request an Incremental Capital Module ("ICM") during an Incentive Regulation Mechanism ("IRM") term. The ICM is intended to address new, specific, capital investment needs that are not otherwise funded through existing rates. The OEB reviews the application and evidence in detail, giving consideration to materiality, need and prudence.

Effective May 1, 2012 the OEB approved the company's application for an ICM in relation to its capital contribution and other capital costs for the Hydro One Commerce Way TS Project. ICM revenues from rate riders of \$228,462, capital additions of \$3,015,564, and OEB prescribed carrying charges of \$740 were recognized in the ICM deferral account in 2012.

5. Intangible assets:

During the year, the Company contributed \$800,000 (2011 - \$2,500,000) in payments to Hydro One Networks Inc. ("HONI") as part of an agreement to be used for the construction of a transformer station. The payments represent an intangible asset as the Company is provided with the right to use the transformer station once construction is complete. At that time, the intangible asset will be amortized on a straight-line basis over twenty-five years, which represents the term of the agreement with HONI. Construction was completed in February, 2013 and coincided with the final payment to HONI for \$800,000. The February, 2013 payment brought the total amount of the Company's contribution under the contract to build the transformer station to \$4,100,000.

In 2012, a portion of the capital contribution was reallocated to the OEB Regulatory account ICM in response to the March 22, 2012 OEB approval of the 2012 IRM/ICM Application. A total of \$2,792,612 was allocated to the ICM Regulatory account. As at December 31, 2012, intangible assets include \$507,388 related to HONI agreement. Other intangible assets of \$129,183 represent software and other licenses.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

6. Payments in lieu of income taxes:

Payments in lieu of income taxes expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 26.50% (2011 - 28.25%) to earnings before payments in lieu of income taxes. The reasons for the differences and related tax effects are as follows:

	2012	2011
Net earnings (loss) before payments in lieu of income taxes	\$ 1,750,881	\$ (206,089)
Payments in lieu of income taxes expense	\$ 464,000	\$ (58,000)
Permanent differences	1,000	1,000
Tax effect of temporary differences	(154,000)	(1,000)
Other	(36,000)	21,000
Payments in lieu of income taxes expense (recovery)	\$ 275,000	\$ (37,000)

Future payments in lieu of income tax assets of \$3,181,764 (2011 - \$3,275,764) have been recorded at year end based on statutory income tax rates. Such future payments in lieu of income tax assets relate in part to the tax basis of assets and liabilities in excess of amounts recorded for accounting purposes, and in part to the timing difference between the recognition of revenue and expenses for accounting and income tax purposes.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

7. Long-term debt:

	2012	2011
CIBC term bank loan, bearing interest at 4.91%, payable interest only monthly until May, 2012, payable \$87,385 principal and interest monthly thereafter until October, 2025	\$ 10,790,734	\$ 10,941,862
CIBC demand installment loan, bearing interest at 5.59%, payable in blended payments of principal and interest beginning January, 2013 through February, 2027	3,300,000	2,500,000
Ontario Infrastructure Projects Corporation loan, bearing interest at 4.21% , payable \$81,535 principal and interest semi-annually, due September, 2025	1,619,830	1,711,791
Ontario Infrastructure and Lands Corporation loan, bearing interest at 3.60%, payable \$10,180 principal and interest semi-annually due December, 2032	288,508	-
Ontario Infrastructure and Lands Corporation construction loan, payable interest only semi-annually, due December, 2032	610,000	-
	16,609,072	15,153,653
Current portion of long-term debt	474,773	243,089
	\$ 16,134,299	\$ 14,910,564

Principal repayments for the next five years and thereafter are as follows:

2013	\$ 238,619
2014	277,959
2015	292,202
2016	307,190
2017	322,964
Thereafter	15,170,138
	\$ 16,609,072

The Company entered into an interest rate swap agreement on a notional principal of \$10,941,862 as at October 1, 2008, maturing on April 1, 2037. The swap is a receive variable, pay fixed swap with the CIBC World Markets. This agreement has effectively converted variable interest rates on the unsecured Banker's Acceptances to an effective fixed interest rate of 5.15% plus stamping fee to December 1, 2011 and 4.91% thereafter.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

7. Long-term debt (continued):

The Company entered into an interest rate swap agreement on a notional principal of \$2,500,000 as at May 31, 2010, maturing on February 26, 2027. The swap is a receive variable, pay fixed swap with the CIBC World Markets. This agreement has effectively converted variable interest rates on the unsecured Banker's Acceptances to an effective fixed interest rate of 5.59% plus stamping fee. In 2012, the Company was advanced an additional \$800,000 bringing the notional principal to \$3,300,000 as at December 31, 2012.

The swaps entered into by the Company do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are marked to market at each year end with the gain or loss recorded in the income statement. The loss recorded in 2012 was \$53,090 (2011 - \$1,511,241).

The Company has available an operating credit facility of up to \$3,000,000 from the Canadian Imperial Bank of Commerce at the corporate bank prime rate of interest plus 0.15%. At December 31, 2012, there were no amounts drawn under the facility (2011 – nil).

The financial covenants associated with the company's credit facilities with CIBC are as follows:

- (i) maximum debt to capitalization ratio of 65% at any time; and
- (ii) minimum cash flow debt service ratio of 1.5 at any time.

The financial covenants associated with the Ontario Infrastructure Projects Corporation loan are as follows:

- (i) maximum debt to capitalization ratio of 65% at any time;
- (ii) minimum debt service coverage ratio of 1.15:1 at any time; and
- (iii) minimum current ratio of 1.1:1 at any time.

As at December 31, 2012, the Company was in compliance with all of the above financial covenants.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

8. Employee future benefit obligation:

The accrued benefit obligation for post-employment benefits is based on an actuarial valuation for accounting purposes. The latest actuarial valuation was performed as at January 1, 2011, and there have been no significant changes in the employee demographics since that valuation. The next required valuation has been scheduled for 2013 and will cover the fiscal period ending December 31, 2013. The actuarial valuation was based on assumptions about future events. The significant assumptions used in determining the accrued benefit obligation are as follows:

	2012	2011
Discount rate	3.75 %	4.25 %
Withdrawal rate	2.00 %	2.00 %
Salary increase	3.30 %	3.30 %
Health care costs	7.63 %	8.00 %
Dental	5.00 %	5.00 %

The transition obligation has been amortized over the average remaining service life of current employees, which is eleven years (2011 - twelve years). This results in a liability on the balance sheet at year end as follows:

	2012	2011
Accrued benefit obligation	\$ 1,250,002	\$ 1,171,452
Less: unrecognized actuarial loss	(92,463)	(22,826)
	\$ 1,157,539	\$ 1,148,626

Other information about the Company's plan for the year ended December 31, is as follows:

	2012	2011
Service cost	\$ 24,882	\$ 21,641
Interest cost	49,454	51,677
Benefits paid	(65,424)	(67,308)
	\$ 8,912	\$ 6,010

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

9. Customer deposits:

Customer deposits include security deposits for energy consumption and developer deposits held in accordance with OEB regulation.

