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Frank D'Andrea
Vice President, Chief Regulatory Officer,
Chief Risk Officer

BY COURIER

October 10, 2017

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

Dear Ms. Walli:

EB-2016-0160 - Hydro One Networks' 2017-2018 Transmission Revenue Requirement & Charge Determinants
EB-2017-0280 - 2017 Uniform Transmission Rates

Pursuant to the Ontario Energy Board's (the "**OEB**") September 28, 2017 decision on the 2017 and 2018 transmission revenue requirements for Hydro One Networks Inc. ("**Hydro One**") in the above-noted proceeding (the "**Decision**"), please find attached:

(a) A draft revenue requirement/charge determinant order and draft UTR rate order and supporting schedules, reflecting the specific directions provided in the Decision;

(b) A revision to Exhibit J11.3 separating the amounts in the "FMV in excess of Tax Basis" shown in Exhibit J11.3 between "recapture" and "gain" components and including a reconciliation of the deferred tax liability and deferred tax asset amounts for Hydro One recorded in the financial statements on record in this proceeding for the periods immediately before and after the initial public offering of Hydro One Limited, which reconciliation includes the deferred tax liability of $1,794 million in the unconsolidated financial statement for Hydro One (October 31, 2015) for "Capital cost allowance in excess of depreciation and amortization";

(c) Grossed up regulatory taxes recoverable from ratepayers in 2017 and 2018 in amounts derived by multiplying taxes calculated for each of those years under an assumed 100% allocation to shareholders of future tax savings benefits, by the 71% recapture ratio for transmission; and

(d) Draft accounting orders for the (modified) In-service Capital Additions Variance Account and Foregone Transmission Revenue Deferral Account;

The draft revenue requirement/charge determinant order and draft UTR order reflect the impact of the Decision. The 2017 proposed revenue requirement of $1,588.8 million has been reduced to $1547.0 million, and the 2018 proposed revenue requirement of $1,660.3 million has been reduced to $1607.4 million. The 2018 proposed revenue requirement will be further updated to reflect the 2017 actual debt issuances, 2018 forecast issuances, and the OEB's applicable cost of capital parameters as part of preparing the 2018 draft order. The underlying assumptions and revenue requirement calculations are set out in the attached supporting documentation Exhibit 1.0.

The 2017 UTRs in $/kW-Month are determined to be $3.54 for Network, $0.89 for Line Connection and $2.14 for Transformation Connection. The calculation of the 2017 UTRs, wholesale meter rates, low voltage switchgear credit, charge determinants, revenue disbursement allocators, foregone revenue calculation, and bill impacts resulting from the OEB's findings are detailed in Exhibits 3.0 to 9.0. The revenue requirement and charge determinants used for other Ontario transmitters in calculating the 2017 UTRs reflect their current OEB-approved values and are set out in Exhibit 5.1.

Please note that in the Decision, the OEB commented that the budgeted annual compensation of the Chair of Hydro One's Board of Directors is approximately $1.7 million and $1.8 million. The evidence cited in Undertaking J12.5 actually clarifies that $1.4 million of this amount relates to Hydro One's Ombudsman's office. Hydro One requests the decision be corrected to reflect the evidence.

As directed by the OEB, by copy of this letter, we are notifying all intervenors, OEB staff and other Ontario transmitters of this filing and of the fact that they have the opportunity to submit comments, if any, to the OEB by October 14, 2017 on the draft revenue requirement/charge determinant order and the draft UTR rate order and supporting schedules.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

Encls.

cc. EB-2016-0160 parties (electronic)
Ontario Transmitters (electronic)

Implementation of Decision
October 10, 2017

On September 28, 2016, the OEB released its decision on Hydro One's application for OEB approval of its proposed electricity transmission revenue requirement (EB-2016-0160). Its decision is effective as of January 1, 2017. The OEB directed Hydro One to file a draft revenue requirement/charge determinant order and a draft UTR rate order and supporting schedules reflecting the OEB's findings (collectively, "**Draft Order**") by October 10, 2017.

This memo explains how Hydro One has implemented the changes ordered by the OEB in its Draft Order.

Determination of Revenue Requirement

The proposed revenue requirements of $1,588.8 and $1,660.3 million for 2017 and 2018, respectively, have been reduced to $1,547.0 million and $1,607.4 million, respectively, based on the OEB's decision and other adjustments as summarized in Exhibit 1.0.

The derivation of the 2017 revenue requirement includes the following adjustments directed by the OEB:

- a reduction in OM&A expenses of $15.0 million to reflect the OEB's direction on compensation (Exhibit 1.1);
- the reduction of $0.5 million in working capital resulting from the lower OM&A expenses (Exhibit 1.2);
- a cumulative reduction of $3.3 million in cost of capital and depreciation expenses to reflect the impact on in-service capital additions caused by OEB-directed capital expenditure cuts (Exhibits 1.2 and 1.4); and
- a reduction of $23.5 million in income tax expenses to reflect the application of the OEB-directed 71% Recapture Ratio to the deferred tax asset and lower return on equity.

A summary of the specific adjustments and the derivation of revenue requirement is provided in Exhibit 1.0 with further details provided in subsequent Exhibits.

Impact of Capital Spending Reductions on Forecasted In-service Additions

In response to the OEB's direction to cut the 2017 and 2018 capital envelopes by $126.1 million and $122.2 million, respectively, Hydro One is deferring several capital investments resulting in an extended period of time over which customers will be exposed to risks associated with these asset needs. In some cases, mitigating actions will be required to maintain an acceptable level of performance. Hydro One is also reducing value-based investment in tower coating which do not impact system risk today, but will result in higher costs in the future.

A number of projects have been reduced or deferred from Hydro One's proposed capital plan to achieve the requested capital reduction. Given the multi-year nature of capital projects, focus has been on deferring capital expenditure without causing significant impact to projects in a mature state of execution. For 2017, given the timing of the OEB's decision, Hydro One focused on execution risk considerations. Additional considerations were given to material and contract timing as well as budgeted contingency funding.

For 2018, Hydro One assessed the work program in two phases. Execution risk was evaluated for those multi-year projects currently in execution. Investments in the planning phase were then re-prioritized through a risk-based prioritization framework, taking customer requests into consideration. Investments with lower risk mitigation values were reduced or deferred. To reduce the 2018 capital envelope, Hydro One is modifying investments, including core power systems investments, reducing tower coating and deferring investments in lines and stations projects.

Tables 1 and 2 reflect Hydro One's adjusted forecast capital spending and in-service additions in the 2017-2018 period.

