McCarthy Tétrault LLP
PO Box 48, Suite 5300
Toronto-Dominion Bank Tower
Toronto ON M5K 1E6
Canada
Tel: 416-362-1812
Fax: 416-868-0673

Gordon M. Nettleton
Partner
Email: gnettleton@mccarthy.ca

December 22, 2016

VIA RESS AND COURIER

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

Dear Ms. Walli:

RE: EB-2016-0160 Hydro One Networks Inc. ("Hydro One") Transmission Rates Application – Responses to Undertakings J11.1, J11.3, J11.4, J11.7, J11.10, J11.11, J11.12, J11.13, J11.14, J11.15, J11.16, J11.17, J11.18, J11.19, J11.20, and J11.23

Hydro One's responses to Undertakings J11.1, J11.3, J11.4, J11.7, J11.10, J11.11, J11.12, J11.13, J11.14, J11.15, J11.16, J11.17, J11.18, J11.19, J11.20, and J11.23 are enclosed.

Yours truly,

McCarthy Tétrault LLP

Signed in the original

Gordon M. Nettleton

GMN

UNDERTAKING – J11.7

Undertaking

To confirm that the 2022 estimate for transmission capital was effectively a placeholder, and to provide whatever information available for the number used in the financial projections for transmission capital in 2022, and to provide supporting information by category, if any.

Response

The 2022 transmission capital is planned at the level of precision that is indicative of expected business requirements for that year based on currently available information.

	2022
Sustainment	1,086
Development	268
Operating	42
Common Corporate Costs and Other	73
Total Transmission Capital	**1,469**

Witness: Mike Penstone

UNDERTAKING – J11.1

Undertaking

To update Board Staff IR 9.7:

> Provide the accounting entries of the departure tax and deferred tax asset that is reported in the Consolidated Hydro One Limited's 2015 Annual Report.

Response

Hydro One Limited's 2015 Annual Report reflects the revaluation of the tax basis of the assets of Hydro One Inc. and its subsidiaries to fair market value, resulting in the payment of the departure tax and creation of the deferred tax asset. (The 2015 Annual Report is provided as Attachment 1 to Exhibit A, Tab 8, Schedule 1.)

The following were the accounting entries pertaining to the departure tax and deferred tax asset:

Departure Tax Expense		
DR	Income Taxes - Expense	2,600,000,000
CR	Cash	(2,600,000,000)
Deferred Tax Asset		
DR	Deferred Income Tax Assets	1,263,000,000
DR	Deferred Income Tax Liabilities	1,356,000,000
CR	Income Taxes – (Recovery)	(2,619,000,000)

Witness: Glendy Cheung

UNDERTAKING – J11.3

Undertaking

Provide the original working documents, working papers that would have gone to the external auditors for review on an aggregate sense; and then the further calculations that had been done for the purpose of this proceeding that would separate between transmission and distribution.

Response

Refer to Attachment 1 for a summary of the deferred tax asset of $2,595 million for Hydro One Networks Inc. ("HONI") for the Transmission, Distribution and Norfolk regulated business of HONI. The deferred tax asset arising from revaluation of the assets in Transmission and Distribution (including Norfolk) regulated business is $1,475 million and $1,120 million, respectively.

Refer to Attachment 2 for the working paper schedules that were provided to the external auditors for the review of the deferred tax asset/recovery of HONI.

HYDRO ONE NETWORKS INC.
SUMMARY OF DEFERRED TAX ASSET BY SEGMENT
OCTOBER 31, 2015
($ Millions)

	FMV	Tax Basis	FMV in excess of Tax Basis	Tax Rate	Total
Transmission					
Fixed Assets	9,965	6,482	3,483	26.5%	923
Goodwill*	2,692	51	1,968	26.5%	522
Construction in Progress	116	-	116	26.5%	31
Deferred Tax Asset	**12,773**	**6,533**	**5,567**		**1,475**
Distribution					
Fixed Assets	7,121	4,845	2,277	26.5%	603
Goodwill*	2,455	26	1,815	26.5%	481
Construction in Progress	80	-	80	26.5%	21
Deferred Tax Asset	**9,656**	**4,871**	**4,171**		**1,105**
Norfolk					
Fixed Assets	55	-	55	26.5%	15
Goodwill*	-	-	-	26.5%	-
Construction in Progress	-	-	-	26.5%	-
Deferred Tax Asset	**55**	-	**55**		**15**
Hydro One Networks Inc.					
Fixed Assets	17,142	11,327	5,815	26.5%	1,541
Goodwill*	5,147	77	3,783	26.5%	1,003
Construction in Progress	196	-	196	26.5%	52
Deferred Tax Asset	**22,484**	**11,404**	**9,794**		**2,595**

* Only 75% of the goodwill is included in cumulative eligible capital pool. As such, the FMV in excess of Tax Basis is calculated as 75% of the FMV less the Tax Basis.

In million of $

Estimated Taxes		**SCENARIO A** 14B FV Actual Oct UCC Revised October 30th
Estimated Future tax benefit - HONI	Fixed Asset	(1,540.9)
Estimated Future tax benefit - HONI	ECE	(1,002.9)
Estimated Future tax benefit - CIP		(51.6)

Schedule 1B
Hydro One Inc.
Estimate valuation of selected legal entities
DRAFT - FOR DISCUSSION PURPOSES ONLY
Valuation summary - Property, plant and equipment
As at October 31, 2015

CAD

Hydro One Networks Inc.					
1200					**Current**
Allocation Category		**UCC Class**	**FV**	**UCC Class**	**FV**
1200 - 210 - 0	210 - Land	0	928,365,041	0	1,359,160,362
1200 - 210 - 01	210	1	3,085,049,985	1	5,290,463,996
1200 - 210 - 02	210	2	2,171,802,860	2	3,256,786,260
1200 - 210 - 03	210	3	277,387,773	3	315,024,006
1200 - 210 - 06	210	6	70,261,949	6	86,788,484
1200 - 210 - 08	210	8	68,692,658	8	182,006,347
1200 - 210 - 10	210	10	110,850	10	318,659,892
1200 - 210 - 10(f)	210	10(f)	45,534,630	10(f)	46,394,765
1200 - 210 - 12	210	12	10,355,924	12	15,247,786
1200 - 210 - 13	210	13	6,302	13	12,399,267
1200 - 210 - 17	210	17	84,199,832	17	101,185,216
1200 - 210 - 42	210	42	130,311,966	42	130,388,583
1200 - 210 - 45	210	45	16,752,200	45	24,066,540
1200 - 210 - 46	210	46	2,733,086	46	9,556,920
1200 - 210 - 47	210	47	3,439,979,554	47	6,622,404,724
1200 - 210 - 50	210	50	196,106,499	50	273,045,252
1200 - 210 - 52	210	52	15,518,400	52	15,898,502
1200 - 210 - 98	210	98	16,163,239	98	17,738,050
1200 - 210 - 99	210	99	503,433,501	99	535,105,641
1200 - 210 - BM/Suspense	210 - Suspense	BM/Suspense 210	140,587,082	BM/Suspense 210	140,587,082
1200 - 210 - CIP	210	CIP 210	971,350,687	CIP 210	971,350,687
1200 - 215 - 01	215	1	-	BM/Suspense 220	270,118,072
1200 - 215 - 10(f)	215	10(f)	-	CIP 220	346,188,140
1200 - 215 - 47	215	47	1,056	Eligible Capital Expenditure (ECE)	-
1200 - 220 - 0	220 - Land	0	405,427,770	BM/Suspense 222	-
1200 - 220 - 01	220	1	2,185,671,082	CIP 222	-
1200 - 220 - 02	220	2	1,084,983,400	9	19,289,475
1200 - 220 - 03	220	3	37,369,887	134	-
1200 - 220 - 06	220	6	15,306,117	BM/Suspense 300	(407,120,776)
1200 - 220 - 08	220	8	60,273,905	CIP 300	-
1200 - 220 - 10	220	10	12,480,350	FUTURE USE 210	32,617,384
1200 - 220 - 10(f)	220	10(f)	854,180	FUTURE USE 220	50,880,159
1200 - 220 - 12	220	12	3,723,791		
1200 - 220 - 13	220	13	1,249,635		
1200 - 220 - 17	220	17	14,750,518		
1200 - 220 - 42	220	42	76,617		
1200 - 220 - 45	220	45	598,900		
1200 - 220 - 46	220	46	416,461		
1200 - 220 - 47	220	47	3,149,293,423		
1200 - 220 - 50	220	50	18,279,218		
1200 - 220 - 52	220	52	355,400		
1200 - 220 - 98	220	98	1,574,810		
1200 - 220 - 99	220	99	31,672,140		
1200 - 220 - BM/Suspense	220 - Suspense	BM/Suspense 220	270,118,072		
1200 - 220 - CIP	220	CIP 220	346,188,140		
1200 - 220 - ECE	220	Eligible Capital Expenditure (ECE)			
1200 - 300 - 0	300 - Land	0	25,367,551		
1200 - 300 - 01	300	1	19,742,928		
1200 - 300 - 03	300	3	266,346		
1200 - 300 - 06	300	6	1,220,419		
1200 - 300 - 08	300	8	53,039,783		
1200 - 300 - 09	300	9	19,289,475		
1200 - 300 - 10	300	10	306,068,692		
1200 - 300 - 10(f)	300	10(f)	5,955		
1200 - 300 - 12	300	12	1,168,070		
1200 - 300 - 134	300	13	11,143,330		
1200 - 300 - 17	300	17	2,234,867		
1200 - 300 - 45	300	45	6,715,440		
1200 - 300 - 46	300	46	6,407,373		
1200 - 300 - 47	300	47	492,820		
1200 - 300 - 50	300	50	58,659,536		
1200 - 300 - 52	300	52	24,702		
1200 - 300 - BM/Suspense	300 - Suspense	BM/Suspense 300	(407,120,776)		
1200 - 300 - CIP	300	CIP 300	-		
1200 - FUTURE USE - 210	300 - Future use	FUTURE USE 210	32,617,384		
1200 - FUTURE USE - 220	300 - Future use	FUTURE USE 220	50,880,159		
1200- 210 - ECE		Eligible Capital Expenditure (ECE)			
Capital contributions	210	47	32,637,871		
Total fair value without land			**18,589,988,533**		**18,589,988,533**
Total fair value of fixed assets			**20,036,230,816**		**20,036,230,816**
Rounded Fair Value			**20,036,200,000**		**20,036,200,000**

	UCC Class	HONI	(in Millions)	Intangibles	TOTAL
	1	5,290,463,996	5,290		5,290
	2	3,256,786,260	3,257		3,257
	3	315,024,006	315		315
	6	86,788,484	87		87
	8	182,006,347	182		182
	9	19,289,475	19		19
	10	365,054,657	365		365
	12	15,247,786	15	363	378
	13	12,399,267	12		12
	17	101,185,216	101		101
	42	130,388,583	130		130
	45	24,066,540	24		24
	46	9,556,920	10		10
	47	6,625,989,102	6,626		6,626
	50	273,045,252	273		273
	52	15,898,502	16		16
	98	17,738,050	18		18
	99	535,105,641	535		535
	-	1,359,160,362	1,359		1,359
Fixed Assets in Service		18,635,194,446	18,635	363	18,998
Future Use		83,497,543	83	-	83
CIP		1,317,538,827	1,318	-	1,318
TOTAL		**20,036,230,816**	**20,036**	**363**	**20,399**

	TX	DX	NPDI	Total
TOTAL FMV OF FIXED ASSETS PER DELOITTE VALUATION	12,323,398,020	7,712,832,795		20,036,230,816
Add- Class 12 per Deloitte Valuation	107,677,767	255,279,976		362,957,743
	12,431,075,787	7,968,112,771	-	20,399,188,558
Less-				
Class 98	(16,163,239)	(1,574,810)		(17,738,050)
Class 99	(503,433,501)	(31,672,140)		(535,105,641)
Land	(928,365,041)	(405,427,770)		(1,333,792,811)
Land- BU300	(14,459,504)	(10,908,047)		(25,367,551)
Future use	(32,617,384)	(50,880,159)		(83,497,543)
CIP	(971,350,687)	(346,188,140)		(1,317,538,827)
				-
	9,964,686,431	7,121,461,704	-	17,086,148,136
Add- NPDI	-	-	55,415,575	55,415,575
	9,964,686,431	7,121,461,704	55,415,575	17,141,563,711
UCC per Oct. 31, 2015 provision	6,481,759,114	4,844,957,122	-	11,326,716,236
Excess FMV over UCC	3,482,927,317	2,276,504,582	55,415,575	5,814,847,475
Tax rate	26.50%	26.50%	26.50%	26.50%
Estimated future tax benefit - Fixed Assets	**922,975,739**	**603,273,714**	14,685,127	1,540,934,581

HYDRO ONE NETWORKS
ESTIMATED DEPARTURE TAX
31-Oct-15
STEP 4 - DETERMINATION OF GOODWILL FMV IN HONI

FMV of shares of HONI	**FROM "1- HOI Departure Tax Tab"**	13,331
FMV of shares of NPDI		59
		13,389
Add		
Liabilities reported on HONI B/S other than regulatory and environmental and some deferred costs		13,033
Intercompany Demand Facility		1,377
Norfolk Liabilities		37
FMV to be allocated to HONI gross assets		27,836

Allocation of FMV to identifiable assets			HONI	NPDI		
			FMV	FMV	FMV	Tax Base
	FIXED ASSET - HONI					
Fixed Asset	Fixed Asset	20,399	18,998	56	19,054	11,660
Construction in progress	Less CIP	(1,318)	1,318	1	1,319	1,123
Future Use Assets	Less Future Use	(83)	83		83	83
Cash	Fixed Assets	18,998		3	3	3
Regulatory Assets			1,733	9	1,742	1,742
Accounts Receivable (External)			992		992	992
Deferred Tax Asset					-	-
Materials and supplies			20		20	20
Other current assets			12		12	12
Deferred Debt Issuacne Costs			-		-	-
Goodwill - Per Deloitte F/S			4,585	27	4,612	76
						-
SUBTOTAL - Assets allocated value other than goodwill			27,741	95	27,836	15,710
					-	Inclusion Rate
						Applicable Tax Rate

Note A - This represents amounts capitalized for accounting, but deducted for tax. Under an agreement with the Ministry of Finance, 1/3 of the capitalized amounts deducted for tax are reduced for the UCC pool every year. Therefore, the tax basis on CIP will be lower than acconutin for the capitalized amounts that have not moved to UCC.

STEP 4.1 - DETERMINATION OF CAPITAL GAIN AND RECAPTURE IN HON

Determination of Fair Market Value of Fixed Assets in HONI at December 31, 2015:
The Net Book Value is assumed to Approximate Fair Market Value (pending valuation). The Net Book Value at December has been estimated by taking the actual NBV at the end of June

Determination of UCC of Fixed Assets in HONI at December 31, 2015:
The UCC is based upon the tax provision for Hydro One Networks as at December 31, 2014.
The UCC is then adjusted for additions from January to June 30, 2015

Determination of Capital Cost Fixed Assets in HONI at December 31, 2015:
Capital Cost for 2014 was computed by taking the ending UCC as of December 31, 2014 and adding back all the CCA since inception.
The Capital Cost was computed for June 30, 2015 by adding back the adds from January to June 2015

	(Norfolk and HONI) (A)	(Norfolk and HONI) (B)	(Norfolk and HONI) (C)	(A) - (B) (only if positive)	Lower of (A) and (B) Less (C)	
CCA Class	**Estimated FMV (OCTOBER 31)**	**Cap Costs**	**UCC**	**Capital Gain**	**Recapture**	**ECE Recapture**
1	5,291.1	6,631	3,659	-	1,632	
2	3,259.2	2,191	827	1,068	1,364	
3	315.0	468	265	-	50	
6	86.8	167	94	-	(8)	
8	182.3	523	255	-	(72)	
9	19.3	19	6	0	14	
10	365.7	1,040	211	-	155	
12	378.2	987	25	-	353	
13	12.4	29	21	-	(8)	
17	101.2	116	88	-	13	
42	130.4	232	82	-	49	
45	24.1	49	0	-	24	
46	9.6	45	17	-	(7)	
47	6,677.3	7,679	5,648	-	1,029	
50	273.1	440	129	-	144	
52	15.9	97	-	-	16	
Total UCC	17,142	20,712	11,327	1,068	4,747	-
ECE	535.4		76			2,573
	-					
Landscaping	17.7	18	-	18	-	-
Land	1,359.2	333	333	1,026	-	-
Grand Total	19,054	21,063	11,736	**2,112**	**4,747**	**2,573**
	(Reconciles to above)					

Note 1					TX	DX
Goodwill	4094	4,612	Per Tab 1		2,162	2,450
NBV of easements		535	Per Above		530	4.98
Estimated Proceeds		5,147			2,692	2,455
Pro-rated		75.0%			75%	75%
		3,860			2,019	1,841
CEC Balance		75.5			51	26
Gain		3,785		-1002.91235	1,968	1,815
Previous Depreciation		(151)			(102)	(52)
Amount Taxable		3,634			1,866	1,763
Inclusion Rate		67%			67%	67%
ECE GAIN		**2,423**			1,244	1,175
ADD PREVIOUS ECE DEDUCTION		**151**			102	52
TOTAL		**2,573**			1,346	1,227

INCLUSI
R
Ta

	HONI -per deloitte	NPDI	TOTAL HONI
	Estimated FMV (OCTOBER 31)	**Estimated FMV (OCTOBER 31)**	**Estimated FMV (OCTOBER 31)**
1	5,290	0.6	5,291.1
2	3,257	2.4	3,259.2
3	315		315.0
6	87	0.0	86.8
8	182	0.3	182.3
9	19		19.3
10	365	0.7	365.7
12	378	0.0	378.2
13	12		12.4
17	101	-	101.2
42	130	-	130.4
45	24	-	24.1
46	10	-	9.6
47	6,626	51.3	6,677.3
50	273	0.0	273.1
52	16		15.9
	17,086.1	55.4	17,141.6
ECE	535	0.3	535.4
		-	-
Landscaping	18	-	17.7
Land	1,359	-	1,359.2
	18,998.2	**55.7**	**19,053.9**
			-