Revenue guarantees collected from third party developers are held by the Company up to a five year period from the date the offer to connect is signed. Once this period has expired, the deposit or letter of credit is returned to the developer, less a 10% holdback. The holdback is retained for a two year warranty period to be applied to any required repairs. The balance remaining is returned to the developer following the 2 year warranty period.

10. Financial instruments:

The Company's financial instruments consist of cash, trade receivables, unbilled revenue, payments in lieu of income tax receivable, due from company under common control, accounts payable and accrued liabilities, accrued payroll and vacation pay, customer deposits, long-term debt, and other long-term liabilities. Management is of the opinion that the fair values of all financial assets and liabilities are not materially different from their carrying values due to the short-term maturity of these instruments.

(a) Credit risk:

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Corporation reducing the expected cash inflow from Company assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions.

The Company has assessed that there are no significant concentrations of credit risk other than the present uncertainty relating to the recovery of regulatory assets. The final regulatory amount recoverable will be assessed in future years by the regulator after the audit of those costs.

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Company has entered into interest rate swaps, as described in note 7, to reduce its exposure to fluctuations in interest expense on two of its debt instruments, while the remaining debt instrument was signed at a fixed rate.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

11. Share capital:

	2012	2011
Authorized:		
Unlimited Class A Special shares, non-voting redeemable and retractable at \$100 per share, entitled to non-cumulative annual dividend, determined by the Directors		
Unlimited Class B Special shares, voting, redeemable and retractable at \$100 per share, entitled to non-cumulative dividend determined by the Directors		
Unlimited common shares		
Issued:		
360 common shares (2011 - 360)	\$ 10,941,862	\$ 10,941,862

12. Change in non-cash working capital:

Cash provided by (used in) non-cash working capital balances consists of:

	2012	2011
Accounts receivable	\$ (207,121)	\$ (472,957)
Unbilled revenue	21,095	(298,438)
Payments in lieu of income tax receivable	94,946	240,204
Due from company under common control	69	215,442
Inventories	(1,864)	105,467
Prepaid expenses and deposits	22,182	(49,814)
Accounts payable and accrued liabilities	22,272	(334,080)
Accrued payroll and vacation pay	12,289	15,136
	\$ (36,132)	\$ (579,040)

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

13. Public liability insurance:

The Company is a member of the Electricity Distributors Association Reciprocal Insurance Exchange which is a pooling of the public liability insurance risks of many of the municipal utilities in Ontario. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they are members on a pro-rata basis based on the total of their respective service revenues.

It is anticipated that, should such an assessment occur, it would be funded over a period of up to five years. As at December 31, 2012, no assessments have been made.

14. Capital management:

The Company's objectives when managing its capital are to:

- (i) maintain a financial position that supports the company's operations and growth strategies;
- (ii) provide an adequate return to its shareholder;
- (iii) comply with covenants related to its credit facilities; and
- (iv) align its capital structure for regulated activities with the debt to equity structure recommended by the OEB, which is 60% debt and 40% equity.

The Company defines capital as shareholder's equity. As of December 31, 2012, shareholder's equity amounted to \$11,902,056 (2011 - \$10,691,175).

The Company has externally imposed capital requirements in the form of credit facility agreements that contain various financial and non-financial covenants (note 7).

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements (continued)

Year ended December 31, 2012

15. Future changes in accounting standards:

Transition to International Financial Reporting Standards:

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that has had Canadian GAAP converge with IFRS, effective January 1, 2011 which requires entities to restate, for comparative purposes, their interim and annual financial statements and their opening financial position. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

In October 2010, the AcSB approved the incorporation of a one year deferral of Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation.

The AcSB has provided deferrals which allow rate regulated entities to defer the adoption of IFRS until January 1, 2015. The Company has elected to implement IFRS commencing on January 1, 2015. The impact of the adoption to IFRS on the Company's financial position and results of operations is not yet fully determined.

16. Contingency:

As a purchaser of electricity through the IESO, the Company is required to provide security to minimize the risk of default, based on its expected activity in the market. The IESO may draw on this security if the Company fails to make payment required by a default notice issued by the IESO. To satisfy this requirement, the Company has provided the IESO with an irrevocable standby letter of credit in the amount of \$1,960,005 (2011 - \$1,960,005) which renews automatically on an annual basis.

17. Comparative figures:

Certain of the 2011 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

RESOLUTION

The Corporation of the City of Woodstock
Name of Organization

Date of Council
May 21, 2014

Re: Sale of Woodstock Hydro Holdings Inc. to Hydro One Inc. and 1908873 Ontario Inc.

Moved by: Councillor B. Bes	Seconded by: Councillor R. Fraser

That City Council authorizes the Mayor and Clerk to execute Agreements for the sale of 100% of the Shares of Woodstock Hydro Holdings Inc. to Hydro One Inc. and 1908873 Ontario Inc.;


And further that City Council approves \$250,000 for legal/professional services to support the Ontario Energy Board approval process with the fund to be financed from the Hydro Reserve Fund;

And further that City Council directs the Director of Administrative Services to invest the sale proceeds in permitted investments to provide investment income that becomes an annuity for the City and provides an ongoing legacy for the continuing benefit of the community;

And further a report be prepared providing investment options, the establishment of investment policy that restricts the disposition of sale proceeds and provides options for the use of investment earnings.

I hereby certify this to be a true copy of a resolution passed by Woodstock City Council on the 21st Day of May 2014, in regards to Sale of Woodstock Hydro Holdings Inc. to Hydro One Inc. and 1908873 Ontario Inc.

Dated this 8th Day of July, 2014



Louise Gartshore, City Clerk

**Margaret Louise Gartshore, a Commissioner,
etc., County of Oxford, while
clerk of the City of Woodstock.**

RESOLUTION

The Corporation of the City of Woodstock
Name of Organization

Date of Council
May 21, 2014

Re: Sale of Woodstock Hydro Holdings Inc. to Hydro One Inc. and 1908873 Ontario Inc.

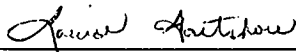
Moved by: Councillor B. Bes	Seconded by: Councillor R. Fraser

That the following by-law be given a first and second reading:

8915-14-A by-law to authorize the execution of a Share Purchase Agreement, escrow agreement and all documentation (the "Agreements") between the Corporation of the City of Woodstock and Hydro One Inc. and 1908873 Ontario Inc. for the sale of all of the issued and outstanding shares of Woodstock Hydro Holdings Inc.

I hereby certify this to be a true copy of a resolution passed by Woodstock City Council on the 21st Day of May 2014, in regards to Sale of Woodstock Hydro Holdings Inc. to Hydro One Inc. and 1908873 Ontario Inc.