Table 1: Capital Spending ($ Million)

	Test Years Evidence		**Test Years Decision**	
	2017	**2018**	**2017**	**2018**
Sustaining	776.8	842.1	758.9	780.4
Development	196.4	170.2	117.2	109.9
Operations	25.4	30.8	13.0	42.9
Common Corporate Cost Capital	77.6	79.1	60.9	66.8
Total	**1,076.1**	**1,122.2**	**950.0**	**1,000.0**

Table 2: In-Service Capital Additions ($ Millions)

	Test Years Evidence		Test Years Decision	
	2017	**2018**	**2017**	**2018**
Sustaining	771.1	747.7	728.3	773.5
Development	64.6[1]	374.9	72.2[1]	308.7
Operations	8.0	10.3	4.4	9.7
Common & Other	87.8	76.8	62.9	86.5
Total	**931.4**	**1,209.7**	**867.7**	**1,178.4**

1. The proposed in-service additions under the development category in 2017 are slightly higher than previously presented due to project timing changes based on outage availability.

Foregone Transmission Revenue Deferral Account

In the Decision, the OEB declared Hydro One's existing rates interim until the implementation of new rates on October 1, 2017, but effective as of January 1, 2017.

In its Decision, the OEB approved the recovery of foregone revenue for the period between the January 1, 2017 effective date of the 2017 rates and the October 1, 2017 implementation date of the new rates. The determination of foregone revenue in the amount of -$2.4 million is provided in Exhibit 9.0.

The foregone revenue amount is calculated on a monthly basis using the monthly charge determinants for each UTR rate pool consistent with the annual charge determinants approved by the OEB in the Decision. The monthly foregone revenue amount is the difference between (a) the revenue collected under the approved 2016 UTR multiplied by the approved 2017 charge determinants and (b) the revenue collected under the proposed 2017 UTR (as per Exhibit 5.0) multiplied by the approved 2017 charge determinants. The total foregone revenue for January to September, inclusive, is -$2.4 million.

The foregone revenue amount will be included the Foregone Transmission Revenue Deferral Account, as approved by the OEB. Hydro One proposes that the foregone revenue amount be included as part of Hydro One's 2018 rates revenue requirement in the determination of 2018 UTRs.

Supporting Material

The detailed information supporting the determination of the revenue requirement and charge determinants as well as the OEB-directed calculations pertaining to the deferred tax components and grossed up regulatory taxes are provided in the attached Exhibits:

EXHIBIT		TITLE
1.0	**2017 and 2018 Revenue Requirement Summary**	
	1.1	OM&A Details
	1.2	Rate Base and Depreciation Details
	1.3	Capital Expenditures and In-Service Details
	1.4	Capital Structure and Return on Capital
	1.4.1	Cost of Long-term Debt Test Year (2017 - 2018)
	1.5	Income Tax
	1.6	External Revenue
	1.7	Export Transmission Service Revenue
	1.8	Deferral and Variance Accounts
2.0	**Requested Tax Calculations**	
	2.1	Order 2a – Deferred Tax Components and Reconciliations
	Att. 1	Attachment 1 – Deferred Tax Components of FMV in Excess of Tax Basis
	Att. 2	Attachment 2 – Reconciliation of Deferred Tax Liability October 31, 2015
	Att. 3	Attachment 3 – Reconciliation of Deferred Tax Balances
	2.2	Order 2b – Grossed Up Regulatory Taxes 2017-2018
3.0	**2017 Revenue Requirement by Rate Pool**	
4.0	**2017 Charge Determinants**	
5.0	**2017 UTR Rate Order - Transmission Rates and Revenue Disbursement Allocators**	
	5.1	2017 UTR Rate Order - Revenue Requirement and Charge Determinant Assumptions for Other Transmitters
	5.2	2017 UTR Rate Order - Ontario Uniform Transmission Rate Schedules

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

Revenue Requirement Summary

($ millions)	**Supporting Reference**	**Hearing Update 2017**	**Hearing Update 2018**	**OEB Decision 2017**	**OEB Decision 2018**	**OEB Approved 2017**	**OEB Approved 2018**
				Note 1	Note 1		
OM&A	Exhibit 1.1	412.7	409.3	(15.0)	(15.0)	397.7	394.3
Depreciation	Exhibit 1.2	435.7	470.7	(1.3)	(2.1)	434.4	468.6
Return on Debt	Exhibit 1.4	287.8	296.4	(0.9)	(6.5)	287.0	289.9
Return on Equity	Exhibit 1.4	370.7	394.2	(1.1)	(2.7)	369.6	391.5
Income Tax	Exhibit 1.5	81.9	89.6	(23.5)	(26.6)	58.4	63.0
Base Revenue Requirement		**1,588.8**	**1,660.3**	**(41.8)**	**(52.9)**	**1,547.0**	**1,607.4**
Deduct: External Revenue	Exhibit 1.6	(28.2)	(28.5)	-	-	(28.2)	(28.5)
Subtotal		**1,560.6**	**1,631.8**	**(41.8)**	**(52.9)**	**1,518.8**	**1,578.9**
Deduct: Export Tx Service Revenue	Exhibit 1.7	(39.2)	(40.1)	-	-	(39.2)	(40.1)
Deduct: Other Cost Charges	Exhibit 1.8	(47.8)	(47.8)	-	-	(47.8)	(47.8)
Add: Low Voltage Switch Gear		13.8	14.5	(0.4)	(0.5)	13.4	14.0
Rates Revenue Requirement		**1,487.4**	**1,558.4**	**(42.2)**	**(53.4)**	**1,445.3**	**1,505.1**

Note 1: As per EB-2016-0160 Decision and Order on September 28, 2017.

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

OM&A

($ millions)	**Supporting Reference**	**Hearing Update 2017**	**Hearing Update 2018**	**OEB Decision 2017**	**OEB Decision 2018**	**OEB Approved 2017**	**OEB Approved 2018**
				Note 1	Note 1		
OM&A	*See supporting details below*	412.7	409.3	(15.0)	(15.0)	397.7	394.3

OEB Decision Impact Supporting Details

Adjustments	**Reference**	**2017 OM&A Impacts**	**2018 OM&A Impacts**
OEB Decision	Page 58	(15.0)	(15.0)
Total OM&A impacts		(15.0)	(15.0)

Note 1: As per EB-2016-0160 Decision and Order on September 28, 2017.