HONI UCC deduction

ACCOUNTING
42307

Mapping
Schedule 1

2015

Division Factor 3.00

CURRENT YEAR	**(PASTE VALUES IN BLUE TEXT)**	**Specific Notes**	**Ref**	**TOTAL Transmission**	**TOTAL Distribution**	**TOTAL NETWORKS**	**Current Year Transmission**	**Distribution**	**TOTAL**	**Subsequent Year 1**	**Subsequent Year 2**	**Cumulative Three Years**	**Reconciliation**
	Interest adjustment to UCC		Note 5	(30,585,856.59)	(11,813,069.46)	(42,398,926.05)	(10,195,285.53)	(3,937,689.82)	(14,132,975.35)	(14,132,975.35)	(14,132,975.35)	(42,398,926.05)	0.00
	Depreciation reduction to UCC		Note 8	(7,321,478.13)	(14,364,693.05)	(21,686,171.18)	(2,440,492.71)	(4,788,231.02)	(7,228,723.73)	(7,228,723.73)	(7,228,723.73)	(21,686,171.18)	0.00
	OPEB reduction to UCC		Note 1	(24,348,512.30)	(32,275,935.09)	(56,624,447.39)	(8,116,170.77)	(10,758,645.03)	(18,874,815.80)	(18,874,815.80)	(18,874,815.80)	(56,624,447.39)	0.00
	Potential Pension reduction to UCC		Note 26	(39,121,594.00)	(42,491,619.00)	(81,613,213.00)	(13,040,531.33)	(14,163,873.00)	(27,204,404.33)	(27,204,404.33)	(27,204,404.33)	(81,613,213.00)	0.00
	Removal Cost added to income via depn		Note 8	24,856,842.56	47,470,812.03	72,327,654.59	8,285,614.19	15,823,604.01	24,109,218.20	24,109,218.20	24,109,218.20	72,327,654.59	0.00
	less amount "deducted" on Sch 1		Note 8	(3,794,880.74)	(2,383,950.73)	(6,178,831.47)	(1,264,960.25)	(794,650.24)	(2,059,610.49)	(2,059,610.49)	(2,059,610.49)	(6,178,831.47)	0.00
	Capitalized overhead reduction to UCC		Note 25	(27,444,414.02)	(19,925,861.09)	(47,370,275.11)	(9,148,138.01)	(6,641,953.70)	(15,790,091.70)	(15,790,091.70)	(15,790,091.70)	(47,370,275.11)	0.00
		CY adjustment to UCC					**(35,919,964.41)**	**(25,261,438.80)**	**(61,181,403.20)**				
PRIOR YEAR IMPACTS													
	Prior year 1	2014					(44,174,137.16)	(29,151,780.59)	(73,325,917.74)	(73,325,917.74)			
	Prior year 2	2013					(45,494,623.13)	(25,757,622.08)	(71,252,245.21)				
TOTAL adjustments made to UCC adds				**(107,759,893.22)**	**(75,784,316.39)**	**(183,544,209.61)**	**(125,588,724.70)**	**(80,170,841)**	**(205,759,566)**	**(134,507,321)**	**(61,181,403)**	**(183,544,210)**	

TX	**(116,014,066)**
DX	**(79,674,658)**
Ending Pool Value	**(195,688,724)**

UNDERTAKING – J11.4

Undertaking

Reconcile the first line in the table of fixed assets in Exhibit J1.3, Attachment 1. The difference between the fair market value and the tax base should equal to the recapture and capital gain on the deemed disposition of the fixed assets.

Response

The fair market value of the fixed assets reflected in the first line of the table in Exhibit J1.3, Attachment 1 included $537 million relating to easements that should have been included in the fair market value of goodwill/intangibles. After this reclassification, the difference between the fair market value and the tax base now equals the sum of the recapture and capital gain on the deemed disposition of the fixed assets.

Please refer to Exhibit J11.13, Attachment 1, for the revised fair market value allocation between fixed assets and goodwill for Hydro One Networks Inc.

UNDERTAKING – J11.10

Undertaking

To respond to Exhibit K11.2 Question 1:

> Did the obligation to pay departure tax actually arise at a point in time after more than 10% of the Hydro One Limited ("HOL") shares had been sold to the public?

Response

The obligation to pay the departure tax actually arose from two sequential steps in the reorganization of Hydro One Inc. ("HOI").

The first step was on October 29, 2015, when Hydro One Limited ("HOL"), a wholly-owned subsidiary of the Province of Ontario ("Province"), entered into an agreement with a syndicate of underwriters to sell 15% (including the over-allotment option granted by the Province to the underwriters) of the outstanding common shares of HOL to the underwriters for distribution to the public. This action caused HOL to cease to be exempt from federal income tax.

The second step was on October 31, 2015, when HOL acquired all of the issued and outstanding shares of Hydro One Inc. ("HOI") from the Province. This action caused HOI and its subsidiaries to cease to be exempt from federal income tax, thereby triggering the obligation of HOI and its subsidiaries to pay a departure tax to the Ontario Electricity Financial Corporation ("OEFC").

On November 4, 2015, HOI and its subsidiaries paid the departure tax to the OEFC. (See Attachment 1 to Exhibit J11.6.) On November 5, 2015, the closing of the initial public offering of HOL occurred whereby the Province completed the sale of approximately 13.6% of the common shares of HOL to the underwriters for distribution to the public. An additional 1.4% of the common shares of HOL were sold by the Province to the underwriters on November 12, 2015 for distribution to the public upon exercise of the over-allotment option by the underwriters.

Witness: Michael Vels

UNDERTAKING – J11.11

Undertaking

To respond to Exhibit K11.2 question 2:

> Did the Province's subscription for 2.6 billion shares of Hydro One Limited (HOL) at $1 per share occur before any shares were sold to the public?
>
> Please provide a copy of the agreement whereby the Province acquired these shares from HOL.

Response

Yes, the Province subscribed for 2.6 billion shares of HOL for $1 per share on November 4, 2015, prior to any shares being sold to the public. The sale by the Province of common shares of HOL to the underwriters, pursuant to the underwriting agreement entered into on October 29, 2015, was completed on November 5, 2015. The underwriters subsequently distributed the HOL shares to the public.

It should be noted that one of the conditions to the completion of the sale of shares by the Province to the underwriters, pursuant to the underwriting agreement, was the completion of the pre-closing reorganization transactions that included the funding and payment of the departure tax.

A copy of the HOL share subscription agreement, whereby the Province subscribed for shares of HOL, is provided in Attachment 1.

Witness: Michael Vels

SHARE SUBSCRIPTION

TO: **Hydro One Limited (the "Corporation")**

The undersigned subscribes for and agrees to take up 2,600,000,000 common shares in the capital of the Corporation (the "**Shares**"), each such Share to be issued for $1.00, for an aggregate subscription amount of $2,600,000,000.

For purposes of this subscription of Shares, the undersigned certifies that it is an "affiliate" of the Corporation as that term is defined in National Instrument 45-106 – *Prospectus and Registration Exemptions*, is resident in the Province of Ontario and is purchasing the Shares as principal.

The undersigned requests that the Shares be issued forthwith and that a certificate for the Shares be issued to the undersigned.

[Signature page follows]

DATED November 4, 2015.

HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO, as represented by the Minister of Energy

By: Bob Chiarelli

Name: Bob Chiarelli

Title: Minister of Energy

UNDERTAKING – J11.12

Undertaking

To respond to Exhibit K11.2 question 3:

> Please provide a schedule that will show how the purchase of the shares for $2.6 billion is reflected in the unconsolidated financial statements of Hydro One Limited ("HOL").

Response

The $2.6 billion purchase of shares is reflected in Hydro One Limited ("HOL")'s Unconsolidated Financial Statements for the period ending November 4, 2015. Please refer to the Statements of Unconsolidated Cash Flows of HOL for the period from October 29 to November 4, 2015 in Attachment 1 that evidences the issuance of shares for $2.6 billion and the subsequent investment in subsidiaries for $2.6 billion. As reported in the Unconsolidated Statements of Shareholder's Equity of HOL for the period from October 29 to November 4, 2015, common shares having a value of $5,623 billion were issued ($2.6 billion in respect of the subscription of shares). A schedule reconciling common shares issued in the period has been provided in Attachment 2.

On November 4, 2015, HOL issued 2.6 billion common shares to the Province for proceeds of $2.6 billion.

The accounting entry to reflect the share subscription by the Province was:

DR	Cash	2,600,000,000
CR	Share Capital - Common Shares	(2,600,000,000)

Witness: Michael Vels

HYDRO ONE LIMITED

UNCONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOVEMBER 4, 2015

HYDRO ONE LIMITED
UNCONSOLIDATED BALANCE SHEETS (unaudited)
At November 4, 2015 and October 28, 2015

(thousands of Canadian dollars)	**November 4, 2015**	**October 28, 2015**
Assets		
Current assets:		
Cash and cash equivalents	100	100
Accounts receivable	4,040	4,040
	4,140	4,140
Long-term assets:		
Investment in subsidiaries	6,041,000	–
Total assets	**6,045,140**	**4,140**
Liabilities		
Current liabilities:		
Inter-company demand facility	4,040	4,040
Total liabilities	**4,040**	**4,040**
Shareholder’s quity		
Common shares	5,623,100	100
Preferred shares	418,000	–
Retained earnings	–	–
Total shareholder’s equity	**6,041,100**	**100**
Total liabilities and shareholder’s equity	**6,045,140**	**4,140**

HYDRO ONE LIMITED
UNCONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (unaudited)
For the periods from October 29, 2015 to November 4, 2015 and from August 31, 2015 to October 28, 2015

Period from October 29 to November 4, 2015 *(thousands of Canadian dollars)*	**Common Shares**	**Preferred Shares**	**Retained Earnings**	**Total Shareholder's Equity**
October 29, 2015	100	–	–	100
Net income and other comprehensive income	–	–	–	–
Preferred shares issued	–	418,000	–	418,000
Common shares issued	5,623,000	–	–	5,623,000
November 4, 2015	5,623,100	418,000	–	**6,041,100**

Period from August 31 to October 28, 2015 *(thousands of Canadian dollars)*	**Common Shares**	**Preferred Shares**	**Retained Earnings**	**Total Shareholder's Equity**
August 31, 2015	100	–	–	100
Net income and other comprehensive income	–	–	–	–
October 28, 2015	100	–	–	100

HYDRO ONE LIMITED
STATEMENTS OF UNCONSOLIDATED CASH FLOWS (unaudited)
For the periods from October 29, 2015 to November 4, 2015 and from August 31, 2015 to October 28, 2015

(thousands of Canadian dollars)	**Period from October 29 to November 4, 2015**	**Period from August 31 to October 28, 2015**
Financing activities		
Common shares issued	2,600,000	–
Net cash from financing activities	2,600,000	–
Investing activities		
Investment in subsidiaries	(2,600,000)	–
Net cash used in investing activities	(2,600,000)	–
Net change in cash and cash equivalents	–	–
Cash and cash equivalents, beginning of period	100	100
Cash and cash equivalents, end of period	**100**	**100**

1. DESCRIPTION OF THE BUSINESS

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario).

On October 31, 2015, the Company acquired Hydro One Inc., a company previously wholly-owned by the Province of Ontario (Province). The acquisition of Hydro One Inc. by Hydro One was accounted for as a common control transaction and Hydro One is a continuation of business operations of Hydro One Inc. The principal businesses of Hydro One Inc. are the transmission and distribution of electricity to customers within Ontario.

On October 7, 2015, Hydro One incorporated two new wholly owned subsidiaries under the *Business Corporations Act* (Ontario), (Subco and Newco), and subscribed for 100 common shares of each of Subco and Newco for $1 in each case.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These Financial Statements are prepared and presented in accordance with United States Generally Accepted Accounting Principles and in Canadian dollars. The Financial Statements have been prepared for the purpose of filing the Company's income tax return, as on November 5, 2015, the common shares of Hydro One Limited began trading on the Toronto Stock Exchange, and as a result, the Company lost its status as a Canadian-Controlled Private Corporation. As these financial statements have not been prepared for general purposes, some users may require additional information. These Financial Statements present the financial position of the Company at November 4, 2015 and for the period from October 29, 2015 to November 4, 2015. The comparative information is presented as at October 28, 2015 and for the period from August 31, 2015 to October 28, 2015.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand.

Inter-company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Company to and from the pooled bank accounts. Unless otherwise stated, interest is earned on positive inter-company balances based on the average of one month 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%.

HYDRO ONE LIMITED
UNCONSOLIDATED STATEMENT OF SHAREHOLDER'S EQUITY
FOR THE PERIOD FROM OCTOBER 29, 2015 TO NOVEMBER 4, 2015

(thousands of Canadian dollars)			**Common Shares**
October 29, 2015	Balance	$	100
October 31, 2015	Common shares issued - note 1	$	3,023,000
November 4, 2015	Common shares issued - note 2	$	2,600,000
	Total common shares issued	$	5,623,000
November 4, 2015	Balance	$	5,623,100

Note 1 - On October 31, 2015, all of the issued and outstanding common shares of Hydro One Inc. were acquired by Hydro One Limited from the Province in return for 12,197,500,000 common shares of Hydro One Limited and 16,720,000 Series 1 preferred shares of Hydro One Limited. This was a non-cash transaction, therefore, no impact on the Cash Flow Statement.

Note 2 - On November 4, 2015, Hydro One Limited issued 2.6 billion common shares to the Province for proceeds of $2.6 billion. The proceeds were used by Hydro One Limited and its subsidiaries to make Departure Tax payments. This was a cash transaction, therefore, it is included in Financing Activities on the Cash Flow Statement.

UNDERTAKING – J11.13

Undertaking

To respond to Exhibit K11.2 question 4:

> Provide the allocation of the tax cost before and after revaluation of Hydro One Networks Inc. ("HONI") and the departure tax calculations between Transmission and Distribution.

Response

As illustrated in Attachment 1, the total departure tax paid in respect of Transmission and Distribution was $2,264 million. This amount consists of the following:

	Amount (in millions)
Transmission	$ 1,280
Distribution	984
	2,264
Norfolk Power Distribution Inc.	5
Rounding	2
Total departure tax paid by HONI	$ 2,271

Per Exhibit J1.3, the total departure tax reported for HONI was $2,264 million. The amount reported on this Exhibit did not include the departure tax incurred in respect of Norfolk Power Distribution Inc. Norfolk Power Distribution Inc. was wound-up into HONI on September 1, 2015.

We have provided the tax cost of the assets before and after the revaluation and the departure tax computation for Transmission and Distribution in Attachment 1.

Witness: Glendy Cheung

HYDRO ONE NETWORKS INC.
2015 TAX COST AND DEPARTURE TAX CALCULATIONS FOR TRANSMISSION AND DISTRIBUTION
OCTOBER 31, 2015

TRANSMISSION	**FMV ****	**Tax Base ***	**Recapture**	**Cap Gain**	**ECE Income**	**Total**
Fixed Assets	10,796	6,659	2,647	1,490	-	
Construction In Progress	1,100	985	-	116	-	
Future Use Assets	107	107	-	-	-	
Regulatory Assets	1,123	1,123	-	-	-	
Accounts Receivable	140	140	-	-	-	
Materials and Supplies	13	13	-	-	-	
Other current assets	10	10	-	-	-	
Goodwill/ECE	2,342	51	-	-	1,170	
Liabilities	(8,342)	(8,342)				
	7,289	745	2,647	1,606	1,170	
		Inclusion Rate	100%	50%	100%	
			2,647	803	1,170	
		Tax Rate	26.5%	46.17%	26.5%	
		Departure Tax	701	371	310	1,382
					Less: dividend refund	(102)
					Departure Tax	1,280
					Rounded	**1,300**

DISTRIBUTION	**FMV ****	**Tax Base ***	**Recapture**	**Cap Gain**	**ECE Income**	**Total**
Fixed Assets	7,586	4,817	2,186	583	-	
Construction In Progress	357	282	-	75	-	
Future Use Assets	41	41	-	-	-	
Regulatory Assets	639	639	-	-	-	
Accounts Receivable	926	926	-	-	-	
Materials and Supplies	7	7	-	-	-	
Other current assets	9	9	-	-	-	
Goodwill/ECE	2,222	26	-	-	1,111	
Liabilities	(6,377)	(6,377)				
	5,411	372	2,186	658	1,111	
		Inclusion Rate	100%	50%	100%	
			2,186	329	1,111	
		Tax Rate	26.5%	46.17%	26.5%	
		Departure Tax	579	152	294	1,026
					Less: dividend refund	(42)
					Departure Tax	984
					Rounded	**1,000**

TOTAL	**FMV ****	**Tax Base ***	**Recapture**	**Cap Gain**	**ECE Income**	**Total**
Fixed Assets	18,382	11,476	4,833	2,074	-	
Construction In Progress	1,457	1,266	-	191	-	
Future Use Assets	148	148	-	-	-	
Regulatory Assets	1,762	1,762	-	-	-	
Accounts Receivable	1,066	1,066	-	-	-	
Materials and Supplies	19	19	-	-	-	
Other current assets	19	19	-	-	-	
Goodwill/ECE	4,564	77	-	-	2,281	
Liabilities	(14,718)	(14,718)	-	-	-	
	12,700	1,117	4,833	2,264	2,281	
		Inclusion Rate	100%	50%	100%	
			4,833	1,132	2,281	
		Tax Rate	26.5%	46.17%	26.5%	
		Departure Tax	1,281	523	604	2,408
					Less: dividend refund	(144)
					Departure Tax	2,264
					Rounded	**2,300**

* The tax base is the tax cost of the asset prior to the revaluation.
** Tax base of the asset after the revaluation.