Dated this 8th Day of July, 2014



Louise Gartshore, City Clerk

**Margaret Louise Gartshore, a Commissioner,
etc., County of Oxford, while
clerk of the City of Woodstock.**

Residential Bill Impact (Typical Consumption Level)

Rate Class	Residential
Monthly Consumption (kWh)	800
Peak (kW)	0
Loss factor	1.0431
Commodity Threshold	600
Monthly Consumption (kWh) - Uplifted	834.48
Charge determinant	kWh

Filed: 2014-07-09
EB-2014-0213
Exhibit A-3-1
Attachment 14
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	Volume	Current Rate (\$)	Current Charge (\$)	Volume	Proposed Acquisition Rate (\$)	Proposed Acquisition Charge (\$)	Change (\$)	Change (%)	% of Total Bill on RPP	% of Total Bill on TOU
Energy First Tier (kWh)	600	0.086	51.60	600	0.086	51.60	0.00	0.00%	40.02%	
Energy Second Tier (kWh)	200	0.101	20.20	200	0.101	20.20	0.00	0.00%	15.67%	
Sub-Total: Energy (RPP)			71.80			71.80	0.00	0.00%	55.69%	
TOU-Off Peak	512	0.075	38.40	512	0.075	38.40	0.00	0.00%		29.35%
TOU-Mid Peak	144	0.112	16.13	144	0.112	16.13	0.00	0.00%		12.33%
TOU-On Peak	144	0.135	19.44	144	0.135	19.44	0.00	0.00%		14.86%
Sub-Total: Energy (TOU)			73.97			73.97	0.00	0.00%	57.37%	56.54%
Service Charge	1	12.98	12.98	1	12.85	12.85	-0.13	-1.00%	9.97%	9.82%
Distribution Volumetric Rate	800	0.0222	17.76	800	0.0220	17.60	-0.16	-0.90%	13.65%	13.45%
Sub-Total: Base Distribution (excluding riders and pass through)			30.74			30.45	-0.29	-0.94%	23.62%	23.27%
Fixed Rate Riders	1	0.64	0.64	1	0.64	0.64	0.00	0.00%	0.50%	0.49%
Volumetric Rate Riders	800	-0.0022	-1.76	800	-0.0022	-1.76	0.00	0.00%	-1.37%	-1.35%
Sub-Total: Distribution (excluding pass through)			29.62			29.33	-0.29	-0.98%	22.75%	22.42%
Smart Metering Entity Charge	1	0.79	0.79	1	0.79	0.79	0.00	0.00%	0.61%	0.60%
Line Losses on Cost of Power (based on two-tier RPP prices)	34	0.10	3.48	34	0.10	3.48	0.00	0.00%	2.70%	2.66%
Line Losses on Cost of Power (based on TOU prices)	34	0.09	3.19	34	0.09	3.19	0.00	0.00%	2.47%	2.44%
Sub-Total: Distribution (based on two-tier RPP prices)			33.89			33.60	-0.29	-0.86%	26.06%	25.68%
Sub-Total: Distribution (based on TOU prices)			33.60			33.31	-0.29	-0.86%	25.83%	25.46%
Retail Transmission Rate – Network Service Rate	834	0.0075	6.26	834	0.0075	6.26	0.00	0.00%	4.85%	4.78%
Retail Transmission Rate – Line and Transformation Connection \$	834	0.0054	4.51	834	0.0054	4.51	0.00	0.00%	3.50%	3.44%
Sub-Total: Retail Transmission			10.76			10.76	0.00	0.00%	8.35%	8.23%
Sub-Total: Delivery (based on two-tier RPP prices)			44.66			44.37	-0.29	-0.65%	34.41%	33.91%
Sub-Total: Delivery (based on TOU prices)			44.36			44.07	-0.29	-0.65%	34.18%	33.69%
Wholesale Market Service Rate	834	0.0044	3.67	834	0.0044	3.67	0.00	0.00%	2.85%	2.81%
Rural Rate Protection Charge	834	0.0013	1.08	834	0.0013	1.08	0.00	0.00%	0.84%	0.83%
Standard Supply Service – Administration Charge (if applicable)	1	0.25	0.25	1	0.25	0.25	0.00	0.00%	0.19%	0.19%
Sub-Total: Regulatory			5.01			5.01	0.00	0.00%	3.88%	3.83%
Debt Retirement Charge (DRC)	800	0.007	5.60	800	0.007	5.60	0.00	0.00%	4.34%	4.28%
Total Bill on Two-Tier RPP (before Taxes)			127.06			126.77	-0.29	-0.23%	98.33%	
HST		0.13	16.52		0.13	16.48	-0.04	-0.23%	12.78%	
Total Bill (including HST)			143.58			143.25	-0.33	-0.23%	111.11%	
Ontario Clean Energy Benefit (OCEB)		-0.10	-14.36		-0.10	-14.33	0.03	-0.23%	-11.11%	
Total Bill on Two-Tier RPP (including HSTand OCEB)			129.22			128.93	-0.29	-0.23%	100.00%	
Total Bill on TOU (before Taxes)			128.94			128.65	-0.29	-0.22%		98.33%
HST		0.13	16.76		0.13	16.72	-0.04	-0.22%		12.78%
Total Bill (including HST)			145.70			145.37	-0.33	-0.22%		111.11%
Ontario Clean Energy Benefit (OCEB)		-0.10	-14.57		-0.10	-14.54	0.03	-0.22%		-11.11%
Total Bill on TOU (including HST and OCEB)			131.13			130.83	-0.29	-0.22%		100.00%

General Service (<50 kW) Bill Impact (Typical Consumption Level)

Rate Class	General Service (<50 kW)
Monthly Consumption (kWh)	2000
Peak (kW)	0
Loss factor	1.0431
Commodity Threshold	750
Monthly Consumption (kWh) - Uplifted	2086.2
Charge determinant	kWh