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

Rate Base and Depreciation

($ millions)	**Supporting Reference**	**Hearing Update 2017**	**Hearing Update 2018**	**OEB Decision 2017**	**OEB Decision 2018**	**OEB Approved 2017**	**OEB Approved 2018**
				Note 1	Note 1		
Rate Base	*See supporting details below*	10,554.4	11,225.5	(31.7)	(77.5)	10,522.7	11,148.0
Depreciation	*See supporting details below*	435.7	470.7	(1.3)	(2.1)	434.4	468.6

OEB Decision Impact Supporting Details	**Reference**	**2017 Detailed Calculation**	**2018 Detailed Calculation**	**2017 Rate Base Impact**	**2018 Rate Base Impact**	**2017 Depreciation Impact**	**2018 Depreciation Impact**
Working Capital Adjustment							
Rate Base Details	Pre-filed Evidence						
Utility plant (average)	Exh D1-1-1						
Gross plant at cost		16,641.1	17,616.4				
Less: Accumulated depreciation		(6,113.4)	(6,418.7)				
Add: CWIP		-	-				
Net utility plant		10,527.8	11,197.7				
Working capital							
Cash working capital		14.7	15.6				
Materials & supplies inventory		12.0	12.2				
Total working capital		26.6	27.8				
Total Rate Base		10,554.4	11,225.5				
Working capital as % of OM&A	(a)	3.6%	3.8%				
OM&A Reduction	Exhibit 1.1 (b)	(15.0)	(15.0)				
Working capital reduction	(c) = (a) x (b)	(0.5)	(0.6)	(0.5)	(0.6)		

RATE BASE IMPACT OF CAPITAL / IN-SERVICE ADJUSTMENTS

	2017 Decision	**2018 Decision**
In-service impacts	(63.7)	(31.3)
Depreciation impacts	(1.3)	(2.1)

Note 1: As per EB-2016-0160 Decision and Order on September 28, 2017.

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

Capital Expenditures and In-Service

($ millions)	**Supporting Reference**	**Hearing Update 2017**	**Hearing Update 2018**	**OEB Decision 2017**	**OEB Decision 2018**	**OEB Approved 2017**	**OEB Approved 2018**
				Note 1	Note 1		
Capital expenditures	*See supporting details below*	1,076.1	1,122.2	(126.1)	(122.2)	950.0	1,000.0

OEB Decision Impact Supporting Details

Adjustments	**Reference**	**2017 Capex OEB Decision**	**2018 Capex OEB Decision**
Capex adjustments	Page 29	(126.1)	(122.2)
Total capital adjustments in OEB decision		(126.1)	(122.2)
In-service adjustments	Page 29	(63.7)	(31.3)
Total in-service adjustments in OEB decision		(63.7)	(31.3)

Note 1: As per EB-2016-0160 Decision and Order on September 28, 2017.

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

Capital Structure and Return on Capital

($ millions)	**Supporting Reference**	**Hearing Update 2017**	**Hearing Update 2018**	**OEB Decision 2017**	**OEB Decision 2018**	**OEB Approved 2017**	**OEB Approved 2018**
Return on Rate Base							Note 2
Rate Base	Exhibit 1.2	$ 10,554.4	$ 11,225.5	$ (31.7)	$ (77.5)	$ 10,522.7	$ 11,148.0
Capital Structure:							
Third-Party long-term debt		56.00%	56.00%	-1.36%	-1.05%	54.64%	54.95%
Deemed long-term debt		0.00%	0.00%	1.36%	1.05%	1.36%	1.05%
Short-term debt		4.00%	4.00%	0.00%	0.00%	4.00%	4.00%
Common equity		40.00%	40.00%	0.00%	0.00%	40.00%	40.00%
Capital Structure:							
Third-Party long-term debt	Exhibit 1.4.1 and 1.4.2	5,910.4	6,286.3	(160.9)	(160.9)	5,749.5	6,125.4
Deemed long-term debt		0.0	0.0	143.1	117.5	143.2	117.5
Short-term debt		422.2	449.0	(1.3)	(3.1)	420.9	445.9
Common equity		4,221.7	4,490.2	(12.7)	(31.0)	4,209.1	4,459.2
		10,554.4	**11,225.5**	**(31.7)**	**(77.5)**	**10,522.7**	**11,148.0**
Allowed Return:							
Third-Party long-term debt	Exhibit 1.4.1 & 1.4.2	4.67%	4.52%	0.00%	0.00%	4.67%	4.52%
Deemed long-term debt	Exhibit 1.4.1 & 1.4.2	4.67%	4.52%	0.00%	0.00%	4.67%	4.52%
Short-term debt		1.76%	1.76%	0.00%	0.00%	1.76%	1.76%
Common equity		8.78%	8.78%	0.00%	0.00%	8.78%	8.78%
Return on Capital:							
Third-Party long-term debt		275.8	284.1	(7.5)	(7.3)	268.3	276.8
Deemed long-term debt		0.0	0.0	6.7	5.3	6.7	5.3
Short-term debt		7.4	7.9	(0.0)	(0.1)	7.4	7.8
AFUDC return on Niagara Reinforcement Project	see below	4.6	4.5	-	(4.5)	4.6	-
Total return on debt		**$ 287.8**	**$ 296.4**	**$ (0.9)**	**$ (6.5)**	**$ 287.0**	**$ 289.9**
Common equity		**$ 370.7**	**$ 394.2**	**$ (1.1)**	**$ (2.7)**	**$ 369.6**	**$ 391.5**
AFUDC return on Niagara Reinforcement Project							
CWIP	Note 1	99.1	99.1			99.1	
Deemed long-term debt		4.67%	4.52%			4.67%	
		4.6	4.5			4.6	

Note 1: As per EB-2016-0160 Decision and Order on September 28, 2017.