UNDERTAKING – J11.14

Undertaking

To respond to Exhibit K11.2 question 5:

> The evidence indicates that Hydro One Limited ("HOL") paid the $2.6 billion to its subsidiaries so that each of them could pay their departure tax obligations to the OEFC. Please describe the transactions whereby the $2.6 billion was transferred to the subsidiaries. Did these transactions involve HOL's purchase of more shares in each subsidiary? If so then, please provide the details of those transactions and the supporting share purchase agreement related to the acquisition of shares in Hydro One Networks Inc. ("HONI").

Response

The following outlines the transactions undertaken in order to fund the payment of the departure tax by Hydro One Inc. ("HOI") and each of its subsidiaries. The transactions are listed in the sequence in which they occurred, and they all occurred on November 4, 2015:

a. Upon receipt of $2.6 billion from the Province in exchange for the issuance of 2.6 billion shares to the Province, as noted in the response to Exhibit J11.11, HOL subsequently subscribed for additional shares of HOI for $2.6 billion.

b. HOI proceeded to pay $250 million to the OEFC in respect of its share of the departure tax payable from the proceeds of the HOL share subscription and used the remaining $2.35 billion from the HOL share subscription to subscribe for additional shares of HONI for $2.271 billion, and additional shares of Hydro One B2M Holdings Inc. (B2M Holdco) for $58 million, additional shares of Hydro One Telecom Inc. (Telecom) for $16 million and additional shares of Hydro One Remote Communities Inc. (Remotes) for $5 million.

c. Each of HONI, Telecom and Remotes paid their portion of the departure tax payable ($2.271 billion, $16 million and $5 million respectively) from the proceeds of the HOI share subscriptions in those entities.

d. B2M Holdco used the proceeds from the HOI share subscription to subscribe for additional shares of B2M GP Inc. for $58 million.

e. B2M GP Inc. used the $58 million from the share subscription to pay its portion of the departure tax payable ($58 million).

Refer to Attachment 1 for the share subscription agreement between HOI and HONI.

SHARE SUBSCRIPTION

TO: **Hydro One Networks Inc. (the "Corporation")**

AND TO: **The Board of Directors thereof**

The undersigned subscribes for and agrees to take up 53,067,036 common shares in the capital of the Corporation (the "**Shares**"), each such Share to be issued for $42.79493, for an aggregate subscription amount of $2,271,000,000.

The undersigned certifies that it is an "affiliate" of the Corporation for the purposes of securities laws, is resident in the Province of Ontario and is purchasing the Shares as principal and covenants that the undersigned will not transfer ownership of, or any beneficial interest in, the Shares except in accordance with the restriction on the transfer of securities set out in the articles of the Corporation.

The undersigned requests that the Shares be issued forthwith and that a certificate for the Shares be issued to the undersigned.

[Signature page follows]

DATED November 4 , 2015.

HYDRO ONE INC.

By: ______________________

Name: Joseph Agostino

Title: General Counsel

UNDERTAKING – J11.15

Undertaking

To respond to Exhibit K11.2 question 6:

> Provide the date of the movement of $2.3 billion from Hydro One Limited ("HOL") to Hydro One Networks Inc. ("HONI") and schedules that will show how this transaction was reflected in the unconsolidated financial statements of each of HOL and HONI.

Response

As noted in Exhibit J11.14, the movement of the $2.3 billion from Hydro One Limited ("HOL") to Hydro One Networks Inc. ("HONI") occurred on November 4, 2015. HOL subscribed for additional shares in Hydro One Inc. ("HOI") in the amount of $2.6 billion and HOI then subscribed shares of HONI in the amount of $2.271 billion.
The accounting entries are summarized as follows:

HOL:

Investment in HOI

DR	Investment in HOI	2,600,000,000
CR	Cash	(2,600,000,000)

HOI:

Shares issued to HOL

DR	Cash	2,600,000,000
CR	Share Capital - Common	(2,600,000,000)

Investment in HONI

DR	Investment in HONI	2,271,000,000
CR	Cash	(2,271,000,000)

HONI:

Shares issued to HOI

DR	Cash	2,271,000,000
CR	Share Capital - Common	(2,271,000,000)

Witness: Michael Vels

The $2.6 billion issuance of common shares and $2.6 billion investment in HOI is reflected in the HOL unconsolidated financial statements for the period ending November 4, 2015. Refer to “Common shares issued” and “Investment in subsidiaries” in the Statements of Unconsolidated Cash Flows in Exhibit J11.15, Attachment 1.

The $2.6 billion issuance of common shares by HOI and $2.271 billion investment by HOI in HONI is reflected in the HOI Unconsolidated Financial Statements for the period ending November 4, 2015. Refer to “Common shares issued” and “Investment in Hydro One Networks” in the Statements of Unconsolidated Cash Flows in Exhibit J11.15, Attachment 2.

Refer to Exhibit J11.16, Attachment 2 and Attachment 3 for the HONI Unconsolidated Financial Statements for the period ending October 31, 2015 and November 4, 2015, respectively.

HYDRO ONE LIMITED

UNCONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOVEMBER 4, 2015

HYDRO ONE LIMITED
UNCONSOLIDATED BALANCE SHEETS (unaudited)
At November 4, 2015 and October 28, 2015

(thousands of Canadian dollars)	**November 4, 2015**	**October 28, 2015**
Assets		
Current assets:		
Cash and cash equivalents	100	100
Accounts receivable	4,040	4,040
	4,140	4,140
Long-term assets:		
Investment in subsidiaries	6,041,000	–
Total assets	**6,045,140**	**4,140**
Liabilities		
Current liabilities:		
Inter-company demand facility	4,040	4,040
Total liabilities	**4,040**	**4,040**
Shareholder's quity		
Common shares	5,623,100	100
Preferred shares	418,000	–
Retained earnings	–	–
Total shareholder's equity	**6,041,100**	**100**
Total liabilities and shareholder's equity	**6,045,140**	**4,140**

HYDRO ONE LIMITED
UNCONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (unaudited)
For the periods from October 29, 2015 to November 4, 2015 and from August 31, 2015 to October 28, 2015

Period from October 29 to November 4, 2015 *(thousands of Canadian dollars)*	**Common Shares**	**Preferred Shares**	**Retained Earnings**	**Total Shareholder's Equity**
October 29, 2015	100	–	–	100
Net income and other comprehensive income	–	–	–	–
Preferred shares issued	–	418,000	–	418,000
Common shares issued	5,623,000	–	–	5,623,000
November 4, 2015	5,623,100	418,000	–	**6,041,100**

Period from August 31 to October 28, 2015 *(thousands of Canadian dollars)*	**Common Shares**	**Preferred Shares**	**Retained Earnings**	**Total Shareholder's Equity**
August 31, 2015	100	–	–	100
Net income and other comprehensive income	–	–	–	–
October 28, 2015	100	–	–	100

HYDRO ONE LIMITED
STATEMENTS OF UNCONSOLIDATED CASH FLOWS (unaudited)
For the periods from October 29, 2015 to November 4, 2015 and from August 31, 2015 to October 28, 2015

(thousands of Canadian dollars)	**Period from October 29 to November 4, 2015**	**Period from August 31 to October 28, 2015**
Financing activities		
Common shares issued	2,600,000	–
Net cash from financing activities	2,600,000	–
Investing activities		
Investment in subsidiaries	(2,600,000)	–
Net cash used in investing activities	(2,600,000)	–
Net change in cash and cash equivalents	–	–
Cash and cash equivalents, beginning of period	100	100
Cash and cash equivalents, end of period	**100**	**100**

1. DESCRIPTION OF THE BUSINESS

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario).

On October 31, 2015, the Company acquired Hydro One Inc., a company previously wholly-owned by the Province of Ontario (Province). The acquisition of Hydro One Inc. by Hydro One was accounted for as a common control transaction and Hydro One is a continuation of business operations of Hydro One Inc. The principal businesses of Hydro One Inc. are the transmission and distribution of electricity to customers within Ontario.

On October 7, 2015, Hydro One incorporated two new wholly owned subsidiaries under the *Business Corporations Act* (Ontario), (Subco and Newco), and subscribed for 100 common shares of each of Subco and Newco for $1 in each case.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These Financial Statements are prepared and presented in accordance with United States Generally Accepted Accounting Principles and in Canadian dollars. The Financial Statements have been prepared for the purpose of filing the Company's income tax return, as on November 5, 2015, the common shares of Hydro One Limited began trading on the Toronto Stock Exchange, and as a result, the Company lost its status as a Canadian-Controlled Private Corporation. As these financial statements have not been prepared for general purposes, some users may require additional information. These Financial Statements present the financial position of the Company at November 4, 2015 and for the period from October 29, 2015 to November 4, 2015. The comparative information is presented as at October 28, 2015 and for the period from August 31, 2015 to October 28, 2015.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand.

Inter-company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Company to and from the pooled bank accounts. Unless otherwise stated, interest is earned on positive inter-company balances based on the average of one month 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%.

HYDRO ONE INC.

UNCONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOVEMBER 4, 2015

HYDRO ONE INC.
UNCONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the periods from November 1, 2015 to November 4, 2015 and from January 1, 2015 to October 31, 2015

(millions of Canadian dollars)	**Period from November 1 to November 4, 2015**	**Period from January 1 to October 31, 2015**
Revenues		
Inter-company dividends	–	899
Inter-company interest	6	358
Inter-company other	–	4
	6	1,261
Costs		
Operation, maintenance and administration	(1)	4
Income before financing charges and income taxes	**7**	**1,257**
Financing charges	6	348
Income before income taxes	**1**	**909**
Income taxes	–	260
Net income and comprehensive income	**1**	**649**

HYDRO ONE INC.
UNCONSOLIDATED BALANCE SHEETS (unaudited)
At November 4, 2015 and October 31, 2015

(millions of Canadian dollars)	**November 4, 2015**	**October 31, 2015**
Assets		
Current assets:		
Cash and cash equivalents	75	75
Inter-company demand facility	1,453	1,447
Loans to subsidiaries receivable within one year	450	450
Notes receivable	–	29
Interest receivable	91	91
Other	36	36
	2,105	2,128
Long-term assets:		
Loans to subsidiaries	7,760	7,760
Investments in subsidiaries	6,342	3,963
Derivative instruments	1	1
Deferred income tax assets	1	1
Other	28	28
	14,132	11,753
Total assets	**16,237**	**13,881**
Liabilities		
Current liabilities:		
Bank indebtedness	31	31
Accrued liabilities	62	313
Accrued interest	101	95
Short-term notes payable	1,149	1,149
Long-term debt payable within one year	450	450
	1,793	2,038
Long-term debt	8,274	8,274
Other long-term liabilities:		
Net unamortized debt premiums	18	18
Total liabilities	**10,085**	**10,330**
Shareholder's equity		
Common shares	6,041	3,441
Retained earnings	111	110
Total shareholder's equity	**6,152**	**3,551**
Total liabilities and shareholder's equity	**16,237**	**13,881**

HYDRO ONE INC.
UNCONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (unaudited)
For the periods from November 1, 2015 to November 4, 2015 and from January 1, 2015 to October 31, 2015

Period from November 1 to November 4, 2015 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Total Shareholder's Equity**
November 1, 2015	3,441	110	3,551
Net income	–	1	1
Common shares issued	2,600	–	2,600
November 4, 2015	**6,041**	**111**	**6,152**

Period from January 1 to October 31, 2015 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Total Shareholder's Equity**
January 1, 2015	3,314	535	3,849
Net income	–	649	649
Hydro One Brampton spin-off	(196)	(186)	(382)
Common shares issued	323	–	323
Dividends on preferred shares	–	(875)	(875)
Dividends on common shares	–	(13)	(13)
October 31, 2015	**3,441**	**110**	**3,551**

HYDRO ONE INC.
UNCONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the periods from November 1, 2015 to November 4, 2015 and from January 1, 2015 to October 31, 2015

(millions of Canadian dollars)	**Period from November 1 to November 4, 2015**	**Period from January 1 to October 31, 2015**
Operating activities		
Net income	1	649
Other	–	(1)
Changes in non-cash balances related to operations	(245)	252
Net cash from (used in) operating activities	(244)	900
Financing activities		
Common shares issued	2,600	–
Long-term debt issued	–	350
Long-term debt retired	–	(550)
Note receivable issued	–	(27)
Note receivable received	–	316
Dividends paid	–	(888)
Short-term notes issued	–	1,149
Change in bank indebtedness	–	31
Change in inter-company demand facility	(6)	(1,382)
Net cash from (used in) financing activities	2,594	(1,001)
Investing activities		
Loans to subsidiaries	–	520
Investment in B2M Trust	–	(314)
Investment in Haldimand Hydro	–	(73)
Investment in Hydro One Brampton	–	(53)
Investment in Municipal Billing Services	–	(3)
Investment in Hydro One Networks	(2,271)	–
Investment in Hydro One B2M Holdings	(58)	–
Investment in Hydro One Telecom	(16)	–
Investment in Hydro One Remote Communities	(5)	–
Net cash from (used) in investing activities	(2,350)	77
Net change in cash and cash equivalents	–	(24)
Cash and cash equivalents, beginning of period	75	99
Cash and cash equivalents, end of period	**75**	**75**

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 was wholly owned by the Province of Ontario (the Province) until October 31, 2015. On October 31, 2015, Hydro One Limited, a wholly owned subsidiary of the Province, acquired all issued and outstanding shares of Hydro One from the Province. In November 2015, Hydro One Limited and the Province completed an initial public offering (IPO) on the Toronto Stock Exchange of 15% of Hydro One Limited's 595 million common shares.

Hydro One is a holding company with subsidiaries primarily involved in 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 Accounting

These Financial Statements are prepared and presented in accordance with United States Generally Accepted Accounting Principles and in Canadian dollars. These Financial Statements have been prepared for the purpose of filing the Company's income tax return, as on November 5, 2015, the common shares of Hydro One Limited began trading on the Toronto Stock Exchange, and as a result, the Company lost its status as a Canadian-Controlled Private Corporation. As these Financial Statements have not been prepared for general purposes, some users may require additional information. These Financial Statements present the financial position of the Company at November 4, 2015 and the results of its operations and its cash flows for the period from November 1, 2015 to November 4, 2015. The comparative information is presented as at October 31, 2015 and for the period from January 1, 2015 to October 31, 2015.

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 post-retirement and post-employment benefits, asset impairments, contingencies, financial 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less.

Inter-company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Company to and from the pooled bank accounts. Unless otherwise stated, interest is earned on positive inter-company balances based on the average of one month 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%.

Revenue Recognition

Revenues include inter-company dividends received from the Company's subsidiaries, Hydro One Networks Inc. (Hydro One Networks) and Hydro One Telecom Inc. (Hydro One Telecom), as well as inter-company interest earned on loans to subsidiaries and on the inter-company demand facility. Revenues are recognized on an accrual basis.

Income Taxes

By virtue of being wholly owned by the Province, Hydro One was exempt from tax under the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (Federal Tax Regime). However, under the *Electricity Act*, Hydro One was required to make payments in lieu of tax (PILs) to the Ontario Electricity Financial Corporation (OEFC) (PILs Regime). The PILs were, in general, based on the amount of tax that Hydro One would otherwise be liable to pay under the Federal Tax Regime if it was not exempt from taxes under those statutes.

In connection with the IPO of Hydro One Limited, Hydro One's exemption from tax under the Federal Tax Regime ceased to apply. Upon exiting the PILs Regime, Hydro One is required to make corporate income tax payments to the Canada Revenue Agency (CRA) under the Federal Tax Regime.

Current and deferred income taxes are computed based on the tax rates and tax laws enacted as 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.

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 as 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 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.

Investments in Subsidiaries

The investments in subsidiaries have been recorded using the cost method of accounting. These subsidiaries include Hydro One Networks, Hydro One Remote Communities Inc. (Hydro One Remote Communities), Hydro One Telecom, Hydro One Lake Erie Link Management Inc. (HOLELMI), Municipal Billing Services Inc. (MBSI) (formerly Hydro One Lake Erie Link Company Inc.), Hydro One B2M Holdings Inc. (Hydro One B2M Holdings), B2M Trust, Haldimand County Utilities Inc. (Haldimand Hydro), and Woodstock Hydro Services Inc. (Woodstock Hydro). The Company owns 100% of all of these subsidiaries.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI). Hydro One presents net income and OCI in a single continuous unconsolidated 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. All financial instrument transactions are recorded at trade date.

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.

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 unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated 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 November 4, 2015 or October 31, 2015.

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 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.

Hydro One has a contributory defined benefit pension plan covering all regular employees of Hydro One and its subsidiaries, except Haldimand Hydro and Woodstock Hydro. 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 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, 2015.

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 unconsolidated 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 Company records a loss at the minimum amount within the range.

Management regularly reviews current information available to determine whether recorded provisions should be adjusted and whether new provisions are required. Estimating probable losses may require analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, provincial and local courts or regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the unconsolidated 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.

UNDERTAKING – J11.16

Undertaking

To respond to exhibit K11.2 question 7:

> Please provide the date of and show how the $2.3 billion payment of departure tax by HONI to the OEFC was reflected in the unconsolidated financial statements of HONI.

Response

As noted in Exhibit I, Tab I, Schedule 134, HONI incurred a $2,271 million departure tax liability when it departed the PILs regime on October 31, 2015. The total departure tax cost to HONI of $2,271 million was a real cost to HONI and was paid to the OEFC on November 4, 2015.

J11.16 Attachment 1 contains both: an email confirmation from the OEFC indicating that the $2,271 million of departure tax was received and HONI's bank Statement of Account showing wire payments were made on November 4, 2015.