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	Volume	Current Rate (\$)	Current Charge (\$)	Volume	Proposed Acquisition Rate (\$)	Proposed Acquisition Charge (\$)	Change (\$)	Change (%)	% of Total Bill on RPP	% of Total Bill on TOU
Energy First Tier (kWh)	750	0.086	64.50	750	0.086	64.50	0.00	0.00%	20.82%	
Energy Second Tier (kWh)	1,250	0.101	126.25	1,250	0.101	126.25	0.00	0.00%	40.76%	
Sub-Total: Energy (RPP)			190.75			190.75	0.00	0.00%	61.58%	
TOU-Off Peak	1,280	0.075	96.00	1,280	0.075	96.00	0.00	0.00%		31.67%
TOU-Mid Peak	360	0.112	40.32	360	0.112	40.32	0.00	0.00%		13.30%
TOU-On Peak	360	0.135	48.60	360	0.135	48.60	0.00	0.00%		16.03%
Sub-Total: Energy (TOU)			184.92			184.92	0.00	0.00%	59.70%	61.01%
Service Charge	1	25.19	25.19	1	24.94	24.94	-0.25	-0.99%	8.05%	8.23%
Distribution Volumetric Rate	2,000	0.0145	29.00	2,000	0.0144	28.80	-0.20	-0.69%	9.30%	9.50%
Sub-Total: Base Distribution (excluding riders and pass through)			54.19			53.74	-0.45	-0.83%	17.35%	17.73%
Fixed Rate Riders	1	4.24	4.24	1	4.24	4.24	0.00	0.00%	1.37%	1.40%
Volumetric Rate Riders	2,000	-0.0023	-4.60	2,000	-0.0023	-4.60	0.00	0.00%	-1.48%	-1.52%
Sub-Total: Distribution (excluding pass through)			53.83			53.38	-0.45	-0.84%	17.23%	17.61%
Smart Metering Entity Charge	1	0.79	0.79	1	0.79	0.79	0.00	0.00%	0.26%	0.26%
Line Losses on Cost of Power (based on two-tier RPP prices)	86	0.10	8.71	86	0.10	8.71	0.00	0.00%	2.81%	2.87%
Line Losses on Cost of Power (based on TOU prices)	86	0.09	7.97	86	0.09	7.97	0.00	0.00%	2.57%	2.63%
Sub-Total: Distribution (based on two-tier RPP prices)			63.33			62.88	-0.45	-0.71%	20.30%	20.74%
Sub-Total: Distribution (based on TOU prices)			62.59			62.14	-0.45	-0.72%	20.06%	20.50%
Retail Transmission Rate – Network Service Rate	2,086	0.0068	14.19	2,086	0.0068	14.19	0.00	0.00%	4.58%	4.68%
Retail Transmission Rate – Line and Transformation Connection \$	2,086	0.0051	10.64	2,086	0.0051	10.64	0.00	0.00%	3.43%	3.51%
Sub-Total: Retail Transmission			24.83			24.83	0.00	0.00%	8.01%	8.19%
Sub-Total: Delivery (based on two-tier RPP prices)			88.15			87.70	-0.45	-0.51%	28.31%	28.94%
Sub-Total: Delivery (based on TOU prices)			87.42			86.97	-0.45	-0.51%	28.07%	28.69%
Wholesale Market Service Rate	2,086	0.0044	9.18	2,086	0.0044	9.18	0.00	0.00%	2.96%	3.03%
Rural Rate Protection Charge	2,086	0.0013	2.71	2,086	0.0013	2.71	0.00	0.00%	0.88%	0.89%
Standard Supply Service – Administration Charge (if applicable)	1	0.25	0.25	1	0.25	0.25	0.00	0.00%	0.08%	0.08%
Sub-Total: Regulatory			12.14			12.14	0.00	0.00%	3.92%	4.01%
Debt Retirement Charge (DRC)	2,000	0.007	14.00	2,000	0.007	14.00	0.00	0.00%	4.52%	4.62%
Total Bill on Two-Tier RPP (before Taxes)			305.04			304.59	-0.45	-0.15%	98.33%	
HST		0.13	39.66		0.13	39.60	-0.06	-0.15%	12.78%	
Total Bill (including HST)			344.70			344.19	-0.51	-0.15%	111.11%	
Ontario Clean Energy Benefit (OCEB)		-0.10	-34.47		-0.10	-34.42	0.05	-0.15%	-11.11%	
Total Bill on Two-Tier RPP (including HSTand OCEB)			310.23			309.77	-0.46	-0.15%	100.00%	
Total Bill on TOU (before Taxes)			298.48			298.03	-0.45	-0.15%		98.33%
HST		0.13	38.80		0.13	38.74	-0.06	-0.15%		12.78%
Total Bill (including HST)			337.28			336.77	-0.51	-0.15%		111.11%
Ontario Clean Energy Benefit (OCEB)		-0.10	-33.73		-0.10	-33.68	0.05	-0.15%		-11.11%
Total Bill on TOU (including HST and OCEB)			303.55			303.09	-0.46	-0.15%		100.00%

General Service (50 kW to 999 kW) Bill Impact (Typical Consumption Level)

Rate Class	General Service (50 kW to 999 kW)
Monthly Consumption (kWh)	219,000
Peak (kW)	500
Loss factor	1.043
Load factor	60%
Commodity Threshold	0
Monthly Consumption (kWh) - Uplifted	228,439
Charge determinant	kW

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	Volume	Current Rate (\$)	Current Charge (\$)	Volume	Proposed Acquisition Rate (\$)	Proposed Acquisition Charge (\$)	Change (\$)	Change (%)	% of Total Bill
Energy First Tier (kWh)	228,439	0.086	19,645.75	228,439	0.086	19,645.75	0.00	0.00%	66.71%
Energy Second Tier (kWh)	0	0.101	0.00	0	0.101	0.00	0.00	0.00%	0.00%
Sub-Total: Energy (RPP)			19,645.75			19,645.75	0.00	0.00%	66.71%
Service Charge	1	139.96	139.96	1	138.56	138.56	-1.40	-1.00%	0.47%
Distribution Volumetric Rate	500	2.5777	1,288.85	500	2.5519	1,275.95	-12.90	-1.00%	4.33%
Sub-Total: Base Distribution (excluding riders and pass through)			1,428.81			1,414.51	-14.30	-1.00%	4.80%
Fixed Rate Riders	1	0	0.00	1	0	0.00	0.00	0.00%	0.00%
Volumetric Rate Riders	500	-0.7616	-380.80	500	-0.7616	-380.80	0.00	0.00%	-1.29%
Sub-Total: Distribution (excluding pass through)			1,048.01			1,033.71	-14.30	-1.36%	3.51%
Retail Transmission Rate – Network Service Rate	500	2.9187	1,459.35	500	2.9187	1,459.35	0.00	0.00%	4.96%
Retail Transmission Rate – Line and Transformation Connection Service Rate	500	2.1784	1,089.20	500	2.1784	1,089.20	0.00	0.00%	3.70%
Sub-Total: Retail Transmission			2,548.55			2,548.55	0.00	0.00%	8.65%
Sub-Total: Delivery			3,596.56			3,582.26	-14.30	-0.40%	12.16%
Wholesale Market Service Rate	228,439	0.0044	1,005.13	228,439	0.0044	1,005.13	0.00	0.00%	3.41%
Rural Rate Protection Charge	228,439	0.0013	296.97	228,439	0.0013	296.97	0.00	0.00%	1.01%
Standard Supply Service – Administration Charge (if applicable)	1	0.25	0.25	1	0.25	0.25	0.00	0.00%	0.00%
Sub-Total: Regulatory			1,302.35			1,302.35	0.00	0.00%	4.42%
Debt Retirement Charge (DRC)	219,000	0.007	1,533.00	219,000	0.007	1,533.00	0.00	0.00%	5.21%
Total Bill (before Taxes)			26,077.66			26,063.36	-14.30	-0.05%	88.50%
HST		0.13	3,390.10		0.13	3,388.24	-1.86	-0.05%	11.50%
Total Bill (including HST)			29,467.75			29,451.59	-16.16	-0.05%	100.00%
Ontario Clean Energy Benefit (OCEB)		0.00	0.00		0.00	0.00	0.00	0.00%	0.00%
Total Bill (including HST and OCEB)			29,467.75			29,451.59	-16.16	-0.05%	100.00%