HYDRO ONE NETWORKS INC.
TRANSMISSION
Cost of Long-Term Debt Capital
Test Year (2017)
Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered ($Millions)	Premium Discount and Expenses ($Millions)	Net Capital Employed Total Amount ($Millions)	Net Capital Employed Per $100 Principal Amount (Dollars)	Effective Cost Rate	Total Amount Outstanding at 12/31/2016 ($Millions)	Total Amount Outstanding at 12/31/2017 ($Millions)	Avg. Monthly Averages ($Millions)	Carrying Cost ($Millions)	Projected Average Embedded Cost Rates
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1	3-Jun-00	7.350%	3-Jun-30	278.4	4.5	273.9	98.4	7.49%	278.4	278.4	278.4	20.8	
2	22-Jun-01	6.930%	1-Jun-32	109.3	1.3	107.9	98.8	7.03%	109.3	109.3	109.3	7.7	
3	17-Sep-02	6.930%	1-Jun-32	58.0	(2.1)	60.1	103.6	6.65%	58.0	58.0	58.0	3.9	
4	31-Jan-03	6.350%	31-Jan-34	126.0	1.0	125.0	99.2	6.41%	126.0	126.0	126.0	8.1	
5	22-Apr-03	6.590%	22-Apr-43	145.0	1.1	143.9	99.3	6.64%	145.0	145.0	145.0	9.6	
6	25-Jun-04	6.350%	31-Jan-34	72.0	(0.2)	72.2	100.2	6.33%	72.0	72.0	72.0	4.6	
7	20-Aug-04	6.590%	22-Apr-43	39.0	(3.1)	42.1	107.9	6.06%	39.0	39.0	39.0	2.4	
8	24-Aug-04	6.350%	31-Jan-34	39.0	(1.4)	40.4	103.5	6.09%	39.0	39.0	39.0	2.4	
9	19-May-05	5.360%	20-May-36	228.9	8.7	220.2	96.2	5.62%	228.9	228.9	228.9	12.9	
10	24-Apr-06	5.360%	20-May-36	187.5	2.5	185.0	98.7	5.45%	187.5	187.5	187.5	10.2	
11	19-Oct-06	5.000%	19-Oct-46	30.0	0.2	29.8	99.3	5.04%	30.0	30.0	30.0	1.5	
12	13-Mar-07	4.890%	13-Mar-37	240.0	1.3	238.7	99.4	4.93%	240.0	240.0	240.0	11.8	
13	18-Oct-07	5.180%	18-Oct-17	225.0	0.8	224.2	99.6	5.23%	225.0	0.0	173.1	9.0	
14	3-Mar-08	5.180%	18-Oct-17	180.0	(3.1)	183.1	101.7	4.95%	180.0	0.0	138.5	6.9	
15	3-Mar-09	6.030%	3-Mar-39	195.0	1.2	193.8	99.4	6.07%	195.0	195.0	195.0	11.8	
16	16-Jul-09	5.490%	16-Jul-40	210.0	1.4	208.6	99.4	5.53%	210.0	210.0	210.0	11.6	
17	15-Mar-10	5.490%	24-Jul-40	120.0	(0.7)	120.7	100.6	5.45%	120.0	120.0	120.0	6.5	
18	15-Mar-10	4.400%	4-Jun-20	180.0	0.8	179.2	99.5	4.46%	180.0	180.0	180.0	8.0	
19	13-Sep-10	5.000%	19-Oct-46	150.0	(0.4)	150.4	100.2	4.98%	150.0	150.0	150.0	7.5	
20	26-Sep-11	4.390%	26-Sep-41	205.0	1.3	203.7	99.3	4.43%	205.0	205.0	205.0	9.1	
21	22-Dec-11	4.000%	22-Dec-51	70.0	0.4	69.6	99.5	4.03%	70.0	70.0	70.0	2.8	
22	13-Jan-12	3.200%	13-Jan-22	154.0	0.8	153.2	99.5	3.26%	154.0	154.0	154.0	5.0	
23	22-May-12	3.200%	13-Jan-22	165.0	(1.6)	166.6	101.0	3.08%	165.0	165.0	165.0	5.1	
24	22-May-12	4.000%	22-Dec-51	68.8	0.3	68.4	99.5	4.02%	68.8	68.8	68.8	2.8	
25	31-Jul-12	3.790%	31-Jul-62	52.5	0.3	52.2	99.5	3.81%	52.5	52.5	52.5	2.0	
26	16-Aug-12	3.790%	31-Jul-62	141.0	1.1	139.9	99.2	3.83%	141.0	141.0	141.0	5.4	
27	9-Oct-13	4.590%	9-Oct-43	239.3	1.4	237.9	99.4	4.63%	239.3	239.3	239.3	11.1	
28	9-Oct-13	2.780%	9-Oct-18	412.5	1.7	410.8	99.6	2.87%	412.5	412.5	412.5	11.8	
29	29-Jan-14	4.290%	29-Jan-64	30.0	0.2	29.8	99.4	4.32%	30.0	30.0	30.0	1.3	
30	3-Jun-14	4.170%	3-Jun-44	198.0	1.2	196.8	99.4	4.21%	198.0	198.0	198.0	8.3	
31	24-Feb-16	3.910%	23-Feb-46	175.0	1.1	173.9	99.4	3.95%	175.0	175.0	175.0	6.9	
32	24-Feb-16	2.770%	24-Feb-26	245.0	1.1	243.9	99.6	2.82%	245.0	245.0	245.0	6.9	
33	24-Feb-16	1.840%	24-Feb-21	250.0	0.9	249.1	99.6	1.92%	250.0	250.0	250.0	4.8	
34	18-Nov-16	3.720%	18-Nov-47	270.0	1.4	268.7	99.5	3.75%	270.0	270.0	270.0	10.1	
35	15-Mar-17	3.670%	15-Mar-47	219.1	1.1	218.0	99.5	3.70%	0.0	219.1	168.5	6.2	
36	15-Jun-17	2.606%	15-Jun-27	109.6	0.5	109.0	99.5	2.66%	0.0	109.6	59.0	1.6	
37	15-Jun-17	3.670%	15-Jun-47	109.6	0.5	109.0	99.5	3.70%	0.0	109.6	59.0	2.2	
38	15-Sep-17	2.606%	15-Sep-27	219.1	1.1	218.0	99.5	2.66%	0.0	219.1	67.4	1.8	
39		**Subtotal**							5489.1	5741.4	5749.5	262.4	
40		Treasury OM&A costs										1.8	
41		Other financing-related fees										4.1	
42		**Total**							5489.1	5741.4	5749.5	268.3	4.67%

HYDRO ONE NETWORKS INC.