J11.16 Attachment 2 contains HONI's Unconsolidated Financial Statements for the period ended October 31, 2015. Note 7 – Provision for Payments in Lieu of Corporate Income Taxes indicates that the net tax expense resulting from the transition of the PILs regime to federal tax regime was $2,271 million and that the $2.3 billion of departure tax was outstanding to the OEFC. Note 25 – Subsequent Events, indicates that the departure taxes were paid to the OEFC on November 4, 2015.

J11.16 Attachment 3 contains HONI's Unconsolidated Financial Statements for the period ended November 4, 2015. Please note the Accrued Liabilities decreased by $2.2 billion during the period reflecting that departure taxes were paid to the OEFC on November 4, 2015.

Witness: Michael Vels

From: CHEUNG Francis
To: CHEUNG Glendy
Subject: FW: $2.271B Departure Tax from HONI to OEFC
Date: Monday, December 19, 2016 9:13:24 AM

FYI

Francis

From: Joe Pedota [mailto:Joe.Pedota@ofina.on.ca]
Sent: Wednesday, November 04, 2015 2:02 PM
To: CHEUNG Francis; CASHP; SETTLEMENT
Cc: Francisco Chinchon; Alfonso Soriano; Risa Thau; Nurudin Kaba; CASHP; Ken Kandeepan; SULEMAN Ali; PAOLUCCI William; BARAGETTI Giovanna
Subject: RE: $2.271B Departure Tax from HONI to OEFC

Hi Francis,

2.271B confirmed received.

Thanks,

Joe

Joe Pedota
Ontario Financing Authority
Coordinator – Settlements, Payments and Fiscal Agency
Finance & Treasury Division
1 Dundas Street West, Suite 1400
Toronto, ON M7A 1Y7

(416) 325-3851 (Tel)
(416) 204-7933 (Fax)
(647) 282-8442 (Mobile)

From: Francis.Cheung@HydroOne.com [mailto:Francis.Cheung@HydroOne.com]
Sent: Wednesday, November 04, 2015 1:32 PM
To: Joe Pedota <Joe.Pedota@ofina.on.ca>; CASHP <CASHP@ofina.on.ca>; SETTLEMENT <SETTLEMENT@ofina.on.ca>
Cc: Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Alfonso Soriano <Alfonso.Soriano@ofina.on.ca>; Risa Thau <Risa.Thau@ofina.on.ca>; Nurudin Kaba <Nurudin.Kaba@ofina.on.ca>; CASHP <CASHP@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; a.suleman@HydroOne.com; w.paolucci@HydroOne.com;

Giovanna.Baragetti@HydroOne.com
Subject: RE: $2.271B Departure Tax from HONI to OEFC

We have wired $2.271B (in 5 wires) to OEFC for HONI's Departure Tax payment. Please see reference below and confirm receipt. Thanks!

_	11/04/2015	151104B3888000WIRE	500,000,080.00 DR
_	11/04/2015	151104B3875600WIRE	500,000,080.00 DR
_	11/04/2015	151104B3892500WIRE	271,000,080.00 DR
_	11/04/2015	151104B3882500WIRE	500,000,080.00 DR
_	11/04/2015	151104B3887100WIRE	500,000,080.00 DR

151104B3888000	CIBCCATTXXX	13.19	LVTS #5FCM9JKXG
151104B3875600	CIBCCATTXXX	13.20	LVTS #5FCM9N0E0
151104B3892500	CIBCCATTXXX	13.21	LVTS #5FCMA0Q94
151104B3882500	CIBCCATTXXX	13.22	LVTS #5FCMAOB21
151104B3887100	CIBCCATTXXX	13.27	LVTS #5FCMCATN9

Francis Cheung
Manager, Treasury Operations
Treasury and Risk, TCT07
Hydro One Networks Inc.
Tel: (416) 345-6141
Email: Francis.Cheung@HydroOne.com

HYDRO ONE INC
Statement of Account
Sunday, November 01, 2015 - Monday, November 30, 2015

Account Name:	Account:	Branch:	Currency:
HO Networks Inc. General [redacted]	[redacted]	[redacted]	CAD

B/D	Description	Debit	Credit	Date	Balance
	Balance Forward			11/02/2015	$0.00
	TFR 1020 5332560	$2,560,227.66		11/02/2015	
	TFR 1020 5332579	$10,400,763.47		11/02/2015	
	TFR 1020 5422713	$521,134.12		11/02/2015	
	TFR 1020 0401442		$13,482,125.25	11/02/2015	$0.00
	TFR 1020 5332560	$2,206,777.71		11/03/2015	
	TFR 1020 5332579	$593,589.79		11/03/2015	
	TFR 1020 5422713	$508,955.68		11/03/2015	
	TFR 1020 0401442		$3,309,323.18	11/03/2015	$0.00
	CREDIT MEMO		$500,000,000.00	11/04/2015	
	CREDIT MEMO		$500,000,000.00	11/04/2015	
	CREDIT MEMO		$500,000,000.00	11/04/2015	
	CREDIT MEMO		$500,000,000.00	11/04/2015	
	CREDIT MEMO		$271,000,000.00	11/04/2015	
	151104B3888000WIRE	$500,000,080.00		11/04/2015	
	151104B3875600WIRE	$500,000,080.00		11/04/2015	
	151104B3892500WIRE	$271,000,080.00		11/04/2015	
	151104B3882500WIRE	$500,000,080.00		11/04/2015	
	151104B3887100WIRE	$500,000,080.00		11/04/2015	

HYDRO ONE NETWORKS INC.

FINANCIAL STATEMENTS
(unaudited)

OCTOBER 31, 2015

HYDRO ONE NETWORKS INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (unaudited)
For the period from January 1, 2015 to October 31, 2015 and year ended December 31, 2014

(millions of Canadian dollars, except per share amounts)	**Period from January 1 to October 31, 2015**	**Year ended December 31, 2014**
Revenues		
Distribution *(Note 20)*	3,707	4,340
Transmission *(Note 20)*	1,259	1,588
	4,966	5,928
Costs		
Purchased power *(Note 20)*	2,557	2,979
Operation, maintenance and administration *(Note 20)*	837	1,081
Depreciation and amortization *(Note 5)*	604	693
	3,998	4,753
Income before financing charges and provision for payments in lieu of corporate income taxes	**968**	**1,175**
Financing charges *(Notes 6, 21)*	303	369
Income before provision for payments in lieu of corporate income taxes	**665**	**806**
Provision for payments in lieu of corporate income taxes *(Notes 7, 20, 21)*	2,367	89
Net income (loss)	**(1,702)**	**717**
Other comprehensive income	–	–
Comprehensive income (loss)	**(1,702)**	**717**

See accompanying notes to Financial Statements (unaudited).

HYDRO ONE NETWORKS INC.
BALANCE SHEETS (unaudited)
At October 31, 2015 and December 31, 2014

(millions of Canadian dollars)	**October 31, 2015**	**December 31, 2014**
Assets		
Current assets:		
Inter-company demand facility *(Notes 13, 14, 20)*	–	4
Accounts receivable (net of allowance for doubtful accounts – $64; December 31, 2014 – $65) *(Notes 8, 20)*	1,003	1,147
Regulatory assets *(Note 11)*	43	29
Materials and supplies	19	20
Deferred income tax assets *(Note 7)*	19	19
Derivative instruments *(Note 13)*	–	2
Other	11	21
	1,095	1,242
Property, plant and equipment *(Note 9):*		
Property, plant and equipment in service	24,828	23,904
Less: accumulated depreciation	9,205	8,709
	15,623	15,195
Construction in progress	1,318	993
Future use land, components and spares	147	143
	17,088	16,331
Other long-term assets:		
Regulatory assets *(Note 11)*	1,906	1,895
Intangible assets (net of accumulated amortization – $269; 2014 – $302) *(Note 10)*	363	304
Goodwill	112	73
Deferred debt issuance costs	33	35
Other	3	5
	2,417	2,312
Total assets	**20,600**	**19,885**

See accompanying notes to Financial Statements (unaudited).

HYDRO ONE NETWORKS INC.
BALANCE SHEETS (unaudited) (continued)
At October 31, 2015 and December 31, 2014

(millions of Canadian dollars)	**October 31, 2015**	**December 31, 2014**
Liabilities		
Current liabilities:		
Intercompany demand facility *(Notes 13, 14, 20)*	1,391	–
Accounts payable	159	151
Accrued liabilities *(Note 16)*	2,916	755
Accrued interest	90	98
Regulatory liabilities *(Note 11)*	16	40
Derivative instruments	3	–
Long-term debt payable within one year *(Notes 12, 13)*	450	552
	5,025	1,596
Long-term debt *(Notes 12, 13)*	7,727	8,147
Other long-term liabilities:		
Post-retirement and post-employment benefit liability *(Note 15)*	1,556	1,493
Deferred income tax liabilities *(Note 7)*	1,361	1,262
Environmental liabilities *(Note 16)*	189	210
Regulatory liabilities *(Note 11)*	259	168
Net unamortized debt premiums	18	19
Asset retirement obligations *(Note 17)*	8	8
Long-term accounts payable and other liabilities	14	14
	3,405	3,174
Total liabilities	**16,157**	**12,917**
Contingencies and Commitments (Notes 22, 23)		
Subsequent Events (Note 25)		
Preferred shares *(Notes 14, 18, 19)*	–	372
Shareholder's equity		
Common shares *(Notes 14, 18, 19)*	3,429	2,991
Retained earnings	1,018	3,610
Contributed surplus	5	4
Accumulated other comprehensive loss	(9)	(9)
Total shareholder's equity	**4,443**	**6,596**
Total liabilities, preferred shares and shareholder's equity	**20,600**	**19,885**

See accompanying notes to Financial Statements (unaudited).

HYDRO ONE NETWORKS INC.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (unaudited)
For the period from January 1, 2015 to October 31, 2015 and year ended December 31, 2014

Period from January 1 to October 31, 2015 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Contributed Surplus**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholder's Equity**
January 1, 2015	2,991	3,610	4	(9)	6,596
Net income	–	(1,702)	–	–	(1,702)
Other comprehensive income	–	–	–	–	–
Norfolk Power transfer *(Note 4)*	66	–	1	–	67
Preferred shares repurchase	372	–	–	–	372
Dividends on preferred shares	–	(15)	–	–	(15)
Dividends on common shares	–	(875)	–	–	(875)
October 31, 2015	**3,429**	**1,018**	**5**	**(9)**	**4,443**

Year ended December 31, 2014 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Contributed Surplus**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholder's Equity**
January 1, 2014	2,991	3,637	4	(9)	6,623
Net income	–	717	–	–	717
Other comprehensive income	–	–	–	–	–
Dividends on preferred shares	–	(20)	–	–	(20)
Dividends on common shares	–	(724)	–	–	(724)
December 31, 2014	**2,991**	**3,610**	**4**	**(9)**	**6,596**

See accompanying notes to Financial Statements (unaudited).

HYDRO ONE NETWORKS INC.
STATEMENTS OF CASH FLOWS (unaudited)
For the period from January 1, 2015 to October 31, 2015 and year ended December 31, 2014

(millions of Canadian dollars)	**Period from January 1 to October 31, 2015**	**Year ended December 31, 2014**
Operating activities		
Net income	(1,702)	717
Environmental expenditures	(14)	(17)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	532	614
Regulatory assets and liabilities	135	(57)
Deferred income taxes	2	16
Other	7	(1)
Changes in non-cash balances related to operations *(Note 21)*	2,338	(51)
Net cash from operating activities	1,298	1,221
Financing activities		
Long-term debt issued	30	608
Long-term debt retired	(550)	(500)
Dividends paid	(865)	(744)
Other	–	(3)
Net cash used in financing activities	(1,385)	(639)
Investing activities		
Capital expenditures *(Note 21)*		
Property, plant and equipment	(1,270)	(1,448)
Intangible assets	(21)	(18)
Norfolk integration	(33)	–
Capital contribution received	8	–
Proceeds from transfer of assets	–	526
Other	8	(7)
Net cash used in investing activities	(1,308)	(947)
Net change in inter-company demand facility	(1,395)	(365)
Inter-company demand facility, beginning of period	4	369
Inter-company demand facility, end of period	**(1,391)**	**4**

See accompanying notes to Financial Statements (unaudited).

1. DESCRIPTION OF THE BUSINESS

Hydro One Inc. (Hydro One) was incorporated on December 1, 1998, under the Business Corporations Act (Ontario) and was wholly owned by the Province of Ontario (the Province) until October 31, 2015. On October 31, 2015, Hydro One Limited, a wholly owned subsidiary of the Province, acquired all issued and outstanding shares of Hydro One from the Province. See Note 25 – Subsequent Events for changes in ownership structure of Hydro One. 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 transmission business (Transmission Business) operates a high-voltage electrical transmission network that represents almost all of the licensed transmission capacity in Ontario. 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. These businesses are regulated by the Ontario Energy Board (OEB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) and in Canadian dollars. These Financial Statements have been prepared for the purpose of filing the Company's income tax return. As these Financial Statements have not been prepared for general purposes, some users may require additional information. These financial statements present the financial position of the Company at October 31, 2015 and the results of its operations and its cash flows for the period from January 1, 2015 to October 31, 2015 and include all transactions that occurred prior to the cessation of Hydro One Networks' exemption from tax under the *Income Tax Act* (Canada) and the *Taxation Act*, 2007 (Ontario) (Federal Tax Regime). The comparative information is presented as at and for the year ended December 31, 2014.

Hydro One Networks performed an evaluation of subsequent events through to December 15, 2015, 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 25 – 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 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, 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.

Rate Setting

The OEB has approved the use of US GAAP for rate setting and regulatory accounting and reporting by the Company's Distribution and Transmission Businesses.

Transmission

On January 8, 2015, pursuant to an application filed with the OEB, the OEB approved the 2015 Hydro One transmission rates revenue requirement of $1,477 million.

Distribution

On March 12, 2015, the OEB issued a Decision and Rate Order approving a revenue requirement of $1,326 million for 2015, $1,430 million for 2016 and $1,486 million for 2017. The revenue requirements for 2016 and 2017 are estimates that may change based on 2016 and 2017 Rate Orders. On April 23, 2015, the Final Rate Order for 2015 rates was approved by the OEB.

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.

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 attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. Unbilled revenues are based on an estimate of electricity delivered determined by historical trends of consumption and are estimated at the end of each month. The unbilled revenue estimate is affected by energy consumption, weather, 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.

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 recorded at their estimated value. 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 Company estimates the allowance for doubtful accounts on customer receivables by applying internally developed loss rates to the outstanding receivable balances by aging category. Loss rates applied to the accounts receivable balances are based on historical overdue balances, customer payments and write-offs. Accounts receivable are written-off against the allowance when they are deemed uncollectible. The existing allowance for doubtful accounts will continue to be affected by changes in volume, prices and economic conditions.

Income Taxes

Under the *Electricity Act, 1998*, Hydro One Networks 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 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.

Hydro One Networks' exemption from tax under the Federal Tax Regime ceased to apply on October 31, 2015. See Note 7 – Provision for Payments in Lieu of Corporate Income Taxes.

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 (Loss).

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 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.

Inter-company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries, including Hydro One Networks. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Company 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, and any accumulated impairment losses. The cost of additions, including betterments and replacement 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 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.

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.

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 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 Statements of Operations and Comprehensive Income (Loss). 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, 2015. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average Service Life	Rate (%) Range	Average
Transmission	55 years	1% – 2%	2%
Distribution	46 years	1% – 7%	2%
Communication	16 years	1% – 15%	6%
Administration and service	16 years	3% – 20%	5%

The cost of intangible assets is included primarily within the administration and service classification above. Amortization rate for computer applications software and other intangible assets is 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 asset retirement obligations have 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.

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, the Company evaluates whether impairment may exist by estimating 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 Hydro One Networks' 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. At October 31, 2015 and December 31, 2014, 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 (Loss). 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 and net income are presented in a single continuous Statement of Operations and Comprehensive Income (Loss).

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, which are measured at the lower of cost or fair value. Accounts receivable are classified as loans and receivables. The Company considers the carrying amounts of accounts receivable 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. All financial instrument transactions are recorded at trade date.

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.

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 October 31, 2015 and December 31, 2014.

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 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. The measurement date for the Plans was December 31.

Pension Benefits

Hydro One has a contributory defined benefit pension plan covering most regular employees of Hydro One and its subsidiaries, including Hydro One Networks. The Hydro One pension plan does not segregate assets in a separate account for individual subsidiaries, nor is the obligation 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 pension benefit asset or liability is recorded.

A detailed description of Hydro One pension benefits is provided in the Pension and Post-Retirement and Post-Employment Benefits note to the Consolidated Financial Statements of Hydro One.

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.

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.

A detailed description of Hydro One post-retirement and post-employment benefits is provided in the Pension and Post-Retirement and Post-Employment Benefits note to the Consolidated Financial Statements of Hydro One.

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 its 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 Company records a loss at the minimum amount within the range.

Management regularly reviews current information available to determine whether recorded provisions should be adjusted and whether new provisions are required. Estimating probable losses may require analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, provincial and local courts or regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the 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 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. Hydro One Networks records a liability for the estimated future expenditures associated with the contaminated land assessment and remediation (LAR) program 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 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 Networks 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 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

Recent Accounting Guidance Not Yet Adopted

In January 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This ASU eliminates the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary and to show the item separately in the income statement. This ASU is effective for fiscal years, and interim periods within these years, beginning after December 15, 2015. The adoption of this ASU is not anticipated to have an impact on the Company's financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU provides guidance about the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company is currently assessing the impact of adoption of ASU 2015-02 on its financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Upon adoption of this ASU in the first quarter of 2016, the Company's deferred debt issuance costs that are currently presented under other long-term assets will be reclassified as a deduction from the carrying amount of long-term debt.