General Service (>1000 kW) Bill Impact (Typical Consumption Level)

Rate Class	General Service (>1000 kW)
Monthly Consumption (kWh)	1,095,000
Peak (kW)	2,500
Loss factor	1.043
Load factor	60%
Commodity Threshold	0
Monthly Consumption (kWh) - Uplifted	1,142,195
Charge determinant	kW

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	Volume	Current Rate (\$)	Current Charge (\$)	Volume	Proposed Acquisition Rate (\$)	Proposed Acquisition Charge (\$)	Change (\$)	Change (%)	% of Total Bill
Energy First Tier (kWh)	1,142,195	0.086	98,228.73	1,142,195	0.086	98,228.73	0.00	0.00%	66.73%
Energy Second Tier (kWh)	0	0.101	0.00	0	0.101	0.00	0.00	0.00%	0.00%
Sub-Total: Energy (RPP)			98,228.73			98,228.73	0.00	0.00%	66.73%
Service Charge	1	518.85	518.85	1	513.66	513.66	-5.19	-1.00%	0.35%
Distribution Volumetric Rate	2,500	2.7398	6,849.50	2,500	2.7124	6,781.00	-68.50	-1.00%	4.61%
Sub-Total: Base Distribution (excluding riders and pass through)			7,368.35			7,294.66	-73.69	-1.00%	4.96%
Fixed Rate Riders	1	0	0.00	1	0	0.00	0.00	0.00%	0.00%
Volumetric Rate Riders	2,500	-0.8729	-2,182.25	2,500	-0.8729	-2,182.25	0.00	0.00%	-1.48%
Sub-Total: Distribution (excluding pass through)			5,186.10			5,112.41	-73.69	-1.42%	3.47%
Retail Transmission Rate – Network Service Rate	2,500	2.9187	7,296.75	2,500	2.9187	7,296.75	0.00	0.00%	4.96%
Retail Transmission Rate – Line and Transformation Connection Service Rate	2,500	2.1784	5,446.00	2,500	2.1784	5,446.00	0.00	0.00%	3.70%
Sub-Total: Retail Transmission			12,742.75			12,742.75	0.00	0.00%	8.66%
Sub-Total: Delivery			17,928.85			17,855.16	-73.69	-0.41%	12.13%
Wholesale Market Service Rate	1,142,195	0.0044	5,025.66	1,142,195	0.0044	5,025.66	0.00	0.00%	3.41%
Rural Rate Protection Charge	1,142,195	0.0013	1,484.85	1,142,195	0.0013	1,484.85	0.00	0.00%	1.01%
Standard Supply Service – Administration Charge (if applicable)	1	0.25	0.25	1	0.25	0.25	0.00	0.00%	0.00%
Sub-Total: Regulatory			6,510.76			6,510.76	0.00	0.00%	4.42%
Debt Retirement Charge (DRC)	1,095,000	0.007	7,665.00	1,095,000	0.007	7,665.00	0.00	0.00%	5.21%
Total Bill (before Taxes)			130,333.34			130,259.65	-73.69	-0.06%	88.50%
HST		0.13	16,943.33		0.13	16,933.75	-9.58	-0.06%	11.50%
Total Bill (including HST)			147,276.67			147,193.40	-83.27	-0.06%	100.00%
Ontario Clean Energy Benefit (OCEB)		0.00	0.00		0.00	0.00	0.00	0.00%	0.00%
Total Bill (including HST and OCEB)			147,276.67			147,193.40	-83.27	-0.06%	100.00%

Street Lighting Bill Impact (Typical Consumption Level)

Rate Class	Street Lighting
Monthly Consumption (kWh)	245,280
Peak (kW)	560
Loss factor	1.0431
Commodity Threshold	750
Monthly Consumption (kWh) - Uplifted	255,852
Charge determinant	kW

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	Volume	Current Rate (\$)	Current Charge (\$)	Volume	Proposed Acquisition Rate (\$)	Proposed Acquisition Charge (\$)	Change (\$)	Change (%)	% of Total Bill on RPP
Energy First Tier (kWh)	750	0.086	64.50	750	0.086	64.50	0.00	0.00%	0.13%
Energy Second Tier (kWh)	244,530	0.101	24,697.53	244,530	0.101	24,697.53	0.00	0.00%	48.73%
Sub-Total: Energy (RPP)			24,762.03			24,762.03	0.00	0.00%	48.86%
Service Charge	4,000	3.09	12,360.00	4,000	3.06	12,240.00	-120.00	-0.97%	24.15%
Distribution Volumetric Rate	560	12.4552	6,974.91	560	12.3306	6,905.14	-69.78	-1.00%	13.63%
Sub-Total: Base Distribution (excluding riders and pass through)			19,334.91			19,145.14	-189.78	-0.98%	37.78%
Fixed Rate Riders	4,000	0	0.00	4,000	0	0.00	0.00	0.00%	0.00%
Volumetric Rate Riders	560	-0.7597	-425.43	560	-0.7597	-425.43	0.00	0.00%	-0.84%
Sub-Total: Distribution (excluding pass through)			18,909.48			18,719.70	-189.78	-1.00%	36.94%
Line Losses on Cost of Power	10,572	0.10	1,067.73	10,572	0.10	1,067.73	0.00	0.00%	2.11%
Sub-Total: Distribution			19,977.21			19,787.43	-189.78	-0.95%	39.04%
Retail Transmission Rate – Network Service Rate	560	2.1541	1,206.30	560	2.1541	1,206.30	0.00	0.00%	2.38%
Retail Transmission Rate – Line and Transformation Connection	560	1.6078	900.37	560	1.6078	900.37	0.00	0.00%	1.78%
Sub-Total: Retail Transmission			2,106.66			2,106.66	0.00	0.00%	4.16%
Sub-Total: Delivery			22,083.87			21,894.10	-189.78	-0.86%	43.20%
Wholesale Market Service Rate	255,852	0.0044	1,125.75	255,852	0.0044	1,125.75	0.00	0.00%	2.22%
Rural Rate Protection Charge	255,852	0.0013	332.61	255,852	0.0013	332.61	0.00	0.00%	0.66%
Standard Supply Service – Administration Charge (if applicable)	1	0.25	0.25	1	0.25	0.25	0.00	0.00%	0.00%
Sub-Total: Regulatory			1,458.60			1,458.60	0.00	0.00%	2.88%
Debt Retirement Charge (DRC)	245,280	0.007	1,716.96	245,280	0.007	1,716.96	0.00	0.00%	3.39%
Total Bill on Two-Tier RPP (before Taxes)			50,021.47			49,831.69	-189.78	-0.38%	98.33%
HST		0.13	6,502.79		0.13	6,478.12	-24.67	-0.38%	12.78%
Total Bill (including HST)			56,524.26			56,309.81	-214.45	-0.38%	111.11%
Ontario Clean Energy Benefit (OCEB)		-0.10	-5,652.43		-0.10	-5,630.98	21.44	-0.38%	-11.11%
Total Bill on Two-Tier RPP (including HSTand OCEB)			50,871.83			50,678.83	-193.00	-0.38%	100.00%