TRANSMISSION
Cost of Long-Term Debt Capital
Test Year (2018)
Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered ($Millions)	Premium Discount and Expenses ($Millions)	Net Capital Employed: Total Amount ($Millions)	Net Capital Employed: Per $100 Principal Amount (Dollars)	Effective Cost Rate	Total Amount Outstanding: at 12/31/2017 ($Millions)	Total Amount Outstanding: at 12/31/2018 ($Millions)	Avg. Monthly Averages ($Millions)	Carrying Cost ($Millions)	Projected Average Embedded Cost Rates
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1	3-Jun-00	7.350%	3-Jun-30	278.4	4.5	273.9	98.37	7.49%	278.4	278.4	278.4	20.8	
2	22-Jun-01	6.930%	1-Jun-32	109.3	1.3	107.9	98.78	7.03%	109.3	109.3	109.3	7.7	
3	17-Sep-02	6.930%	1-Jun-32	58.0	(2.1)	60.1	103.57	6.65%	58.0	58.0	58.0	3.9	
4	31-Jan-03	6.350%	31-Jan-34	126.0	1.0	125.0	99.21	6.41%	126.0	126.0	126.0	8.1	
5	22-Apr-03	6.590%	22-Apr-43	145.0	1.1	143.9	99.26	6.64%	145.0	145.0	145.0	9.6	
6	25-Jun-04	6.350%	31-Jan-34	72.0	(0.2)	72.2	100.22	6.33%	72.0	72.0	72.0	4.6	
7	20-Aug-04	6.590%	22-Apr-43	39.0	(3.1)	42.1	107.89	6.06%	39.0	39.0	39.0	2.4	
8	24-Aug-04	6.350%	31-Jan-34	39.0	(1.4)	40.4	103.48	6.09%	39.0	39.0	39.0	2.4	
9	19-May-05	5.360%	20-May-36	228.9	8.7	220.2	96.19	5.62%	228.9	228.9	228.9	12.9	
10	24-Apr-06	5.360%	20-May-36	187.5	2.5	185.0	98.68	5.45%	187.5	187.5	187.5	10.2	
11	19-Oct-06	5.000%	19-Oct-46	30.0	0.2	29.8	99.29	5.04%	30.0	30.0	30.0	1.5	
12	13-Mar-07	4.890%	13-Mar-37	240.0	1.3	238.7	99.45	4.93%	240.0	240.0	240.0	11.8	
13	3-Mar-09	6.030%	3-Mar-39	195.0	1.2	193.8	99.41	6.07%	195.0	195.0	195.0	11.8	
14	16-Jul-09	5.490%	16-Jul-40	210.0	1.4	208.6	99.36	5.53%	210.0	210.0	210.0	11.6	
15	15-Mar-10	5.490%	24-Jul-40	120.0	(0.7)	120.7	100.58	5.45%	120.0	120.0	120.0	6.5	
16	15-Mar-10	4.400%	4-Jun-20	180.0	0.8	179.2	99.55	4.46%	180.0	180.0	180.0	8.0	
17	13-Sep-10	5.000%	19-Oct-46	150.0	(0.4)	150.4	100.25	4.98%	150.0	150.0	150.0	7.5	
18	26-Sep-11	4.390%	26-Sep-41	205.0	1.3	203.7	99.35	4.43%	205.0	205.0	205.0	9.1	
19	22-Dec-11	4.000%	22-Dec-51	70.0	0.4	69.6	99.47	4.03%	70.0	70.0	70.0	2.8	
20	13-Jan-12	3.200%	13-Jan-22	154.0	0.8	153.2	99.47	3.26%	154.0	154.0	154.0	5.0	
21	22-May-12	3.200%	13-Jan-22	165.0	(1.6)	166.6	100.97	3.08%	165.0	165.0	165.0	5.1	
22	22-May-12	4.000%	22-Dec-51	68.8	0.3	68.4	99.51	4.02%	68.8	68.8	68.8	2.8	
23	31-Jul-12	3.790%	31-Jul-62	52.5	0.3	52.2	99.47	3.81%	52.5	52.5	52.5	2.0	
24	16-Aug-12	3.790%	31-Jul-62	141.0	1.1	139.9	99.20	3.83%	141.0	141.0	141.0	5.4	
25	9-Oct-13	4.590%	9-Oct-43	239.3	1.4	237.9	99.42	4.63%	239.3	239.3	239.3	11.1	
26	9-Oct-13	2.780%	9-Oct-18	412.5	1.7	410.8	99.59	2.87%	412.5	0.0	317.3	9.1	
27	29-Jan-14	4.290%	29-Jan-64	30.0	0.2	29.8	99.44	4.32%	30.0	30.0	30.0	1.3	
28	3-Jun-14	4.170%	3-Jun-44	198.0	1.2	196.8	99.40	4.21%	198.0	198.0	198.0	8.3	
29	24-Feb-16	3.910%	23-Feb-46	175.0	1.1	173.9	99.4	3.95%	175.0	175.0	175.0	6.9	
30	24-Feb-16	2.770%	24-Feb-26	245.0	1.1	243.9	99.6	2.82%	245.0	245.0	245.0	6.9	
31	24-Feb-16	1.840%	24-Feb-21	250.0	0.9	249.1	99.6	1.92%	250.0	250.0	250.0	4.8	
32	18-Nov-16	3.720%	18-Nov-47	270.0	1.4	268.7	99.5	3.75%	270.0	270.0	270.0	10.1	
33	15-Mar-17	3.670%	15-Mar-47	219.1	1.1	218.0	99.5	3.70%	219.1	219.1	219.1	8.1	
34	15-Jun-17	2.606%	15-Jun-27	109.6	0.5	109.0	99.5	2.66%	109.6	109.6	109.6	2.9	
35	15-Jun-17	3.670%	15-Jun-47	109.6	0.5	109.0	99.5	3.70%	109.6	109.6	109.6	4.1	
36	15-Sep-17	2.606%	15-Sep-27	219.1	1.1	218.0	99.5	2.66%	219.1	219.1	219.1	5.8	
37	15-Mar-18	4.370%	15-Mar-48	296.6	1.5	295.2	99.50	4.40%	0.0	296.6	228.2	10.0	
38	15-Jun-18	3.306%	15-Jun-28	296.6	1.5	295.2	99.50	3.37%	0.0	296.6	159.7	5.4	
39	15-Sep-18	2.545%	15-Sep-23	296.6	1.5	295.2	99.50	2.65%	0.0	296.6	91.3	2.4	
40		**Subtotal**							5741.4	6218.8	6125.4	270.7	
41		Treasury OM&A costs										2.0	
42		Other financing-related fees										4.1	
43		**Total**							5741.4	6218.8	6125.4	276.8	4.52%

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

Income Tax

($ millions)	Supporting Reference	Hearing Update 2017	Hearing Update 2018	OEB Decision Impact 2017	OEB Decision Impact 2018	OEB Approved 2017	OEB Approved 2018
Income Taxes	*See supporting details below*	81.9	89.6	(23.5)	(26.6)	58.4	63.0