In April 2015, the FASB issued ASU 2015-05, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license, as well as the related accounting for the arrangement. This ASU is effective for fiscal years, and interim periods within these years, beginning after December 15, 2015. The Company is currently assessing the impact of adoption of ASU 2015-05 on its financial statements.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date to defer the effective date of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) issued by the FASB in May 2014, by one year. The guidance in ASU 2014-09 is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently assessing the impact of adoption of ASU 2014-09 on its financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in this ASU require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period of a business combination in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Upon adoption of this ASU in the first quarter of 2016, the Company will apply the guidance in this ASU to each future business combination, as applicable.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The amendments in this ASU require that all deferred tax assets and liabilities be classified as noncurrent on the balance sheet. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Upon adoption of this ASU in the first quarter of 2017, the current portions of the Company's deferred income tax assets and liabilities will be reclassified as noncurrent assets and liabilities on the Balance Sheets.

4. NORFOLK POWER TRANSFER

On August 31, 2015, the common shares of Norfolk Power Distribution Inc. (NPDI) were transferred to Hydro One Networks by Hydro One. The transfer was accounted as a non-monetary transfer, based on NPDI's carrying values at August 31, 2015.On September 1, 2015, NPDI started dissolution proceedings and, as a result, its assets were transferred to Hydro One Networks. Due to these transactions, the common shares of Hydro One Networks increased by $66 million, contributed surplus increased by $1 million, goodwill increased by $40 million, and other net assets increased by $27 million.

The following table summarizes the assets and liabilities that were transferred to Hydro One Networks' distribution business at September 1, 2015:

(millions of Canadian dollars)	
Property, plant and equipment	55
Goodwill	40
Working capital	9
Other assets	1
Inter-company demand facility	(33)
Derivative instruments	(3)
Other liabilities	(2)
	67

5. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	**Period from January 1 to October 31, 2015**	**Year ended December 31, 2014**
Depreciation of property, plant and equipment	472	539
Amortization of intangible assets	46	53
Asset removal costs	72	79
Amortization of regulatory assets	14	22
	604	693

6. FINANCING CHARGES

(millions of Canadian dollars)	**Period from January 1 to October 31, 2015**	**Year ended December 31, 2014**
Interest on long-term debt	336	413
Other	10	15
Interest earned on inter-company demand facility	1	–
Less: Interest capitalized on construction and development in progress	(42)	(49)
Gain on interest-rate swap agreements	(2)	(6)
Interest earned on inter-company demand facility	–	(4)
	303	369

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:

(millions of Canadian dollars)	Period from January 1 to October 31, 2015	Year ended December 31, 2014
Provision for PILs at statutory rate	176	214
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(29)	(63)
Pension contributions in excess of pension expense	(20)	(24)
Overheads capitalized for accounting but deducted for tax purposes	(12)	(15)
Interest capitalized for accounting but deducted for tax purposes	(11)	(13)
Prior year's adjustment	(2)	(2)
Environmental expenditures	(5)	(5)
Non-refundable ITCs	(2)	(3)
Post-retirement and post-employment benefit expense in excess of cash payments	–	2
Other	–	(4)
Net temporary differences	(81)	(127)
Net tax expense resulting from transition fromm PILs Regime to Federal Tax Regime	2,271	–
Net permanent differences	–	2
Total provision for PILs	2,367	89
Current provision for PILs	2,365	73
Deferred provision for PILs	2	16
Total provision for PILs	2,367	89
Effective income tax rate	359.94%	11.04%

The current provision for PILs is remitted to, or received from, the OEFC. At October 31, 2015, $2.3 billion was due to the OEFC (December 31, 2014 – $33 million receivable).

The total provision for PILs includes deferred provision for PILs of $2 million (December 31, 2014 – $16 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.

Departure Tax

Hydro One Networks' exemption from tax under the Federal Tax Regime ceased to apply on October 31, 2015. As a result, under the *Electricity Act*, 1998 (Ontario) (PILs Regime), Hydro One Networks was deemed to have disposed of its assets immediately before it lost its tax exempt status under the Federal Tax Regime, for proceeds equal to the fair market value of those assets at that time. Consequently, Hydro One Networks is liable to make a payment in lieu of tax (Departure Tax) under the PILs Regime in respect of the income and capital gains that arose as a result of this deemed disposition.

Hydro One Networks will pay to the OEFC an amount that reasonably approximates the amount of the Departure Tax that would be payable by Hydro One Networks in respect of the deemed disposition of its assets and that is not subject to appeal or re-assessment. The amount of Departure Tax recognized by Hydro One Networks is $2,271 million. See Note 25 – Subsequent Events for payment of the Departure Tax.

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 October 31, 2015 and December 31, 2014, deferred income tax assets and liabilities consisted of the following:

(millions of Canadian dollars)	October 31, 2015	December 31, 2014
Deferred income tax assets		
Post-retirement and post-employment benefit expense in excess of cash payments	554	554
Environmental expenditures	54	60
Total deferred income tax assets	608	614
Less: current portion	19	26
	589	588

(millions of Canadian dollars)	October 31, 2015	December 31, 2014
Deferred income tax liabilities		
Capital cost allowance in excess of depreciation and amortization	1,794	1,706
Regulatory amounts not recognized for tax	146	141
Goodwill	9	9
Other	1	1
Total deferred income tax liabilities	1,950	1,857
Less: current portion	–	7
	1,950	1,850

The deferred income tax assets and liabilities are presented on the Balance Sheets as follows:

(millions of Canadian dollars)	October 31, 2015	December 31, 2014
Current deferred income tax assets	19	26
Current deferred income tax liabilities	–	(7)
Net current deferred income tax assets	19	19
Long-term deferred income tax assets	589	588
Long-term deferred income tax liabilities	(1,950)	(1,850)
Net long-term deferred income tax liabilities	(1,361)	(1,262)

During the period ended October 31, 2015 and year ended December 31, 2014, there were no changes in the rate applicable to future taxes.

8. ACCOUNTS RECEIVABLE

(millions of Canadian dollars)	October 31, 2015	December 31, 2014
Accounts receivable – billed	411	494
Accounts receivable – unbilled	656	718
Accounts receivable, gross	1,067	1,212
Allowance for doubtful accounts	(64)	(65)
Accounts receivable, net	1,003	1,147

The following table shows the movements in the allowance for doubtful accounts for the period ended October 31, 2015 and the year ended December 31, 2014.

(millions of Canadian dollars)	**Period from January 1 to October 31, 2015**	**Year ended December 31, 2014**
Allowance for doubtful accounts – beginning of period	(65)	(34)
Write-offs	28	23
Additions to allowance for doubtful accounts	(27)	(54)
Allowance for doubtful accounts – end of period	(64)	(65)

9. PROPERTY, PLANT AND EQUIPMENT

October 31, 2015 *(millions of Canadian dollars)*	**Property, Plant and Equipment**	**Accumulated Depreciation**	**Construction in Progress**	**Total**
Transmission	13,608	4,648	923	9,883
Distribution	8,908	3,126	316	6,098
Communication	1,005	601	33	437
Administration and service	1,454	830	46	670
	24,975	9,205	1,318	17,088

December 31, 2014 *(millions of Canadian dollars)*	**Property, Plant and Equipment**	**Accumulated Depreciation**	**Construction in Progress**	**Total**
Transmission	13,255	4,475	607	9,387
Distribution	8,431	2,933	313	5,811
Communication	946	527	50	469
Administration and service	1,415	774	23	664
	24,047	8,709	993	16,331

Financing charges capitalized on property, plant and equipment under construction were $42 million during the period ended October 31, 2015 (year ended December 31, 2014 – $48 million).

10. INTANGIBLE ASSETS

October 31, 2015 *(millions of Canadian dollars)*	**Intangible Assets**	**Accumulated Amortization**	**Development in Progress**	**Total**
Computer applications software	570	261	23	332
Other	39	8	–	31
	609	269	23	363

December 31, 2014 *(millions of Canadian dollars)*	**Intangible Assets**	**Accumulated Amortization**	**Development in Progress**	**Total**
Computer applications software	580	298	21	303
Other	5	4	–	1
	585	302	21	304

Financing charges capitalized on intangible assets under development were $1 million during the period ended October 31, 2015 (year ended December 31, 2014 – $1 million). The estimated twelve months amortization expense for intangible assets as at October 31, 2015 is as follows: 2016 – $50 million; 2017 – $52 million; 2018 – $52 million; 2019 – $42 million; and 2020 – $21 million.

11. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-making process. Hydro One Networks has recorded the following regulatory assets and liabilities:

(millions of Canadian dollars)	**October 31, 2015**	**December 31, 2014**
Regulatory assets:		
Deferred income tax regulatory asset	1,379	1,281
Post-retirement and post-employment benefits	273	273
Environmental	220	226
Pension cost variance	36	90
2015-2017 rate rider	24	–
DSC exemption	10	16
OEB cost assessment differential	–	12
Retail settlement variance accounts	–	7
Other	7	19
Total regulatory assets	1,949	1,924
Less: current portion	43	29
	1,906	1,895

(millions of Canadian dollars)	**October 31, 2015**	**December 31, 2014**
Regulatory liabilities:		
External revenue variance	78	54
Green Energy expenditure variance	77	83
CDM deferral variance account	53	25
Retail settlement variance accounts	37	–
Deferred income tax regulatory liability	16	16
PST savings deferral	4	19
Other	10	11
Total regulatory liabilities	275	208
Less: current portion	16	40
	259	168

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 provision for PILs for the period ended October 31, 2015 would have been higher by approximately $81 million (year ended December 31, 2014 – $98 million).

Post-Retirement and Post-Employment Benefits

The Company 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, there would be no change in OCI for the period ended October 31, 2015 (year ended December 31, 2014 – OCI higher by $32 million).

Environmental

Hydro One Networks 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, the Company has recorded an equivalent amount as a regulatory asset. 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 prudency and the timing of recovery of all of Hydro One Networks' actual environmental expenditures. In the absence of rate-regulatedaccounting, for the period ended October 31, 2015, amortization expense would have been lower by $14 million (year ended December 3, 2014 – $17 million), and financing charges would have been higher by $8 million (year ended December 31, 2014 – $11 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 the absence of rate-regulated accounting, revenue would have been higher by $5 million for the period ended October 31, 2015 (year ended December 31, 2014 – $10 million).

2015-2017 Rate Rider

In March 2015, as part of its decision on Hydro One Networks' Distribution rate application for 2015-2019 the OEB approved the disposition of certain deferral and variance accounts, including RSVAs and accrued interest. The 2015-2017 Rate Rider account includes the balances approved for disposition by the OEB and will be disposed over a 32-month period in accordance with the OEB decision.

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 Networks that resulted from the connection of certain renewable generation facilities. The OEB ruled that identified specific expenditures can be recorded in a deferral account subject to the OEB's review in subsequent Hydro One Network distribution applications. In March 2015, the OEB approved the disposition of the DSC exemption deferral account at December 31, 2013, including accrued interest, which will be recovered through the 2015-2017 Rate Rider. In addition, the OEB also approved Hydro One's request to discontinue this deferral account, and there were no additions to this regulatory account in 2015.

OEB Cost Assessment Differential

In April 2010, the OEB issued its Decision regarding Hydro One Networks' distribution 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. In March 2015, the OEB approved the disposition of the OEB Cost Assessment Differential Account at December 31, 2013, including accrued interest, which will be recovered through the 2015-2017 Rate Rider. In addition, the OEB also approved Hydro One's request to discontinue this deferral account, and there were no additions to this regulatory account in 2015.

Retail Settlement Variance Accounts (RSVA)

Hydro One Networks has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In March 2015, the OEB approved the disposition of the total RSVA balance accumulated from January 2012 to December 2013, including accrued interest, to be recovered through the 2015-2017 Rate Rider.

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.

Green Energy Expenditure Variance

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.

CDM Deferral Variance Account

As part of Hydro One Networks' application for 2013 and 2014 transmission rates, Hydro One agreed to establish a new regulatory deferral variance account to track the impact of actual Conservation and Demand Management (CDM) and demand response results on the load forecast compared to the estimated load forecast included in the revenue requirement. At December 31, 2014, the balance in the CDM deferral variance account relates to the actual 2013 CDM compared to the amounts included in 2013 revenue requirement. At October 31, 2015, the balance also includes the difference between the actual 2014 CDM compared to the amounts included in 2014 revenue requirement. The OEB rate order specifically states that the IESO (Ontario Power Authority (OPA) prior to January 1, 2015) data used to calculate the difference between forecasted and actual savings will be provided one year in arrears, and as a result, no amount should be recorded in advance of notification from the IESO of actual results.

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 administration 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 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, 2015 and recorded in a deferral account, as directed by the OEB. In March 2015, the OEB approved the disposition of the PST Savings Deferral account at December 31, 2013, including accrued interest, which will be recovered through the 2015-2017 Rate Rider.

12. 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.

The following table presents the Company's outstanding long-term debt at October 31, 2015 and December 31, 2014:

(millions of Canadian dollars)	October 31, 2015	December 31, 2014
Long-term debt	8,177	8,697
Add: Unrealized marked-to-market loss[1]	–	2
Less: Long-term debt payable within one year	(450)	(552)
Long-term debt	7,727	8,147

[1] At December 31, 2014, the unrealized marked-to-market loss relates to $250 million of the $500 million note due 2015. The unrealized marked-to-market loss is offset by $2 million unrealized marked-to-market gain on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges. At October 31, 2015, the unrealized mark-to-market loss was not material.

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 Networks 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 Networks has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occurs with sufficient frequency and volume to provide ongoing pricing information.

Level 2 inputs are those other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates. A Level 2 measurement cannot have more than an insignificant portion of the valuation based on unobservable inputs.

Level 3 inputs are any fair value measurements that include unobservable inputs for the asset or liability for more than an insignificant portion of the valuation. A Level 3 measurement may be based primarily on Level 2 inputs.

Non−Derivative Financial Assets and Liabilities

At October 31, 2015 and December 31, 2014, the Company's 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 Company's long-term debt at October 31, 2015 and December 31, 2014 are as follows:

	October 31, 2015		December 31, 2014	
(millions of Canadian dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt				
$250 million of $500 million notes due 2015[1]	–	–	252	252
$30 million of $30 million notes due 2020[1]	30	30	–	–
Other notes and debentures[2]	8,147	9,378	8,447	9,860
	8,177	9,408	8,699	10,112

[1] The fair value of the $30 million MTN Series 33 notes and $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).

[2] The fair value of other notes and debentures, and the portion of 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

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.

At October 31, 2015, interest-rate swaps totaling $30 million (December 31, 2014 – $250 million) were used to convert fixed-rate debt to floating-rate debt. These interest-rate swaps are classified as fair value hedges. The Company's fair value hedge exposure was equal to about 1% (December 31, 2014 – 3%) of its total long-term debt of $8,177 million (December 31, 2014 – $8,699 million). At October 31, 2015, interest-rate swaps designated as fair value hedges were as follows:

- a $30 million fixed-to-floating interest-rate swap agreement to convert $30 million of the MTN Series 33 notes maturing April 30, 2020 into three-month variable rate debt.

At October 31, 2015, the Company also had interest-rate swaps and forward rate agreements with a total notional value of $308 million (December 31, 2014 – $409 million) classified as undesignated contracts. The undesignated contracts consist of the following:

- a $137 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on $137 million of the $228 million floating-rate MTN Series 31 notes from December 22, 2014 to December 21, 2015;
- a $30 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on $30 million of the $50 million floating-rate MTN Series 27 notes from March 3, 2015 to December 3, 2015;
- a $20 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on $20 million of the $50 million floating-rate MTN Series 27 notes from June 3, 2015 to December 3, 2015;
- a $91 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on $91 million of the $228 million floating-rate MTN Series 31 notes from June 22, 2015 to December 21, 2015; and
- three interest-rate swaps with a total notional value of $12 million that were assumed as part of the Norfolk Power acquisition. These swaps consist of $8 million and $2 million floating-to-fixed interest-rate swap agreements maturing on September 20, 2029, and a $2 million floating-to-fixed interest-rate swap agreement maturing on September 20, 2019.

At October 31, 2015 and December 31, 2014, the carrying amounts of derivative instruments were representative of fair value.

Fair Value Hierarchy

Fair value hierarchy information for financial assets and liabilities at October 31, 2015 and December 31, 2014 was as follows:

October 31, 2015 *(millions of Canadian dollars)*	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Liabilities:					
Intercompany demand facility	1,391	1,391	1,391	–	–
Derivative instruments					
Fair value hedges – interest-rate swaps	3	3	–	3	–
Long-term debt	8,177	9,408	–	9,408	–
	9,571	10,802	1,391	9,411	–

December 31, 2014 *(millions of Canadian dollars)*	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Inter-company demand facility	4	4	4	–	–
Derivative instruments					
Fair value hedges – interest-rate swaps	2	2	–	2	–
	6	6	4	2	–
Liabilities:					
Long-term debt	8,699	10,112	–	10,112	–
	8,699	10,112	–	10,112	–

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 period ended October 31, 2015 and the year ended December 31, 2014.

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 Networks 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' 2015 results of operations by approximately $20 million (December 31, 2014 – $20 million) and the Distribution Business' 2015 results of operations by approximately $13 million (December 31, 2014 – $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 October 31, 2015 and December 31, 2014.

A hypothetical 10% increase in the interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One Networks' results of operations for the period ended October 31, 2015 and the year ended December 31, 2014.