Unmetered Scattered Load Bill Impact (Typical Consumption Level)

Rate Class	Unmetered Scattered Load
Monthly Consumption (kWh)	150
Peak (kW)	0
Loss factor	1.0431
Commodity Threshold	750
Monthly Consumption (kWh) - Uplifted	156.465
Charge determinant	kWh

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	Volume	Current Rate (\$)	Current Charge (\$)	Volume	Proposed Acquisitio n Rate (\$)	Proposed Acquisition Charge (\$)	Change (\$)	Change (%)	% of Total Bill on RPP
Energy First Tier (kWh)	150	0.086	12.90	150	0.086	12.90	0.00	0.00%	42.82%
Energy Second Tier (kWh)	0	0.101	0.00	0	0.101	0.00	0.00	0.00%	0.00%
Sub-Total: Energy (RPP)			12.90			12.90	0.00	0.00%	42.82%
Service Charge	1	10.53	10.53	1	10.42	10.42	-0.11	-1.04%	34.59%
Distribution Volumetric Rate	150	0.0122	1.83	150	0.0121	1.82	-0.02	-0.82%	6.02%
Sub-Total: Base Distribution (excluding riders and pass through)			12.36			12.24	-0.13	-1.01%	40.61%
Fixed Rate Riders	1	0	0.00	1	0	0.00	0.00	0.00%	0.00%
Volumetric Rate Riders	150	-0.0004	-0.06	150	-0.0004	-0.06	0.00	0.00%	-0.20%
Sub-Total: Distribution (excluding pass through)			12.30			12.18	-0.13	-1.02%	40.41%
Line Losses on Cost of Power	6	0.09	0.56	6	0.09	0.56	0.00	0.00%	1.85%
Sub-Total: Distribution (excluding pass through)			12.80			12.67	-0.13	-0.98%	42.06%
Retail Transmission Rate – Network Service Rate	156	0.0068	1.06	156	0.0068	1.06	0.00	0.00%	3.53%
Retail Transmission Rate – Line and Transformation Connection S	156	0.0051	0.80	156	0.0051	0.80	0.00	0.00%	2.65%
Sub-Total: Retail Transmission			1.86			1.86	0.00	0.00%	6.18%
Sub-Total: Delivery			14.66			14.53	-0.13	-0.85%	48.24%
Wholesale Market Service Rate	156	0.0044	0.69	156	0.0044	0.69	0.00	0.00%	2.29%
Rural Rate Protection Charge	156	0.0013	0.20	156	0.0013	0.20	0.00	0.00%	0.68%
Standard Supply Service – Administration Charge (if applicable)	1	0.25	0.25	1	0.25	0.25	0.00	0.00%	0.83%
Sub-Total: Regulatory			1.14			1.14	0.00	0.00%	3.79%
Debt Retirement Charge (DRC)	150	0.007	1.05	150	0.007	1.05	0.00	0.00%	3.49%
Total Bill on Two-Tier RPP (before Taxes)			29.75			29.62	-0.13	-0.42%	98.33%
HST		0.13	3.87		0.13	3.85	-0.02	-0.42%	12.78%
Total Bill (including HST)			33.62			33.48	-0.14	-0.42%	111.11%
Ontario Clean Energy Benefit (OCEB)		-0.10	-3.36		-0.10	-3.35	0.01	-0.42%	-11.11%
Total Bill on Two-Tier RPP (including HSTand OCEB)			30.26			30.13	-0.13	-0.42%	100.00%

Hydro One Woodstock

TARIFF OF RATES AND CHARGES

Effective and Implementation Date **XXX X, 2014**

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

RESIDENTIAL SERVICE CLASSIFICATION

This classification applies to an account taking electricity at 750 volts or less where the electricity is used exclusively in a separate metered living accommodation. Customers shall be residing in single-dwelling units that consist of a detached house or one unit of a semi-detached, duplex, triplex or quadruplex house, with a residential zoning. Separately metered dwellings within a town house complex or apartment building also qualify as residential customers. Further servicing details are available in the distributor's Conditions of Service

APPLICATION

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.

No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.

Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable. In addition, the charges in the MONTHLY RATES AND CHARGES - Regulatory Component of this schedule do not apply to a customer that is an embedded wholesale market participant.

It should be noted that this schedule does not list any charges, assessments or credits that are required by law to be invoiced by a distributor and that are not subject to Board approval, such as the Debt Retirement Charge, the Global Adjustment, the Ontario Clean Energy Benefit and the HST.

MONTHLY RATES AND CHARGES - Delivery Component

Service Charge	\$	12.98
Rate Rider for Smart Metering Entity Charge - effective until October 31, 2018	\$	0.79
Rate Rider for Recovery of Smart Meter Incremental Revenue Requirements - in effect until the effective date of the next cost of service application	\$	0.64
Fixed Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$	(0.13)
Distribution Volumetric Rate	\$/kWh	0.0222
Volumetric Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$/kWh	(0.0002)
Rate Rider for Recovery of Incremental Capital – in effect until the effective date of the next cost of service application	\$/kWh	0.0008
Rate Rider for Disposition of Deferral/Variance Accounts (2014) - effective until April 30, 2015	\$/kWh	(0.0012)
Rate Rider for Disposition of Global Adjustment Account (2014) - effective until April 30, 2015		
Applicable only for Non-RPP Customers		
Retail Transmission Rate - Network Service Rate	\$/kWh	(0.0018)
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kWh	0.0075
	\$/kWh	0.0054

MONTHLY RATES AND CHARGES - Regulatory Component

Wholesale Market Service Rate	\$/kWh	0.0044
Rural or Remote Electricity Rate Protection Charge (RRRP)	\$/kWh	0.0013
Standard Supply Service - Administrative Charge (if applicable)	\$	0.25

Hydro One Woodstock

TARIFF OF RATES AND CHARGES

Effective and Implementation Date **XXX X, 2014**

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION

This classification applies to a non residential account taking electricity at 750 volts or less whose average monthly maximum demand is less than, or is forecast to be less than, 50 kW. Further servicing details are available in the distributor's Conditions of Service.