Income Tax Supporting Details			Hydro One Proposed 2017	Hydro One Proposed 2018	OEB Decision Impact 2017	OEB Decision Impact 2018	OEB Approved 2017	OEB Approved 2018
Rate Base	Exhibit 1.2	a	$ 10,554.4	$ 11,225.5	$ (31.7)	$ (77.5)	$ 10,522.7	$ 11,148.0
Common Equity Capital Structure		b	40.0%	40.0%			40.0%	40.0%
Return on Equity	Exhibit 1.4	c	8.78%	8.78%	0.00%	0.00%	8.78%	8.78%
Return on Equity		d = a x b x c	370.7	394.2	(1.1)	(2.7)	369.6	391.5
Regulatory Income Tax		e = l	81.9	89.6	0.3	(0.8)	82.2	88.8
Regulatory Net Income (before tax)		f = d + e	452.6	483.8	(0.8)	(3.5)	451.8	480.3
Timing Differences *(Note 1)*		g	(140.3)	(142.6)	2.0	0.5	(138.3)	(142.1)
Taxable Income		h = f + g	312.2	341.2	1.3	(3.0)	313.5	338.2
Tax Rate		i	26.5%	26.5%			26.5%	26.5%
Income Tax		j = h x i	82.7	90.4	0.3	(0.8)	83.1	89.6
less: Income Tax Credits		k	(0.8)	(0.8)	-	-	(0.8)	(0.8)
Regulatory Income Tax		l = j + k	81.9	89.6	0.3	(0.8)	82.2	88.8
less: Deferred Tax Asset Sharing *[Note 2]*		m	-	-	(23.8)	(25.7)	(23.8)	(25.7)
Income Taxes		n = l + m	81.90	89.60	(23.5)	(26.6)	58.4	63.0

Note 1. Book to Tax Timing Differences	Hydro One Proposed 2017	Hydro One Proposed 2018	OEB Decision Impact 2017	OEB Decision Impact 2018	OEB Approved 2017	OEB Approved 2018
Depreciation	435.7	470.7	(1.3)	(2.1)	434.4	468.6
CCA	(516.0)	(547.9)	3.4	2.6	(512.7)	(545.4)
Other Timing Differences	(60.0)	(65.4)	-	-	(60.0)	(65.4)
Total Timing Differences	(140.3)	(142.6)	2.0	0.5	(138.3)	(142.1)

Note 2: As per EB-2016-0160 Decision and Order on September 28, 2017.

	2017	2018
Income Tax from OEB Decision (Pre-DTA Sharing)	82.2	88.8
Deferred Tax Asset Sharing	23.8	25.7

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

External Revenue

($ millions)	**Supporting Reference**	**Hearing Update 2017**	**Hearing Update 2018**	**OEB Decision 2017**	**OEB Decision 2018**	**OEB Approved 2017**	**OEB Approved 2018**
External Revenue	*See supporting details below*	28.2	28.5	-	-	28.2	28.5

External Revenue Details E1-2-1 Page 2	Hydro One Proposed 2017	Hydro One Proposed 2018	OEB Decision Impact 2017	OEB Decision Impact 2018	OEB Approved 2017	OEB Approved 2018
Secondary Land Use	15.4	15.6	-	-	15.4	15.6
Station Maintenance	5.3	5.3	-	-	5.3	5.3
Engineering & Construction	-	-	-	-	-	-
Other	7.5	7.6	-	-	7.5	7.6
Total	28.2	28.5	-	-	28.2	28.5

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

Export Transmission Service Revenue

($ millions)	Supporting Reference	Hearing Update 2017	Hearing Update 2018	OEB Decision 2017	OEB Decision 2018	OEB Approved 2017	OEB Approved 2018
Export Transmission Service Revenue		(39.2)	(40.1)			(39.2)	(40.1)

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

Deferral and Variance Accounts

($ millions)	**Supporting Reference**	**Hearing Update 2017**	**Hearing Update 2018**	**OEB Decision 2017**	**OEB Decision 2018**	**OEB Approved 2017**	**OEB Approved 2018**
Deferral and Variance Accounts	*See supporting details below*	(47.8)	(47.8)	-	-	(47.8)	(47.8)

Deferral and Variance Accounts Details F1-1-3	Hydro One Proposed 2017	Hydro One Proposed 2018	OEB Decision Impact 2017	OEB Decision Impact 2018	OEB Approved 2017	OEB Approved 2018
Rights Payments	(1.5)	(1.5)			(1.5)	(1.5)
Tax Rate Changes Account	0.1	0.1			0.1	0.1
B2M	(0.5)	(0.5)			(0.5)	(0.5)
Tx CDM	(27.0)	(27.0)			(27.0)	(27.0)
Reg Asset - LT Tx Future Corridor Acq & Dev Act	0.3	0.3			0.3	0.3
Deferred Pension OM&A	3.0	3.0			3.0	3.0
External Revenues	(13.0)	(13.0)			(13.0)	(13.0)
Tx Excess Export Deferred Revenue	(9.2)	(9.2)			(9.2)	(9.2)
Total	(47.8)	(47.8)	-	-	(47.8)	(47.8)

Exhibit 2.0

In the Decision, the OEB ordered the production of additional tax-related information, which Hydro One has provided in the following exhibits.

Exhibit 2.1
OEB-directed Tax Calculations

Order

Provide a revision to Exhibit J11.3 that separates the amounts in the "FMV in excess of Tax Basis" shown in Exhibit J11.3 between its "recapture" and "gain" components.

Provide a reconciliation of the deferred tax liability and asset amounts for Hydro One Networks recorded in the financial statements filed in evidence in this proceeding for the periods immediately before and after the completion of the initial public offering (IPO), including, in particular, a reconciliation to the deferred tax liability of $1,794 million in the unconsolidated financial statement for Hydro One Networks at October 31, 2015 for "Capital cost allowance in excess of depreciation and amortization".

Response

Refer to Attachment 1 for a revision to Exhibit J11.3 that separates the amount in the "FMV in excess of Tax Basis" between its recapture and gain components as shown the departure tax calculations in Exhibit J11.13.

Refer to Attachment 2 for a reconciliation of the deferred tax liability of $1,794 million for "capital cost allowance in excess of depreciation and amortization" as disclosed in Note 7 of the unconsolidated financial statements for Hydro One Networks for the period ending October 31, 2015.

Further, Hydro One is unable to provide a reconciliation of the deferred tax liability and assets amounts for Hydro One Networks recorded in the financial statements for the periods immediately before and after the completion of the IPO, as the deferred tax asset on the FMV Bump (as defined in the Decision) of $2,595 was not recorded in the financial statements immediately after the completion of the IPO. This deferred tax asset was only recorded in the financial statements for the period ending December 31, 2015. Refer to Attachment 3 for a high level reconciliation of the change in the deferred tax balances from October 31, 2015 to December 31, 2015 and a copy of Hydro One Networks financial statements for the period from November 5, 2015 to December 31, 2015.