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 net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the period ended October 31, 2015 and for the year ended December 31, 2014 are included in financing charges as follows:

(millions of Canadian dollars)	**Period from January 1 to October 31, 2015**	**Year ended December 31, 2014**
Unrealized loss (gain) on hedged debt	–	(3)
Unrealized loss (gain) on fair value interest-rate swaps	–	3
Net unrealized loss (gain)	–	–

At October 31, 2015, the notional amount of fair value hedges outstanding related to interest-rate swaps was $30 million (year ended December 31, 2014 – $250 million), with assets at fair value of $nil (year ended December 31, 2014 – $2 million). During the period ended October 31, 2015 and the year ended December 31, 2014, 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 October 31, 2015 and December 31, 2014, there were no significant concentrations of credit risk with respect to any class of financial assets. Hydro One Networks did not earn a significant amount of revenue from any individual customer. At October 31, 2015 and December 31, 2014, there was no significant accounts receivable balance due from any single customer.

At October 31, 2015, the Company's allowance for doubtful accounts was $64 million (December 31, 2014 – $65 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At October 31, 2015, approximately 5% of the Company's net accounts receivable were aged more than 60 days (December 31, 2014 – 5%).

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 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. 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 counterparty credit risk policy is consistent with Hydro One. The Company's credit risk for accounts receivable is limited to the carrying amounts on the Balance Sheets.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One Networks 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 October 31, 2015, accounts payable and accrued liabilities in the amount of $3,075 million (December 31, 2014 – $906 million) are expected to be settled in cash at their carrying amounts within the next year.

At October 31, 2015, the principal amount of the Company's long-term debt was $8,177 million (December 31, 2014 – $8,697 million). Principal repayments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	Long-term Debt Principal Repayments *(millions of Canadian dollars)*	Weighted Average Interest Rate *(%)*
1 year	500	4.3
2 years	600	5.2
3 years	750	2.8
4 years	228	1.1
5 years	330	4.2
	2,408	3.8
6 – 10 years	580	3.2
Over 10 years	5,189	5.4
	8,177	4.8

Interest payments on long-term debt are summarized by year in the following table:

Year	**Interest Payments** *(millions of Canadian dollars)*
2016	380
2017	369
2018	337
2019	314
2020	307
	1,707
2021-2025	1,436
2026 +	3,989
	7,132

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. The Company considers its capital structure to consist of shareholder's equity, preferred shares, long-term debt, and the inter-company demand facility. At October 31, 2015 and December 31, 2014, the Company's capital structure was as follows:

(millions of Canadian dollars)	**October 31, 2015**	**December 31, 2014**
Long-term debt payable within one year	450	552
Inter-company demand facility	1,391	(4)
	1,841	548
Long-term debt	7,727	8,147
Preferred shares	–	372
Common shares	3,429	2,991
Retained earnings	1,018	3,610
Contributed Surplus	5	4
	4,452	6,605
Total capital	14,020	15,672

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 Haldimand Hydro and Woodstock Hydro. 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 Pension Plan contributions for period ended October 31, 2015 of $149 million (year ended December 31, 2014 – $174 million) were based on an actuarial valuation effective December 31, 2013 and projected levels of pensionable earnings. Estimated annual Pension Plan contributions for 2016 are approximately $180 million based on an actuarial valuation as at December 31, 2013 and projected levels of pensionable earnings. Future minimum contributions beyond 2016 will be based on an actuarial valuation effective no later than December 31, 2016. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash.

At December 31, 2014, based on the December 31, 2013 actuarial valuation, the present value of Hydro One's projected pension benefit obligation was estimated to be $7,535 million. The fair value of pension plan assets available for these benefits was $6,299 million. At October 31, 2015, the net funded status of pension plan obligation was $1,223 million.

Post-Retirement and Post-Employment Benefits

During the period ended October 31, 2015, the Company charged $42 million (year ended December 31, 2014 – $53 million) of post-retirement and post-employment benefit costs to operations, and capitalized $53 million (year ended December 31, 2014 – $64 million) as part of the cost of property, plant and equipment and intangible assets. Benefits paid during the period ended October 31, 2015 were $34 million (year ended December 31, 2014 – $45 million. The associated post-retirement and post-employment benefits regulatory asset did not change during the period ended October 31, 2015 (year ended December 31, 2014 – decrease of $32 million).

The Company presents its post-retirement and post-employment benefit liabilities on the Balance Sheets as follows:

(millions of Canadian dollars)	**October 31, 2015**	**December 31, 2014**
Accrued liabilities	48	49
Post-retirement and post-employment benefit liability	1,556	1,493
	1,604	1,542

16. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the period ended October 31, 2015 and the year ended December 31, 2014.

Period from January 1 to October 31, 2015 *(millions of Canadian dollars)*	**PCB**	**LAR**	**Total**
Environmental liabilities, January 1	172	54	226
Interest accretion	7	1	8
Expenditures	(7)	(7)	(14)
Environmental liabilities, October 31	172	48	220
Less: current portion	22	9	31
	150	39	189

Year ended December 31, 2014 *(millions of Canadian dollars)*	**PCB**	**LAR**	**Total**
Environmental liabilities, January 1	201	51	252
Interest accretion	9	2	11
Expenditures	(5)	(12)	(17)
Revaluation adjustment	(33)	13	(20)
Environmental liabilities, December 31	172	54	226
Less: current portion	8	8	16
	164	46	210

The following table illustrates the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized on the Balance Sheets after factoring in the discount rate:

October 31, 2015 *(millions of Canadian dollars)*	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities, October 31	195	57	252
Less: discounting accumulated liabilities to present value	23	9	32
Discounted environmental liabilities, October 31	172	48	220

December 31, 2014 *(millions of Canadian dollars)*	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities, December 31	195	57	252
Less: discounting accumulated liabilities to present value	23	3	26
Discounted environmental liabilities, December 31	172	54	226

At October 31, 2015, the estimated future environmental expenditures for twelve months period ended were as follows:

(millions of Canadian dollars)	
2016	31
2017	34
2018	33
2019	31
2020	26
Thereafter	97
	252

Hydro One Networks 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 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.

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 2.3% 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.

PCBs

The Environment Canada regulations, enacted under the *Canadian Environmental Protection Act*, 1999, govern the management, storage and disposal of PCBs based on certain criteria, including type of equipment, in-use status, and PCB-contamination thresholds. Under current regulations, Hydro One's PCBs have to be disposed of by the end of 2025, with the exception of specifically exempted equipment. 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 $195 million. These expenditures are expected to be incurred over the period from 2015 to 2025.

LAR

The Company's best estimate of the total estimated future expenditures to complete its LAR program is $57 million. These expenditures are expected to be incurred over the period from 2015 to 2023.

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. Asset retirement obligations, 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 asset retirement obligation 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 asset retirement obligation, 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 asset retirement obligations, 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 asset retirement obligations 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. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively.

At October 31, 2015, Hydro One Networks had recorded AROs of $8 million (December 31, 2014 – $8 million), consisting of $7 million (December 31, 2014 – $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 $1 million (December 31, 2014 – $1 million) related to the future decommissioning and removal of two switching stations. The amount of interest recorded is nominal.

18. SHARE CAPITAL

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At October 31, 2015, Hydro One had no issued and outstanding preferred shares.

Prior to October 31, 2015, the Company had 14,875,720 issued and outstanding cumulative preferred shares with a redemption value of $25 per share or $372 million total value. On October 31, 2015, these preferred shares were purchased and cancelled by Hydro One Networks.

Common Shares

The Company is authorized to issue an unlimited number of common shares. At October 31, 2015, the Company had 154,490,144 common shares (December 31, 2014 – 148,821,741) issued and outstanding.

The following table presents the change in common shares during the period ended October 31, 2015. There was no change in common shares during the year ended December 31, 2014.

Period ended October 31, 2015	*(millions of Canadian dollars)*	*(number of shares)*
Common shares – January 1	2,991	148,821,741
Common shares issued – transfer of Norfolk Power *(a)*	66	799,191
Common shares issued – purchase and cancellation of preferred shares *(b)*	372	4,869,212
Common shares – October 31	3,429	154,490,144

(a) On August 31, 2015, Hydro One Networks issued 799,191 common shares to Hydro One as consideration of the transfer of all common shares of NPDI to Hydro One Networks by Hydro One.

(b) On October 31, 2015, Hydro One Networks purchased and cancelled its 14,875,720 preferred shares for cancellation at a price equal to the redemption price of the preferred shares totaling $372 million, which was satisfied by the issuance to the Province of 4,869,212 common shares of Hydro One Networks.

Common share dividends are declared at the sole discretion of the Hydro One Networks 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.

19. DIVIDENDS

During the period ended October 31, 2015, preferred share dividends in the amount of $15 million (year ended December 31, 2014 – $20 million) and common share dividends in the amount of $875 million (year ended December 31, 2014 – $724 million) were declared.

20. RELATED PARTY TRANSACTIONS

Hydro One Networks is a subsidiary of Hydro One. Hydro One is owned by Hydro One Limited, and the Province is the shareholder of Hydro One Limited. The OEFC, IESO, Ontario Power Generation Inc. (OPG), the OEB and Hydro One Brampton Inc. (Hydro One Brampton) are related parties to Hydro One Networks because they are controlled or significantly influenced by the Province. Transactions between these parties and Hydro One Networks are described below.

IESO

- During the period ended October 31, 2015, Hydro One Networks purchased power in the amount of $1,547 million (year ended December 31, 2014 – $ 2,172 million) from the IESO-administered electricity market.
- The Company receives amounts for transmission services from the IESO, based on uniform transmission rates approved by the OEB. Amounts received for the period ended October 31, 2015 were $1,277 million (year ended December 31, 2014 – $1,555 million). Consistent with the Company's revenue recognition policy, during the period ended October 31, 2015, $1,228 million (year ended December 31, 2014 – $1,549 million) was recognized related to these services.
- Hydro One Networks receives amounts for rural rate protection from the IESO. For the period ended October 31, 2015, distribution revenues include $106 million (year ended December 31, 2014 – $127 million) related to this program.
- The IESO funds substantially all of the Company's conservation and demand management programs. The funding includes program costs, incentives, and management fees. During the period ended October 31, 2015, Hydro One Networks received $60 million (year ended December 31, 2014 – $28 million) from the IESO related to these programs.

OPG

- During the period ended October 31, 2015, Hydro One Networks purchased power in the amount of $11 million (year ended December 31, 2014 – $23 million) from OPG.

- The Company has service level agreements with OPG. These services include field and engineering, logistics, corporate, telecommunications and information technology services. During the period ended October 31, 2015, revenues related to the provision of construction and equipment maintenance services with respect to these service level agreements were $5 million (year ended December 31, 2014 – $11 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 not significant.

OEFC

- During the period ended October 31, 2015, Hydro One purchased power in the amount of $5 million (year ended December 31, 2014 – $10 million) from power contracts administered by the OEFC.
- The Company paid 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. Hydro One has not made any claims under the indemnity since it was put in place in 1999. Hydro One and the OEFC, with the consent of the Minister of Finance, have agreed to terminate the indemnity effective October 31, 2015.
- PILs and payments in lieu of property taxes are paid to the OEFC.

OEB

- 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. During the period ended October 31, 2015, Hydro One Networks incurred $10 million (year ended December 31, 2014 – $11 million) in OEB fees.

Hydro One Brampton

- Effective August 31, 2015, Hydro One Brampton is no longer a subsidiary of Hydro One, but is indirectly owned by the Province.

  Subsequent to August 31, 2015, Hydro One Networks continues to provide certain management, administrative and smart meter network services to Hydro One Brampton pursuant to certain service level agreements, which are provided at market rates. These agreements will continue until the end of 2016 (except in the case of smart meter network services, which will continue until the end of 2017). Hydro One Brampton has the right to renew these agreements (other than smart meter network services) for additional one-year terms to end no later than December 31, 2019. These agreements will terminate if the Province disposes of its interest in Hydro One Brampton, except in the case of the smart meter network services agreement, which is anticipated to continue for a transition period after the Province disposes of its interest in Hydro One Brampton. During the period ended October 31, 2015, revenues related to the provision of services with respect to these service level agreements were not significant.
- During the period ended October 31, 2015, the Company received $8 million (year ended December 31, 2014 – $nil) in capital contributions from Hydro One Brampton.

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.

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

(millions of Canadian dollars)	October 31, 2015	December 31, 2014
Accounts receivable	152	217
Accrued liabilities[1]	(50)	(188)

[1] Included in accrued liabilities at October 31, 2015 are amounts owing to the IESO in respect of power purchases of $33 million (December 31, 2014 – $176 million).

Hydro One Limited and Subsidiaries

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

  The Company has entered into various agreements with Hydro One Limited 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. During the period ended October 31, 2015 revenues include $6 million (year ended December 31, 2014 – $5 million) related to the provision of services to Hydro One Limited and its other subsidiaries. During period ended October 31, 2015, services were purchased from Hydro One Limited and its other subsidiaries totalling $40 million (year ended December 31, 2014 – $43 million), of which $31 million (year ended December 31, 2014 – $31 million) was expensed, and $9 million (year ended December 31, 2014 – $12 million) was capitalized.

- The Company's long-term debt is due to Hydro One and balances payable or receivable under the inter-company demand facility are due to or from Hydro One Limited. Financing charges include interest expense on the long-term debt in the amount of $337 million (year ended December 31, 2014 – $413 million). Interest expense incurred on the inter-company demand facility during the period ended October 31, 2015 was $1 million (year ended December 31, 2014 – $4 million interest income). At October 31, 2015, the Company had accrued interest payable to Hydro One totalling $90 million (December 31, 2014 – $98 million).

- During the period ended October 31, 2015 Hydro One Networks paid preferred share dividends in the amount of $15 million (year ended December 31, 2014 – $20 million) and common share dividends in the amount of $850 million (year ended December 31, 2014 – $724 million) to Hydro One. In addition, common share dividends of $25 million were payabe to Hydro One at October 31, 2015.

21. STATEMENTS OF CASH FLOWS

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

(millions of Canadian dollars)	**Period from January 1 to October 31, 2015**	**Year ended December 31, 2014**
Accounts receivable	144	(101)
Materials and supplies	1	(1)
Other assets	12	(7)
Accounts payable	2	33
Accrued liabilities	2,124	(44)
Accrued interest	(8)	(1)
Long-term accounts payable and other liabilities	–	5
Post-retirement and post-employment benefit liability	63	65
	2,338	(51)

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 capitalized depreciation and the net change in related accruals:

(millions of Canadian dollars)	**Period from January 1 to October 31, 2015**	**Year ended December 31, 2014**
Capital investments in property, plant and equipment	(1,294)	(1,478)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	24	30
Capital expenditures – property, plant and equipment	(1,270)	(1,448)

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:

(millions of Canadian dollars)	**Period from January 1 to October 31, 2015**	**Year ended December 31, 2014**
Capital investments in intangible assets	(25)	(14)
Net change in accruals included in capital investments in intangible assets	24	30
Capital expenditures – intangible assets	(21)	(18)

Capital Contributions

Hydro One Networks enters into contracts governed by the OEB Transmission System Code when a transmission customer requests a new or upgraded transmission connection. The customer is required to make a capital contribution to Hydro One based on the shortfall between the present value of the costs of the connection facility and the present value of revenues. The present value of revenues is based on an estimate of load forecast for the period of the contract with Hydro One. Once the connection facility is commissioned, in accordance with the OEB Transmission System Code, Hydro One will periodically reassess the estimated of load forecast which will lead to a decrease, or an increase in the capital contributions from the customer. The increase or decrease in capital contributions is recorded directly to fixed assets in service. During the period ended October 31, 2015, capital contributions from these reassessments totalled $8 million, which represents the difference between the revised load forecast of electricity transmitted compared to the load forecast in the original contract, subject to certain adjustments. No reassessments occurred in 2014.

Supplementary Information

(millions of Canadian dollars)	**Period from January 1 to October 31, 2015**	**Year ended December 31, 2014**
Net interest paid	334	406
PILs paid	47	77

22. CONTINGENCIES

Legal Proceedings

Hydro One Networks 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 financial position, results of operations or cash flows.

In September 2015, Hydro One and three of its subsidiaries, including Hydro One Networks, were served with a class action suit in which the representative plaintiff is seeking up to $125 million in damages related to allegations of improper billing practices. Hydro One intends to defend the action. Due to the preliminary stage of legal proceedings, an estimate of a possible loss related to this claim cannot be made.

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. 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 effect on the Company's results of operations if the Company is not able to recover them in future rate orders.

23. COMMITMENTS

Outsourcing Agreements

Inergi LP (Inergi), an affiliate of Capgemini Canada Inc., provides services to Hydro One, including settlements, source to pay services, pay operations services, information technology, finance and accounting services. The agreement with Inergi for these services expires in December 2019. In addition, Inergi provides customer service operations outsourcing services to Hydro One. The agreement for these services expires in February 2018.

Brookfield Global Integrated Solutions (formerly Brookfield Johnson Controls Canada LP) (Brookfield) provides services to Hydro One, including facilities management and execution of certain capital projects as deemed required by the Company. The current agreement with Brookfield expires in December 2024.

At October 31, 2015, commitments under the outsourcing agreements were as follows: 2016 – $137 million; 2017 – $137 million; 2018 – $110 million; 2019 – $97 million; and thereafter – $16 million.

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 October 31, 2015, Hydro One provided prudential support to the IESO on behalf of Hydro One Networks using parental guarantees of $250 million (December 31, 2014 – $250 million). In addition, as at October 31, 2015, Hydro One has provided letters of credit in the amount of $10 million (December 31, 2014 – $8 million) to the IESO on behalf of Hydro One Networks. The IESO could draw on these guarantees and/or letters of credit if the Company fails 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 Hydro One’s liability under the terms of a trust fund established pursuant to the supplementary pension plan for the 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 Hydro One’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 October 31, 2015, Hydro One had letters of credit of $126 million (December 31, 2014 – $126 million) outstanding relating to retirement compensation arrangements.