APPLICATION

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.

No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.

Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable. In addition, the charges in the MONTHLY RATES AND CHARGES - Regulatory Component of this schedule do not apply to a customer that is an embedded wholesale market participant.

It should be noted that this schedule does not list any charges, assessments or credits that are required by law to be invoiced by a distributor and that are not subject to Board approval, such as the Debt Retirement Charge, the Global Adjustment, the Ontario Clean Energy Benefit and the HST.

MONTHLY RATES AND CHARGES - Delivery Component

Service Charge	\$	25.19
Rate Rider for Smart Metering Entity Charge - effective until October 31, 2018	\$	0.79
Rate Rider for Recovery of Smart Meter Incremental Revenue Requirements - in effect until the effective date of the next cost of service application	\$	4.24
Fixed Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$	(0.25)
Distribution Volumetric Rate	\$/kWh	0.0145
Volumetric Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$/kWh	(0.0001)
Rate Rider for Recovery of Incremental Capital – in effect until the effective date of the next cost of service application	\$/kWh	0.0007
Rate Rider for Disposition of Deferral/Variance Accounts (2014) - effective until April 30, 2015	\$/kWh	(0.0012)
Rate Rider for Disposition of Global Adjustment Account (2014) - effective until April 30, 2015		
Applicable only for Non-RPP Customers	\$/kWh	(0.0018)
Retail Transmission Rate - Network Service Rate	\$/kWh	0.0068
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kWh	0.0051

MONTHLY RATES AND CHARGES - Regulatory Component

Wholesale Market Service Rate	\$/kWh	0.0044
Rural or Remote Electricity Rate Protection Charge (RRRP)	\$/kWh	0.0013
Standard Supply Service - Administrative Charge (if applicable)	\$	0.25

Hydro One Woodstock

TARIFF OF RATES AND CHARGES

Effective and Implementation Date **XXX X, 2014**

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

GENERAL SERVICE 50 TO 999 KW SERVICE CLASSIFICATION

This classification applies to a non residential account whose average monthly maximum demand used for billing purposes is equal to or greater than, or is forecast to be equal to or greater than, 50 kW but less than 1,000 kW. Further servicing details are available in the distributor's Conditions of Service.

APPLICATION

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.

No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.

Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable. In addition, the charges in the MONTHLY RATES AND CHARGES - Regulatory Component of this schedule do not apply to a customer that is an embedded wholesale market participant.

It should be noted that this schedule does not list any charges, assessments or credits that are required by law to be invoiced by a distributor and that are not subject to Board approval, such as the Debt Retirement Charge, the Global Adjustment, the Ontario Clean Energy Benefit and the HST.

MONTHLY RATES AND CHARGES - Delivery Component

Service Charge	\$	139.96
Fixed Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$	(1.40)
Distribution Volumetric Rate	\$/kW	2.5777
Volumetric Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$/kW	(0.0258)
Rate Rider for Recovery of Incremental Capital – in effect until the effective date of the next cost of service application	\$/kW	0.3251
Rate Rider for Disposition of Deferral/Variance Accounts (2014) - effective until April 30, 2015	\$/kW	(0.4520)
Rate Rider for Disposition of Global Adjustment Account (2014) - effective until April 30, 2015		
Applicable only for Non-RPP Customers	\$/kW	(0.6347)
Retail Transmission Rate - Network Service Rate	\$/kW	2.9187
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kW	2.1784

MONTHLY RATES AND CHARGES - Regulatory Component

Wholesale Market Service Rate	\$/kWh	0.0044
Rural or Remote Electricity Rate Protection Charge (RRRP)	\$/kWh	0.0013
Standard Supply Service - Administrative Charge (if applicable)	\$	0.25

Hydro One Woodstock

TARIFF OF RATES AND CHARGES

Effective and Implementation Date **XXX X, 2014**

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

GENERAL SERVICE GREATER THAN 1,000 KW SERVICE

This classification applies to a non-residential account whose average monthly maximum demand used for billing purposes is equal to or greater than, or is forecast to be equal to or greater than, 1,000 kW. Further servicing details are available in the distributor's Conditions of Service

APPLICATION

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.

No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.

Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable. In addition, the charges in the MONTHLY RATES AND CHARGES - Regulatory Component of this schedule do not apply to a customer that is an embedded wholesale market participant.

It should be noted that this schedule does not list any charges, assessments or credits that are required by law to be invoiced by a distributor and that are not subject to Board approval, such as the Debt Retirement Charge, the Global Adjustment, the Ontario Clean Energy Benefit and the HST.

MONTHLY RATES AND CHARGES - Delivery Component

Service Charge	\$	518.85
Fixed Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$	(5.19)
Distribution Volumetric Rate	\$/kW	2.7398
Volumetric Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$/kW	(0.0274)
Rate Rider for Recovery of Incremental Capital – in effect until the effective date of the next cost of service application	\$/kW	0.4795
Rate Rider for Disposition of Deferral/Variance Accounts (2014) - effective until April 30, 2015	\$/kW	(0.5640)
Rate Rider for Disposition of Global Adjustment Account (2014) - effective until April 30, 2015		
Applicable only for Non-RPP Customers	\$/kW	(0.7884)
Retail Transmission Rate - Network Service Rate	\$/kW	2.9187
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kW	2.1784

MONTHLY RATES AND CHARGES - Regulatory Component

Wholesale Market Service Rate	\$/kWh	0.0044
Rural or Remote Electricity Rate Protection Charge (RRRP)	\$/kWh	0.0013
Standard Supply Service - Administrative Charge (if applicable)	\$	0.25

Hydro One Woodstock

TARIFF OF RATES AND CHARGES

Effective and Implementation Date **XXX X, 2014**

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION

This classification applies to an account taking electricity at 750 volts or less whose average monthly maximum demand is less than, or is forecast to be less than, 50 kW and the consumption is unmetered. Such connections include cable TV power packs, bus shelters, telephone booths, traffic lights, railway crossings, etc. The level of the consumption will be agreed to by the distributor and the customer, based on detailed manufacturer information/ documentation with regard to electrical consumption of the unmetered load or periodic monitoring of actual consumption. Further servicing details are available in the distributor's Conditions of Service.

APPLICATION

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.

No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.

Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable. In addition, the charges in the MONTHLY RATES AND CHARGES - Regulatory Component of this schedule do not apply to a customer that is an embedded wholesale market participant.

It should be noted that this schedule does not list any charges, assessments or credits that are required by law to be invoiced by a distributor and that are not subject to Board approval, such as the Debt Retirement Charge, the Global Adjustment, the Ontario Clean Energy Benefit and the HST.