HYDRO ONE NETWORKS INC.
DEFERRED TAX ASSET - COMPONENTS OF FMV IN EXCESS OF TAX BASIS
OCTOBER 31, 2015
($ Millions)

	FMV	Tax Basis	FMV in excess of Tax Basis	Recapture	Capital Gains	ECE Income	Total	Tax Rate	DTA
Transmission									
Fixed Assets	9,965	6,482	3,483	2,843	640	-	3,483	26.5%	923
Goodwill	2,692	51	1,968	78	-	1,890	1,968	26.5%	522
Construction in Progress	116	-	116	-	116	-	116	26.5%	31
Deferred Tax Asset	**12,773**	**6,533**	**5,567**	**2,921**	**756**	**1,890**	**5,567**		**1,475**
			% FMV Bump	52.5%	13.6%	33.9%	100.0%		
Distribution									
Fixed Assets	7,121	4,845	2,277	1,904	373	-	2,277	26.5%	603
Goodwill	2,455	26	1,815	72	-	1,743	1,815	26.5%	481
Construction in Progress	80	-	80	-	80	-	80	26.5%	21
Deferred Tax Asset	**9,656**	**4,871**	**4,171**	**1,976**	**453**	**1,743**	**4,171**		**1,105**
			% FMV Bump	47.4%	10.9%	41.8%	100.0%		
Norfolk									
Fixed Assets	55	-	55	-	55	-	55	26.5%	15
Goodwill	-	-	-	-	-	-	-	26.5%	-
Construction in Progress	-	-	-	-	-	-	-	26.5%	-
Deferred Tax Asset	**55**	**-**	**55**	**-**	**55**	**-**	**55**		**15**
			% FMV Bump	0.0%	100.0%	0.0%	100.0%		
Hydro One Networks Inc.									
Fixed Assets	17,142	11,327	5,815	4,747	1,068	-	5,815	26.5%	1,541
Goodwill	5,147	77	3,783	151	-	3,633	3,784	26.5%	1,003
Construction in Progress	196	-	196	-	196	-	196	26.5%	52
Deferred Tax Asset	**22,484**	**11,404**	**9,794**	**4,897**	**1,264**	**3,633**	**9,794**		**2,596**
			% FMV Bump	50.0%	12.9%	37.1%	100.0%		

HYDRO ONE NETWORKS INC.
RECONCILATION OF DEFERRED TAX LIABILITY
OCTOBER 31, 2015
($ Millions)

Deferred tax liability - "Capital cost allowance in excess of depreciation and amortization"	1,794	(A)
Less: Gross-up	(475)	(A) x 26.5%
Deferred tax liability before gross-up	1,319	(A) / (1-.265)
Tax Rate	26.50%	
Estimated gross recapture	4,976	
Recapture per Attachment 1	4,897	
Difference	79	

Commentary

The capital cost allowance in excess of depreciation and amortization is primarily recapture as calculated in Attachment 1.

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

HYDRO ONE NETWORKS INC.
RECONCILATION OF DEFERRED TAX BALANCES - PRIOR TO AND AFTER IPO
OCTOBER 31, 2015 and DECEMBER 31, 2015
($ Millions)

		DR/(CR)
October 31, 2015	Deferred tax asset	608
	Deferred tax liability	(1,950)
	Net deferred tax liability	(1,342)
December 31, 2015	Deferred tax asset	1,606
	Deferred tax liability	(158)
	Net deferred tax liability	1,448
	Change in deferred tax liability	2,790
	Deferred tax asset - FMV bump	2,596
	Other deferred tax movements	194

HYDRO ONE NETWORKS INC.

FINANCIAL STATEMENTS
(unaudited)

DECEMBER 31, 2015

HYDRO ONE NETWORKS INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the periods from November 5, 2015 to December 31, 2015 and from November 1, 2015 to November 4, 2015

(millions of Canadian dollars)	**Period from November 5 to December 31, 2015**	**Period from November 1 to November 4, 2015**
Revenues		
Distribution *(Note 20)*	710	58
Transmission *(Note 20)*	214	19
	924	77
Costs		
Purchased power *(Note 20)*	490	40
Operation, maintenance and administration *(Note 20)*	178	14
Depreciation and amortization *(Note 4)*	112	11
	780	65
Income before financing charges and income taxes	**144**	**12**
Financing charges *(Notes 5, 20)*	57	5
Income before income taxes	**87**	**7**
Income taxes (recovery) *(Notes 6, 20)*	(2,579)	1
Net income	**2,666**	**6**
Other comprehensive income	–	–
Comprehensive income	**2,666**	**6**

See accompanying notes to Financial Statements (unaudited).

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

(millions of Canadian dollars)	**December 31, 2015**	**November 4, 2015**
Assets		
Current assets:		
Accounts receivable (net of allowance for doubtful accounts – $60) *(Note 7)*	924	1,080
Regulatory assets *(Note 10)*	33	43
Materials and supplies	15	19
Deferred income tax assets *(Note 6)*	18	19
Other	17	11
	1,007	1,172
Property, plant and equipment *(Note 8):*		
Property, plant and equipment in service	25,205	24,828
Less: accumulated depreciation	9,283	9,216
	15,922	15,612
Construction in progress	1,141	1,318
Future use land, components and spares	149	147
	17,212	17,077
Other long-term assets:		
Regulatory assets *(Note 10)*	2,003	1,906
Intangible assets (net of accumulated amortization – $279) *(Note 9)*	364	363
Goodwill	113	112
Deferred income tax assets *(Note 6)*	1,430	–
Deferred debt issuance costs	33	33
Other	3	3
	3,946	2,417
Total assets	**22,165**	**20,666**

See accompanying notes to Financial Statements (unaudited).

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

(millions of Canadian dollars)	**December 31, 2015**	**November 4, 2015**
Liabilities		
Current liabilities:		
Inter-company demand facility *(Notes 12, 13, 20)*	1,641	1,391
Accounts payable	145	159
Accrued liabilities *(Note 15)*	725	700
Accrued interest *(Note 21)*	94	95
Regulatory liabilities *(Note 10)*	19	16
Derivative instruments	–	3
Long-term debt payable within one year *(Notes 11, 12)*	500	450
	3,124	2,814
Long-term debt *(Notes 11, 12)*	7,677	7,727
Other long-term liabilities:		
Post-retirement and post-employment benefit liability *(Note 14)*	1,524	1,556
Deferred income tax liabilities *(Note 6)*	–	1,361
Environmental liabilities *(Note 15)*	176	189
Regulatory liabilities *(Note 10)*	229	259
Net unamortized debt premiums	17	18
Asset retirement obligations *(Note 16)*	8	8
Long-term accounts payable and other liabilities	24	14
	1,978	3,405
Total liabilities	**12,779**	**13,946**

Contingencies and Commitments (Notes 22, 23)
Subsequent Events (Note 25)

Shareholder's equity		
Common shares *(Notes 13, 17, 18)*	5,700	5,700
Retained earnings	3,690	1,024
Contributed surplus	5	5
Accumulated other comprehensive loss	(9)	(9)
Total shareholder's equity	**9,386**	**6,720**
Total liabilities and shareholder's equity	**22,165**	**20,666**

See accompanying notes to Financial Statements (unaudited).