Operating Leases

Hydro One Networks is committed as lessee to irrevocable operating lease contracts for buildings used in administrative and service-related functions. These leases have a typical term of between three and five years, but several leases have lesser or greater terms to address special circumstances and/or opportunities. Renewal options, which are generally prevalent in most leases, have similar terms of three to five years. 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 or pre-established rents. There are no restrictions placed upon Hydro One Networks by entering into these leases.

During the period ended October 31, 2015, the Company made lease payments totaling $5 million (year ended December 31, 2014 – $10 million). At October 31, 2015, the future minimum lease payments under non-cancellable operating leases for each twelve months periods were as follows: 2016 – $9 million; 2017 – 9 million; 2018 – $7 million; 2019 – $3 million; 2020 – $6 million and thereafter – $4 million.

24. SEGMENTED REPORTING

Hydro One Networks has three reportable segments:

- The Transmission Business, which comprises the core business of transmitting high voltage electricity across the province, interconnecting more than 70 local distribution companies and certain large directly connected industrial customers throughout the Ontario electricity grid;
- The Distribution Business, which comprises the core business of delivering electricity to end customers and certain other municipal electricity distributors; and
- The Other Business, which includes the Company's non-rate-regulated activities, such as donations, and deferred income tax assets related to IPO.

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:

Period from January 1 to October 31, 2015 *(millions of Canadian dollars)*	**Transmission**	**Distribution**	**Other**	**Total**
Revenues	1,259	3,707	–	4,966
Purchased power	–	2,557	–	2,557
Operation, maintenance and administration	346	482	9	837
Depreciation and amortization	308	296	–	604
Income before financing charges and provision for PILs	605	372	(9)	968
Capital investments	778	540	–	1,318

Year ended December 31, 2014 *(millions of Canadian dollars)*	**Transmission**	**Distribution**	**Other**	**Total**
Revenues	1,588	4,340	–	5,928
Purchased power	–	2,979	–	2,979
Operation, maintenance and administration	402	675	4	1,081
Depreciation and amortization	346	347	–	693
Income before financing charges and provision for PILs	840	339	(4)	1,175
Capital investments	845	647	–	1,492

Total Assets by Segment:

(millions of Canadian dollars)	**October 31, 2015**	**December 31, 2014**
Transmission	11,982	11,717
Distribution	8,618	8,168
Other	–	–
Total assets	20,600	19,885

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

25. SUBSEQUENT EVENTS

Changes in Ownership Structure of Hydro One

Prior to the completion of the IPO, Hydro One and Hydro One Limited completed a series of transactions (Pre-Closing Transactions) that resulted in, among other things, the acquisition by Hydro One Limited of all of the issued and outstanding shares of Hydro One from the Province and the issuance of new common shares and preferred shares of Hydro One Limited to the Province. Following the completion of the IPO and the Pre-Closing Transactions, the Province owns 84% of Hydro One Limited's common shares and Hydro One Limited owns 100% of Hydro One's common shares.

Hydro One Networks Preferred Shares

On November 2, 2015, a special resolution of Hydro One (as sole shareholder of Hydro One Networks) was made to amend the articles of Hydro One Networks to delete the share ownership restrictions and to amend the Hydro One Networks Preferred Share terms to provide for basic redeemable preferred shares.

Hydro One Networks Common Shares

On November 3, 2015, Hydro One Networks declared a stock dividend on its common shares, which due to the number of shares issued and the resulting effect on the price per share was treated as a stock split. On November 5, 2015, Hydro One Networks effected a reverse split and issued as consideration one common share to Hydro One. There was no impact to the capital structure of Hydro One Networks as a net result of the stock dividend and the reverse split.

Payment of Departure Tax

To enable Hydro One Networks to make the Departure Tax payment, on November 4, 2015, Hydro One subscribed for 53,067,036 additional common shares of Hydro One Networks for $2,271 million. Hydro One Networks used the proceeds of this share subscription to pay the Departure Tax of $2,271 million.

Equity Compensation Plans

The following compensation plans were established by Hydro One Limited, however they represent components of compensation costs of Hydro One and its subsidiaries, including Hydro One Networks, in current and future periods.

Share Grant Plans

The PWU Share Grant Plan provides for the issuance of common shares of Hydro One Limited to certain eligible members of the Power Workers' Union annually, commencing on April 1, 2017 and continuing until the earlier of April 1, 2028 or the date an eligible employee no longer meets the eligibility criteria of the PWU Share Grant Plan. The number of common shares granted annually to each eligible employee will be equal to 2.7% of such eligible employee's salary as at April 1, 2015, divided by the price of the common shares of Hydro One Limited in the IPO. The aggregate number of common shares issuable under the PWU Share Grant Plan shall not exceed 3,981,763 common shares.

The Society Share Grant Plan provides for the issuance of common shares of Hydro One Limited to certain eligible members of The Society of Energy Professionals annually, commencing on April 1, 2018 and continuing until the earlier of April 1, 2029 or the date an eligible employee no longer meets the eligibility criteria of the Society Share Grant Plan. The number of common shares granted annually to each eligible employee will be equal to 2.0% of such eligible employee's salary as at September 1, 2015, divided by the price of the common shares of Hydro One Limited in the IPO. The aggregate number of common shares issuable under the Society Share Grant Plan shall not exceed 1,434,686 common shares.

Employee Share Ownership Plan

Effective December 15, 2015, Hydro One Limited established an Employee Share Ownership Plan (ESOP). Under the ESOP, certain eligible management and non-represented employees may contribute between 1% and 6% of their base salary towards purchasing common shares of Hydro One Limited. The Company will match 50% of the employee's contributions, up to a maximum Company contribution of $25,000 per calendar year. No contributions were made under the ESOP during 2015.

Long-term Incentive Plan

Effective August 31, 2015, the Board of Directors of Hydro One Limited adopted a Long-term Incentive Plan (LTIP). Under the LTIP, long-term incentives will be granted to certain executive and management employees of Hydro One Limited and its subsidiaries, and all equity-based awards will be settled in newly-issued shares of Hydro One Limited from treasury, consistent with the provisions of the plan. The aggregate number of shares issuable under the LTIP shall not exceed 11,900,000 shares of Hydro One Limited.

The LTIP provides flexibility to award a range of vehicles, including restricted share units, performance share units, stock options, share appreciation rights, restricted shares, deferred share units and other share-based awards. The mix of vehicles is intended to vary by role to recognize the level of executive accountability for overall business performance. No long-term incentives were awarded during 2015.

HYDRO ONE NETWORKS INC.

FINANCIAL STATEMENTS
(unaudited)

NOVEMBER 4, 2015

HYDRO ONE NETWORKS INC.
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (unaudited)
For the periods from November 1 to November 4, 2015 and from January 1 to October 31, 2015

(millions of Canadian dollars)	**Period from November 1 to November 4, 2015**	**Period from January 1 to October 31, 2015**
Revenues		
Distribution	58	3,707
Transmission	19	1,259
	77	4,966
Costs		
Purchased power	40	2,557
Operation, maintenance and administration	14	837
Depreciation and amortization	11	604
	65	3,998
Income before financing charges and income tax expense	**12**	**968**
Financing charges	5	303
Income before income tax expense	**7**	**665**
Income tax expense	1	2,367
Net income (loss)	**6**	**(1,702)**
Other comprehensive income	–	–
Comprehensive income (loss)	**6**	**(1,702)**

HYDRO ONE NETWORKS INC.
BALANCE SHEETS (unaudited)
At November 4, 2015 and October 31, 2015

(millions of Canadian dollars)	**November 4, 2015**	**October 31, 2015**
Assets		
Current assets:		
Accounts receivable (net of allowance for doubtful accounts – $64)	1,080	1,003
Regulatory assets	43	43
Materials and supplies	19	19
Deferred income tax assets	19	19
Other	11	11
	1,172	1,095
Property, plant and equipment:		
Property, plant and equipment in service	24,828	24,828
Less: accumulated depreciation	9,216	9,205
	15,612	15,623
Construction in progress	1,318	1,318
Future use land, components and spares	147	147
	17,077	17,088
Other long-term assets:		
Regulatory assets	1,906	1,906
Intangible assets (net of accumulated amortization – $269)	363	363
Goodwill	112	112
Deferred debt issuance costs	33	33
Other	3	3
	2,417	2,417
Total assets	**20,666**	**20,600**

HYDRO ONE NETWORKS INC.
BALANCE SHEETS (unaudited) (continued)
At November 4, 2015 and October 31, 2015

(millions of Canadian dollars)	**November 4, 2015**	**October 31, 2015**
Liabilities		
Current liabilities:		
Intercompany demand facility	1,391	1,391
Accounts payable	159	159
Accrued liabilities	700	2,916
Accrued interest	95	90
Regulatory liabilities	16	16
Derivative instruments	3	3
Long-term debt payable within one year	450	450
	2,814	5,025
Long-term debt	7,727	7,727
Other long-term liabilities:		
Post-retirement and post-employment benefit liability	1,556	1,556
Deferred income tax liabilities	1,361	1,361
Environmental liabilities	189	189
Regulatory liabilities	259	259
Net unamortized debt premiums	18	18
Asset retirement obligations	8	8
Long-term accounts payable and other liabilities	14	14
	3,405	3,405
Total liabilities	**13,946**	**16,157**
Shareholder's Equity		
Common shares	5,700	3,429
Retained earnings	1,024	1,018
Contributed surplus	5	5
Accumulated other comprehensive loss	(9)	(9)
Total shareholder's equity	**6,720**	**4,443**
Total liabilities and shareholder's equity	**20,666**	**20,600**

HYDRO ONE NETWORKS INC.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (unaudited)
For the periods from November 1 to November 4, 2015 and from January 1 to October 31, 2015

Period from November 1 to November 4, 2015 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Contributed Surplus**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholder's Equity**
November 1, 2015	3,429	1,018	5	(9)	4,443
Net income	–	6	–	–	6
Other comprehensive income	–	–	–	–	–
Common shares issued	2,271	–	–	–	2,271
November 4, 2015	5,700	1,024	5	(9)	6,720

Period from January 1 to October 31, 2015 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Contributed Surplus**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholder's Equity**
January 1, 2015	2,991	3,610	4	(9)	6,596
Net income (loss)	–	(1,702)	–	–	(1,702)
Other comprehensive income	–	–	–	–	–
Common shares issued on Norfolk Power transfer	66	–	1	–	67
Preferred shares repurchase	372	–	–	–	372
Dividends on common shares	–	(875)	–	–	(875)
Dividends on preferred shares	–	(15)	–	–	(15)
October 31, 2015	3,429	1,018	5	(9)	4,443

HYDRO ONE NETWORKS INC.
STATEMENTS OF CASH FLOWS (unaudited)
For the periods from November 1 to November 4, 2015 and from January 1 to October 31, 2015

(millions of Canadian dollars)	**Period from November 1 to November 4, 2015**	**Period from January 1 to October 31, 2015**
Operating activities		
Net income	6	(1,702)
Environmental expenditures	–	(14)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	11	532
Regulatory assets and liabilities	–	135
Deferred income taxes	–	2
Other	–	7
Changes in non-cash balances related to operations	(2,288)	2,338
Net cash from (used in) operating activities	(2,271)	1,298
Financing activities		
Long-term debt issued	–	30
Long-term debt retired	–	(550)
Common shares issued	2,271	–
Dividends paid	–	(865)
Net cash from (used in) financing activities	2,271	(1,385)
Investing activities		
Capital expenditures		
Property, plant and equipment	–	(1,270)
Intangible assets	–	(21)
Norfolk integration	–	(33)
Capital contribution received	–	8
Other	–	8
Net cash used in investing activities	–	(1,308)
Net change in inter-company demand facility	–	(1,395)
Inter-company demand facility, beginning of period	(1,391)	4
Inter-company demand facility end of period	**(1,391)**	**(1,391)**

1. DESCRIPTION OF THE BUSINESS

Hydro One Inc. (Hydro One) was incorporated on December 1, 1998, under the Business Corporations Act (Ontario) and was wholly owned by the Province of Ontario (the Province) until October 31, 2015. On October 31, 2015, Hydro One Limited, a wholly owned subsidiary of the Province, acquired all issued and outstanding shares of Hydro One from the 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 transmission business (Transmission Business) operates a high-voltage electrical transmission network that represents almost all of the licensed transmission capacity in Ontario. 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. These businesses are regulated by the Ontario Energy Board (OEB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These Financial Statements are prepared and presented in accordance with United States Generally Accepted Accounting Principles and in Canadian dollars. The Financial Statements have been prepared solely for the purpose of filing the Company's income tax return, as on November 5, 2015, the common shares of Hydro One Limited began trading on the Toronto Stock Exchange, and as a result, the Company lost its status as a Canadian-Controlled Private Corporation. Since these financial statements have not been prepared for general purposes, some users may require additional information. These Financial Statements present the financial position of the Company at November 4, 2015 and the results of its operations and its cash flows for the period from November 1, 2015 to November 4, 2015. The comparative information is presented as at October 31, 2015 and for the period from January 1, 2015 to October 31, 2015.

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, 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.

Rate Setting

The OEB has approved the use of US GAAP for rate setting and regulatory accounting and reporting by the Company's Distribution and Transmission Businesses.

Transmission

On January 8, 2015, pursuant to an application filed with the OEB, the OEB approved the 2015 Hydro One transmission rates revenue requirement of $1,477 million.

Distribution

On March 12, 2015, the OEB issued a Decision and Rate Order approving a revenue requirement of $1,326 million for 2015, $1,430 million for 2016 and $1,486 million for 2017. The revenue requirements for 2016 and 2017 are estimates that may change based on 2016 and 2017 Rate Orders. On April 23, 2015, the Final Rate Order for 2015 rates was approved by the OEB.

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.

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 attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. Unbilled revenues are based on an estimate of electricity delivered determined by historical trends of consumption and are estimated at the end of each month. The unbilled revenue estimate is affected by energy consumption, weather, 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.

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 recorded at their estimated value. 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 Company estimates the allowance for doubtful accounts on customer receivables by applying internally developed loss rates to the outstanding receivable balances by aging category. Loss rates applied to the accounts receivable balances are based on historical overdue balances, customer payments and write-offs. Accounts receivable are written-off against the allowance when they are deemed uncollectible. The existing allowance for doubtful accounts will continue to be affected by changes in volume, prices and economic conditions.

Income Taxes

On October 31, 2015, the Company ceased to be exempt from tax under the *Income Tax Act* (Canada) and the *Taxation Act*, 2007 (Ontario) (Federal Tax Regime). Prior to that date, the Company was required to make payments in lieu of corporate income taxes (PILs) to the Ontario Electricity Financial Corporation (OEFC) under the *Electricity Act*, 1998 (Ontario) (PILs Regime). These payments were 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. Upon exiting the PILs Regime, the Company is required to make corporate income tax payments to the Canada Revenue Agency (CRA) under the Federal Tax Regime.

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.

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 (Loss).

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 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.

Inter-company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries, including Hydro One Networks. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Company 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, 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.

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.

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 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 Statements of Operations and Comprehensive Income (Loss). 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, 2015. 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	55 years	1% – 2%	2%
Distribution	46 years	1% – 7%	2%
Communication	16 years	1% – 15%	6%
Administration and service	16 years	3% – 20%	5%

The cost of intangible assets is included primarily within the administration and service classification above. Amortization rate for computer applications software and other intangible assets is 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 asset retirement obligations have 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.

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, the Company evaluates whether impairment may exist by estimating 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 Hydro One Networks’ 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. At November 4, 2015 and October 31, 2015, 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 (Loss). 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 and net income are presented in a single continuous Statement of Operations and Comprehensive Income (Loss).

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, which are measured at the lower of cost or fair value. Accounts receivable are classified as loans and receivables. The Company considers the carrying amounts of accounts receivable 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. All financial instrument transactions are recorded at trade date.

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.

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 November 4, 2015 and October 31, 2015.

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 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. The measurement date for the Plans was December 31.

Pension Benefits

Hydro One has a contributory defined benefit pension plan covering most regular employees of Hydro One and its subsidiaries, including Hydro One Networks. The Hydro One pension plan does not segregate assets in a separate account for individual subsidiaries, nor is the obligation 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 pension benefit asset or liability is recorded.

A detailed description of Hydro One pension benefits is provided in the Pension and Post-Retirement and Post-Employment Benefits note to the Consolidated Financial Statements of Hydro One.

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.

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.

A detailed description of Hydro One post-retirement and post-employment benefits is provided in the Pension and Post-Retirement and Post-Employment Benefits note to the Consolidated Financial Statements of Hydro One.

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 its 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 Company records a loss at the minimum amount within the range.

Management regularly reviews current information available to determine whether recorded provisions should be adjusted and whether new provisions are required. Estimating probable losses may require analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, provincial and local courts or regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the 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 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. Hydro One Networks records a liability for the estimated future expenditures associated with the contaminated land assessment and remediation (LAR) program 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 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 Networks 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 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.

UNDERTAKING – J11.17

Undertaking

To respond to Exhibit K11.2 questions 8 and 9:

> 8. The evidence in Exhibit J2.9 indicates that the total deferred tax asset in HONI is $2.595 billion of which $1.120 relates to distribution and the balance of $1.495 billion relates to transmission. Using the information shown in columns 1 and 2 of Exhibit J1.3 Attachment 1 and any other information that may be required please show how the deferred tax asset of $2.595 billion is derived.
>
> 9. In the Oct.29, 2015 Prospectus at page F-134 there is an illustration of how the use of the deferred tax benefit would produce actual cash savings in income taxes of about $105 for the 18 months ended June 30, 2015. Is the calculation of actual tax savings for Hydro One Networks Inc. ("HONI") for 2017 and 2018 on the same basis as shown in the prospectus about $69.1M for 2017 and $77.3 M for 2018 being the amount of HONI Transmission taxes for each of those years of $81.3M and $90.4 M referenced at Exhibit C2 Tab 4 Schedule 1, Attachment 1, page 1 less minimum tax amounts shown in Attachment 1 of Exhibit J2.10 of $12.2 M and $13.1M?