MONTHLY RATES AND CHARGES - Delivery Component

Service Charge	\$	10.53
Fixed Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$	(0.11)
Distribution Volumetric Rate	\$/kWh	0.0122
Volumetric Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$/kWh	(0.0001)
Rate Rider for Recovery of Incremental Capital – in effect until the effective date of the next cost of service application	\$/kWh	0.0008
Rate Rider for Disposition of Deferral/Variance Accounts (2014) - effective until April 30, 2015	\$/kWh	(0.0012)
Retail Transmission Rate - Network Service Rate	\$/kWh	0.0068
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kWh	0.0051

MONTHLY RATES AND CHARGES - Regulatory Component

Wholesale Market Service Rate	\$/kWh	0.0044
Rural or Remote Electricity Rate Protection Charge (RRRP)	\$/kWh	0.0013
Standard Supply Service - Administrative Charge (if applicable)	\$	0.25

Hydro One Woodstock

TARIFF OF RATES AND CHARGES

Effective and Implementation Date **XXX X, 2014**

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

STREET LIGHTING SERVICE CLASSIFICATION

This classification applies to an account for roadway lighting with a Municipality, Regional Municipality, Ministry of Transportation and private roadway lighting, controlled by photo cells. The consumption for these customers will be based on the calculated connected load times the required lighting times established in the approved OEB street lighting load shape template. Further servicing details are available in the distributor's Conditions of Service

APPLICATION

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.

No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.

Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable. In addition, the charges in the MONTHLY RATES AND CHARGES - Regulatory Component of this schedule do not apply to a customer that is an embedded wholesale market participant.

It should be noted that this schedule does not list any charges, assessments or credits that are required by law to be invoiced by a distributor and that are not subject to Board approval, such as the Debt Retirement Charge, the Global Adjustment, the Ontario Clean Energy Benefit and the HST.

MONTHLY RATES AND CHARGES - Delivery Component

Service Charge	\$	3.09
Fixed Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$	(0.03)
Distribution Volumetric Rate	\$/kW	12.4552
Volumetric Acquisition Rate Rider – in effect until the effective date of the next cost of service application	\$/kW	(0.1246)
Rate Rider for Recovery of Incremental Capital – in effect until the effective date of the next cost of service application	\$/kW	0.2187
Rate Rider for Disposition of Deferral/Variance Accounts (2014) - effective until April 30, 2015	\$/kW	(0.3501)
Rate Rider for Disposition of Global Adjustment Account (2014) - effective until April 30, 2015		
Applicable only for Non-RPP Customers	\$/kW	(0.6283)
Retail Transmission Rate - Network Service Rate	\$/kW	2.1541
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kW	1.6078

MONTHLY RATES AND CHARGES - Regulatory Component

Wholesale Market Service Rate	\$/kWh	0.0044
Rural or Remote Electricity Rate Protection Charge (RRRP)	\$/kWh	0.0013
Standard Supply Service - Administrative Charge (if applicable)	\$	0.25

Hydro One Woodstock

TARIFF OF RATES AND CHARGES

Effective and Implementation Date **XXX X, 2014**

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

microFIT SERVICE CLASSIFICATION

This classification applies to an electricity generation facility contracted under the Ontario Power Authority's microFIT program and connected to the distributor's distribution system. Further servicing details are available in the distributor's Conditions of Service.

APPLICATION

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.

No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.

Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable.

It should be noted that this schedule does not list any charges, assessments or credits that are required by law to be invoiced by a distributor and that are not subject to Board approval, such as the Debt Retirement Charge, the Global Adjustment, the Ontario Clean Energy Benefit and the HST.

MONTHLY RATES AND CHARGES - Delivery Component

Service Charge	\$	5.40
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Hydro One Woodstock

TARIFF OF RATES AND CHARGES

Effective and Implementation Date **XXX X, 2014**

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

ALLOWANCES

Transformer Allowance for Ownership - per kW of billing demand/month	\$/kW	(0.60)
Primary Metering Allowance for transformer losses – applied to measured demand and energy	%	(1.00)

SPECIFIC SERVICE CHARGES

APPLICATION

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.

No charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.

It should be noted that this schedule does not list any charges, assessments, or credits that are required by law to be invoiced by a distributor and that are not subject to Board approval, such as the Debt Retirement Charge, the Global Adjustment, the Ontario Clean Energy Benefit and the HST.

Customer Administration

Notification charge	\$	15.00
Returned cheque (plus bank charges)	\$	15.00
Legal letter	\$	15.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	\$	30.00
Meter dispute charge plus Measurement Canada fees (if meter found correct)	\$	30.00
Statement of Account	\$	15.00
Account History	\$	15.00

Non-Payment of Account

Late Payment – per month	%	1.50
Late Payment – per annum	%	19.56
Collection of account charge – no disconnection	\$	30.00
Disconnect/Reconnect Charge – At Meter – During Regular Hours	\$	65.00
Disconnect/Reconnect Charge – At Meter – After Hours	\$	185.00
Install/Remove load control device – during regular hours	\$	65.00
Install/Remove load control device – after regular hours	\$	185.00
Special meter reads	\$	30.00
Specific Charge for Access to the Power Poles - \$/pole/year	\$	22.35

Hydro One Woodstock

TARIFF OF RATES AND CHARGES

Effective and Implementation Date **XXX X, 2014**

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

RETAIL SERVICE CHARGES (if applicable)

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.

No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.

Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable.

It should be noted that this schedule does not list any charges, assessments, or credits that are required by law to be invoiced by a distributor and that are not subject to Board approval, such as the Debt Retirement Charge, the Global Adjustment, the Ontario Clean Energy Benefit and the HST.

Retail Service Charges refer to services provided by a distributor to retailers or customers related to the supply of competitive electricity.

One-time charge, per retailer, to establish the service agreement between the distributor and the retailer	\$	100.00
Monthly Fixed Charge, per retailer	\$	20.00
Monthly Variable Charge, per customer, per retailer	\$/cust.	0.50
Distributor-consolidated billing monthly charge, per customer, per retailer	\$/cust.	0.30
Retailer-consolidated billing monthly credit, per customer, per retailer	\$/cust.	(0.30)
Service Transaction Requests (STR)		
Request fee, per request, applied to the requesting party	\$	0.25
Processing fee, per request, applied to the requesting party	\$	0.50
Request for customer information as outlined in Section 10.6.3 and Chapter 11 of the Retail Settlement Code directly to retailers and customers, if not delivered electronically through the Electronic Business Transaction (EBT) system, applied to the requesting party		
Up to twice a year	\$	no charge
More than twice a year, per request (plus incremental delivery costs)	\$	2.00

LOSS FACTORS

If the distributor is not capable of prorating changed loss factors jointly with distribution rates, the revised loss factors will be implemented upon the first subsequent billing for each billing cycle.

Total Loss Factor – Secondary Metered Customer < 5,000 kW	1.0431
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0145
Distribution Loss Factor - Primary Metered Customer < 5,000 kW	1.0326
Distribution Loss Factor - Primary Metered Customer > 5,000 kW	1.0044