Response

For HONI's response to question 8, please refer to Exhibit J11.3.

The October 29, 2015 Prospectus (the "prospectus") provides a pro forma illustration of the tax savings of $105 million that would have been generated by the deferred tax benefit for the 18 months ending June 30, 2015. This amount is in respect of the estimated cash income tax savings to the Hydro One Limited consolidated group which includes regulated and non-regulated businesses.

Refer to Attachment 1 in which we have updated the HONI transmission taxes of $81.3 million and $90.4 million as referenced in Exhibit C2, Tab 4, Schedule 1, Attachment 1 to the revised transmission rates revenue requirement for taxes as updated in Exhibit A, Tab 3, Schedule 1 to $82.7 million and $90.4 million for the 2017 and 2018 test years, respectively. As discussed in Exhibit J2.10, lines 10 to 13, the Ontario corporate minimum tax ("CMT") would be applicable to the extent that CMT exceeds the Ontario income tax payable for the tax year. Based on the calculations in Attachment 1, CMT would not be applicable as the Ontario income tax payable exceeds the CMT.

For purposes of this illustration and using the same basis as shown in the prospectus to calculate the cash tax savings for the transmission segment of HONI, the estimated cash tax savings would be $70.5 million and $77.3 million for the 2017 and 2018 test years, respectively. This would assume that non-regulated tax deductions such as the capital cost allowance deduction arising from the Fair Market Value Bump have been allocated to rates. As discussed in Exhibit J2.10, lines 25 to 38, the activities that gave rise to the increased CCA deduction were activities that are not related to the cost of providing the regulated services, and the calculation of the CMT would be incomplete without the inclusion of an assumption to recover the departure tax associated with the HONI's transmission business and adjustments to accounts and records, including rate base used for transmission rate making purposes, to fair market value.

HYDRO ONE NETWORKS INC.
CALCULATION OF CASH TAX SAVINGS
TRANSMISSION
TEST YEARS (2017 and 2018)
Year Ending December 31
($Millions)

		2017	2018
Calculation of Regulatory Income Tax - Federal			
Regulatory Net Income (before taxes)		452.5	483.8
Regulatory Taxable Income		312.1	341.1
Federal Corporate Tax Rate		15.0%	15.0%
Federal Income Tax	**A**	46.8	51.2
Calculation of Regulatory Income Tax - Ontario *			
Regulatory Net Income (before taxes)		452.5	483.8
Regulatory Taxable Income		312.1	341.1
Ontario Corporate Tax Rate		11.5%	11.5%
Ontario Income Tax	**B**	35.9	39.2
Calculation of Ontario Corporate Minimum Tax			
Regulatory Net Income (before taxes)		452.5	483.8
Ontario Corporate Minimum Tax Rate		2.7%	2.7%
Ontario Corporate Minimum Taxes	**C**	12.2	13.1

		2017	2018
Cash Tax Savings			
Regulatory Income Taxes **(Exhibit A-3-1)**	**A + B**	82.7	90.4
Ontario Corporate Minimum Taxes	**C**	(12.2)	(13.1)
Total Cash Tax Savings		**70.5**	**77.3**

* Calculation does not consider refundable credits such as Ontario co-op education credits and Ontario apprenticeship credits.

UNDERTAKING – J11.18

Undertaking

To respond to Exhibit K11.2 question 10:

> Did Hydro One Networks Inc. ("HONI") use any of the CCA benefit in its 2015 tax return? If so, then what amount of actual tax savings were realized? If none of the benefit was used for 2015, then please explain the reasons for that decision.

Response

HONI did claim capital cost allowance ("CCA") and cumulative eligible capital ("CEC") deductions arising from the fair market value bump ("FMV Bump") on its depreciable and intangible assets in its November 4, 2015 and December 31, 2015 tax returns that were filed under the Federal tax regime (but not on its October 31, 2015 tax return for the reasons outlined further below).

The following three stub period tax returns were filed for the 2015 fiscal year:

1. January 1 – October 31, 2015 (Exhibit C2, Tab 5, Sch 1, Attachment 1)
2. November 1-4, 2015 (Exhibit C2, Tab 5, Sch 1, Attachment 2)
3. November 5 – December 31, 2015 (Exhibit C2, Tab 5, Sch 1, Attachment 3)

If the IPO had not occurred, there would not have been a departure from the PILs regime and a revaluation of the assets. Thus the CCA and CEC benefits arising from the FMV Bump of the depreciable and intangible assets would not have existed. As shown in Exhibit J11.18 Attachment 1, the estimated cash taxes that HONI would have had to pay would have been approximately $109 million for 2015, if HONI had not departed from the PILs regime in 2015 and also had not claimed CCA and CEC benefits arising from the FMV Bump on the depreciable and intangible assets. In comparison, HONI paid a total of $321 million of cash taxes in its three stub period tax returns for 2015.

Therefore, HONI did not have a cash tax savings in 2015. Instead HONI had additional cash tax costs of approximately $212 million. These additional cash tax costs arose primarily because CCA deductions could not be claimed on HONI's October 31, 2015 tax return. At the end of the taxation year that ended on October 31, 2015 as a result of HONI's departure from the PILs regime, HONI had been deemed to have disposed of its depreciable assets at fair market value, and had not yet been deemed to have reacquired such assets at fair market value. As a result, no CCA in respect of such assets could be claimed in the October 31, 2015 return. In other words, in the period in which depreciable assets are deemed to have been disposed of as a result of departure from the PILs regime, CCA deductions cannot be claimed in computing taxable income, resulting in higher cash taxes payable for such period. HONI's Distribution and Transmission rates for 2015 were established prior to the IPO process and as such, none of the additional cash tax costs of approximately $212 million paid by HONI in 2015 were recovered from ratepayers.

HYDRO ONE NETWORKS INC.
CALCULATION OF TAX SAVINGS WITH CCA DEDUCTIONS ARISING FROM FAIR MARKET VALUE BUMP
Year Ending December 31, 2015
($Millions)

		ACTUAL TAX RETURNS FILED - CCA WITH BUMP				ESTIMATED TAXES - CCA WITHOUT BUMP
		31-Oct-15	**4-Nov-15**	**31-Dec-15**	**Total**	**31-Dec-15**
Net Income before Taxes		664.6	7.4	87.5	759.5	759.5
Calculation of Estimated Tax - Federal						
Taxable Income / (Loss)		1,236.0	(2.1)	(219.8)	1,014.1	447.2
Federal Corporate Tax Rate		15%	15%	15%		15%
Estimated Federal Income Tax	(A)	185.4	-	-	185.4	67.1
Federal Investment Tax Credit	(B)	(1.7)			(1.7)	(2.0)
Total Federal Tax	(C) = (A) + (B)	**183.7**	-	-	**183.7**	**65.1**
Calculation of Estimated Tax - Ontario						
Taxable Income / (Loss)		1,236.0	(2.1)	(219.8)	1,014.1	447.2
Ontario Corporate Tax Rate		11.5%	11.5%	11.5%		11.5%
Ontario Income Tax	(D)	142.1	0.0	0.0	142.1	51.4
Net Income before Taxes		664.6	7.4	87.5	759.5	759.5
Ontario Corporate Minimum Tax Rate		2.7%	2.7%	2.7%		2.7%
Ontario Corporate Minimum Tax *	(F)	17.9	0.2	2.4	2.6	20.5
Ontario Tax Credits	(E)	(6.5)		(1.3)	(7.8)	(7.9)
Total Ontario Tax	(G) = > (D) or (E) + (F)	**135.7**	**0.2**	**1.0**	**136.9**	**43.5**
Total Federal and Ontario Tax	(C)+(G)	**319.3**	**0.2**	**1.0**	**320.5**	**108.7**
				ADDITIONAL CASH TAXES DUE TO THE IPO	**211.9**	

* Ontario Corporate Minimum Tax is applicable when it exceeds the estimated Ontario income tax

UNDERTAKING – J11.19

Undertaking

To consider an and attempt to respond to Exhibit K11.2 question 11:

> Provide an estimate of the 2016 tax savings that can be realized by using the CCA benefit arising from the Fair Market Value Bump ("FMV Bump") as discussed in Exhibit I, Tab I, Schedule 134, in Hydro One Networks Inc. ("HONI").

Response

Based on the revised Transmission rates revenue requirement as updated in Exhibit A, Tab 3, Schedule 1 and the 2016-2017 Distribution rates revenue requirement that filed was with the Ontario Energy Board ("OEB"), the estimated income taxes without the benefit of the CCA deduction arising from the FMV Bump are $72.2 million and $48.7 million for Transmission and Distribution, respectively.

The CCA benefit of the FMV Bump has been allocated to the non-regulated segment of HONI due to the "benefits follows costs" and the "stand-alone" regulatory principles as discussed in Exhibit I, Tab I, Schedule 134. As a legal entity, HONI would be eligible to claim additional CCA deductions arising from the FMV Bump to reduce its 2016 taxable income to $Nil and a tax loss would be recognized. If the CCA benefit is applied to the Transmission and Distribution regulated segments, it would reduce the corporate income tax to $Nil, resulting in Ontario Corporate Minimum Tax of $11.9 million and $7.8 million for Transmission and Distribution, respectively. As such, the estimated tax savings arising from additional CCA deductions from the FMV Bump as calculated in Attachment 1 are summarized as follows:

	Transmission	**Distribution**	**Total**
OEB Approved Regulatory Income Tax (without CCA Benefits)	$ 72.2	$ 48.7	$ 120.9
Estimated Income Tax with CCA Benefits	11.9	7.8	19.7
Estimated Tax Savings with CCA Benefits	$ 60.3	$ 40.9	$ 101.2

As discussed in Exhibit J2.10, the activities that gave rise to the increased CCA deduction were activities that are not related to the cost of providing the regulated service. If this calculation was to be used to determine how the FMV Bump contributes to cash tax savings for the purpose of adjusting the revenue requirement, this calculation would be incomplete without the inclusion of:

1. Assumptions to recover the $1.3 billion departure tax associated with HONI's transmission business in rates (out of the $2.3 billion departure tax associated with HONI as illustrated in Exhibit J11.13); and

2. Adjustments to the accounts and records used for transmission rate making purposes to fair market value.

Both of these adjustments would be required in order to be consistent with the "benefits follow costs" principle, should the OEB determine that the deferred tax asset be allocated to ratepayers.

HYDRO ONE NETWORKS INC.
CALCULATION OF TAX SAVINGS WITH CCA DEDUCTIONS ARISING FROM FAIR MARKET VALUE BUMP
Year Ending December 31, 2016
($Millions)

Without CCA Deductions Arising from Fair Market Value Bump	**Transmission**	**Distribution**	**Total**	
OEB Approved Regulatory Income Tax *	**72.2**	**48.7**	**120.9**	**(A)**

With CCA Deductions Arising from Fair Market Value Bump	**Transmission**	**Distribution**	**Total**	
Calculation of Estimated Income Tax - Federal				
OEB Approved Regulatory Net Income (before taxes)	441.5	289.4	731.0	
Estimated Taxable Income **	0.0	0.0	0.0	
Federal Corporate Tax Rate	15.0%	15.0%	15.0%	
Estimated Federal Income Tax	0.0	0.0	0.0	**(B)**
	Transmission	**Distribution**	**Total**	
Calculation of Estimated Income Tax - Ontario *				
OEB Approved Regulatory Net Income (before taxes)	441.5	289.4	731.0	
Estimated Taxable Income **	0.0	0.0	0.0	
Ontario Corporate Tax Rate	11.5%	11.5%	11.5%	
Estimated Ontario Income Tax before Corporate Minimum Tax	0.0	0.0	0.0	
Calculation of Ontario Corporate Minimum Tax				
OEB Approved Regulatory Net Income (before taxes)	441.5	289.4	731.0	
Ontario Corporate Minimum Tax Rate	2.7%	2.7%	2.7%	
Estimated Ontario Corporate Minimum Tax	11.9	7.8	19.7	
Estimated Ontario Income Tax ***	11.9	7.8	19.7	**(C)**
Estimated Total Federal and Ontario Income Tax	**11.9**	**7.8**	**19.7**	**(D)=(B)+(C)**
Estimated Cash Tax Savings with CCA Deductions Arising from FMV Bump	**60.3**	**40.9**	**101.2**	**(A) - (D)**

* Regulatory Income Tax includes income tax credits claimed. As those credits are not material, they have not been considered in the Ontario Income Tax and Ontario Corporate Minimum Tax calculations.

** Non-regulated tax deductions, such as the CCA deduction arising from the Fair Market Value Bump as discussed in Exhibit I, Tab I, Schedule 134, will be deducted to reduce the 2016 estimated taxable income to $nil.

*** Corporate Minimum Tax is applicable as it exceeds the estimated Ontario Income Tax before Corporate Minimum Tax.

UNDERTAKING – J11.20

Undertaking

On the assumption that this deferred tax benefit is a regulated asset. Advise whether the draw-down of the benefit produces an off-setting deferred tax liability that becomes payable when crossover occurs. Reference Exhibit K11.2, Question 12:

> Does use by Hydro One Networks Inc. ("HONI") of the CCA deferred tax benefit in 2015 and beyond give rise to a corresponding deferred tax liability as time passes, being a liability that becomes payable when cross-over occurs? Does the evidence at Exhibit C1 Tab 8 Schedule 1 at page 2 lines 10 to 12 mean that HONI plans to seek to recover this gradually increasing deferred tax liability in future transmission and distribution rates?

Response

The net deferred tax asset on the balance sheet is determined by netting the non-regulated fair market value bump ("FMV Bump") and a regulated net deferred tax liability that existed prior to the exit from the PIL's regime. The draw down and accounting for these balances are separate as one relates to the regulated business and the other to shareholder related activities.

If the deferred tax benefit in respect of the capital cost allowance ("CCA") benefit from the FMV Bump was treated as a regulated asset, the deferred tax asset would be grossed-up and there would be an offsetting regulated deferred tax liability for the same amount. The total grossed-up deferred tax asset on the FMV Bump would be estimated to be $3.53 billion ($2.595 billion / (1-.265)). Prior to the loss of tax-exempt status under the *Income Tax Act* (Canada), the balance sheet reflected a net deferred tax liability. Following the IPO, the tax basis of the assets of the consolidated group was bumped up to fair market value which caused the net deferred tax liability to swing to a net deferred tax asset as illustrated in the Prospectus.

As the deferred tax benefit is drawn down by the CCA benefit arising from the FMV Bump, there would be an offsetting decrease in the regulated deferred tax liability. The draw-down of the deferred tax benefit through CCA deductions will reduce the regulatory taxable income resulting in a reduction of the tax revenue requirement in the future.

The future movement of this deferred tax asset will be dependent on the CCA tax rates versus the accounting depreciation rates. We would estimate that the deferred tax asset balance will remain in a debit position for many more years before the cumulative tax depreciation exceeds the accounting depreciation amounts. When the accounting depreciation exceeds the tax bump, it would result in a "cross-over" such that it would change the deferred tax asset balance to a deferred tax liability balance.

UNDERTAKING – J11.23

Undertaking

Provide an analysis that compares requested revenue requirement with a revised model approach in which departure taxes are recovered through customer rates, while including the CCA benefit arising from the Fair Market Value Bump.

Response

On December 12, 2016, as part of the oral proceedings for transmission rates for 2017 and 2018 (EB-2016-0160), Hydro One agreed to provide an analysis that compared requested revenue requirement, as filed, with a revised model approach that considered seeking recovery for departure taxes through customer rates, while including the CCA benefit arising from the Fair Market Value Bump as discussed in Exhibit I, Tab 1, Schedule 134.

The following summarizes the overall approach, key principles and assumptions used within the revised revenue requirement model.

Key Principles:

- The Fair Market Value Bump resulted from activities that are not related to the cost of providing regulated service to ratepayers. Consistent with the principles in RP-2004-0188, should the OEB determine that the "stand-alone" principle be disregarded and allocate the CCA benefit arising from the Fair Market Value Bump to ratepayers, Hydro One has performed the calculation consistent with the principle also discussed in RP-2004-0188 that "benefits follow costs".
- The transmission portion of the Fair Market Value Bump was estimated using the fair market value of transmission assets as of October 31, 2015 in excess of the equivalent tax basis, which set the basis for the calculation of incremental CCA.
- The methodology to allocate the departure tax to Hydro One Transmission is outlined in Exhibit J11.13.
- The departure tax has been paid, and as a result, a regulatory asset would need to be implemented to recover:
    - the departure tax amortized over 20 years. The 20-year amortization period has been chosen to balance the increase in revenue requirement needed to recover the departure tax with the carrying costs associated with the regulatory asset;

- all carrying costs, consistent with OEB's Cost of Capital policy as it relates to rate base; and
- income tax gross up associated with the return on equity.

<u>Other Financial Assumptions:</u>

- Revenue requirement as filed for 2017 and 2018, and estimated for 2019 and beyond using the following approach:
    - OM&A and depreciation escalated by the average annual increase in historical actuals over the past five years; and
    - Rate base increased by the average annual increase in OEB approved rate base over the past six years plus two additional years representing the current requested test years.

<u>Model Structure:</u>

1. **Summary (Worksheet 1):** Provides a 20-year outlook of filed (2017 and 2018) and estimated (2019 and beyond) revenue requirements both before and after considering the implications of collecting the departure taxes through customer rates.

2. **Escalators (Worksheet 2):** Provides data and calculations for key revenue requirement escalation assumptions.

3. **CCA (Worksheet 3):** Contains detailed CCA calculations, by class, that arose from the Fair Market Value Bump.

4. **Model (Worksheet 4):** Provides detailed calculations incorporating all assumptions and principles outlined above.