HYDRO ONE NETWORKS INC.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (unaudited)
For the periods from November 5, 2015 to December 31, 2015 and from November 1, 2015 to November 4, 2015

Period from November 5 to December 31, 2015 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Contributed Surplus**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholder's Equity**
November 5, 2015	5,700	1,024	5	(9)	6,720
Net income	–	2,666	–	–	2,666
December 31, 2015	**5,700**	**3,690**	**5**	**(9)**	**9,386**

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
Common shares issued	2,271	–	–	–	2,271
November 4, 2015	**5,700**	**1,024**	**5**	**(9)**	**6,720**

See accompanying notes to Financial Statements (unaudited).

HYDRO ONE NETWORKS INC.
STATEMENTS OF CASH FLOWS (unaudited)
For the periods from November 5, 2015 to December 31, 2015 and from November 1, 2015 to November 4, 2015

(millions of Canadian dollars)	**Period from November 5 to December 31, 2015**	**Period from November 1 to November 4, 2015**
Operating activities		
Net income	2,666	6
Environmental expenditures	(4)	–
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	95	11
Regulatory assets and liabilities	(151)	–
Deferred income taxes	(2,813)	–
Other	17	–
Changes in non-cash balances related to operations *(Note 21)*	185	(2,288)
Net cash used in operating activities	(5)	(2,271)
Financing activities		
Common shares issued	–	2,271
Other	(3)	–
Net cash from (used in) financing activities	(3)	2,271
Investing activities		
Capital expenditures *(Note 21)*		
Property, plant and equipment	(289)	–
Intangible assets	(11)	–
Capital contributions received	61	–
Other	(3)	–
Net cash used in investing activities	(242)	–
Net change in inter-company demand facility	(250)	–
Inter-company demand facility, beginning of period	(1,391)	(1,391)
Inter-company demand facility, end of period	**(1,641)**	**(1,391)**

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. 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 December 31, 2015 and the results of its operations and its cash flows for the period from November 5, 2015 to December 31, 2015. The comparative information is presented as at November 4, 2015 and for the period from November 1, 2015 to November 4, 2015.

Hydro One Networks performed an evaluation of subsequent events through to March 15, 2016, 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

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.

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. 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	47 years	1% – 2%	2%
Communication	16 years	1% – 15%	6%
Administration and service	18 years	1% – 20%	6%

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. At December 31, 2015, no goodwill impairment had been recorded.

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 December 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. 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.

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 12 – 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 December 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.

Stock-Based Compensation

Hydro One measures share grant plans based on fair value of share grants as estimated based on the grant date Hydro One Limited share price. The costs are recognized in the financial statements using the graded-vesting attribution method for share grant plans that have both a performance condition and a service condition. The Company records a regulatory asset equal to the accrued costs of share grant plans recognized in each period, as management considers it to be probable that such costs will be recovered in the future through the rate-setting process.

The Company also records the liabilities associated with its Directors' Deferred Share Unit (DSU) Plan at fair value at each reporting date until settlement, recognizing compensation expense over the vesting period on a straight-line basis. The fair value of the DSU liability is based on Hydro One Limited's common share closing price at the end of each reporting period.

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. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	**Period from November 5 to December 31, 2015**
Depreciation of property, plant and equipment	81
Amortization of intangible assets	10
Asset removal costs	17
Amortization of regulatory assets	4
	112

5. FINANCING CHARGES

(millions of Canadian dollars)	**Period from November 5 to December 31, 2015**
Interest on long-term debt	60
Other	2
Interest on inter-company demand facility	3
Less: Interest capitalized on construction and development in progress	(8)
	57

6. INCOME TAXES

Income taxes differ 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 November 5 to December 31, 2015**
Income taxes at statutory rate	23
Increase (decrease) resulting from:	
Net temporary differences included in amounts charged to customers:	
Capital cost allowance in excess of depreciation and amortization	(5)
Post-retirement and post-employment benefit expense in excess of cash payments	(2)
Pension contributions in excess of pension expense	(4)
Overheads capitalized for accounting but deducted for tax purposes	(2)
Interest capitalized for accounting but deducted for tax purposes	(2)
Environmental expenditures	(1)
Net temporary differences	(16)
Net tax expense (benefit) resulting from transition from PILs Regime to Federal Tax Regime	(2,587)
Net permanent differences	1
Total income tax expense (recovery)	(2,579)
Current income tax expense	234
Deferred income tax expense	(2,813)
Total income tax expense (recovery)	(2,579)
Effective income tax rate	(2,964%)

The provision for PILs / current income taxes is remitted to, or received from, the OEFC (PILs Regime) and the CRA (Federal Tax Regime). At December 31, 2015, $11 million due from the OEFC was included in accounts receivable on the Balance Sheet.

The total income tax expense includes deferred income tax recovery of $2,813 million that is not included in the rate-setting process, using the balance sheet liability method of accounting. Deferred income tax expense 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 paid 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 paid by Hydro One Networks is $2,271 million.

Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Company's assets and liabilities. At December 31, 2015 deferred income tax assets and liabilities consisted of the following:

(millions of Canadian dollars)	**December 31, 2015**
Deferred income tax assets	
Depreciation and amortization in excess of capital cost allowance	906
Post-retirement and post-employment benefit expense in excess of cash payments	566
Environmental expenditures	71
Non-capital losses	60
Other	3
Total deferred income tax assets	1,606
Less: current portion	18
	1,588

(millions of Canadian dollars)	**December 31, 2015**
Deferred income tax liabilities	
Regulatory amounts not recognized for tax	147
Goodwill	9
Other	2
Total deferred income tax liabilities	158
Less: current portion	–
	158

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

(millions of Canadian dollars)	**December 31, 2015**
Current deferred income tax assets	18
Current deferred income tax liabilities	–
Net current deferred income tax assets	18
Long-term deferred income tax assets	1,588
Long-term deferred income tax liabilities	(158)
Net long-term deferred income tax assets	1,430

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

7. ACCOUNTS RECEIVABLE

(millions of Canadian dollars)	**December 31, 2015**
Accounts receivable – billed	396
Accounts receivable – unbilled	588
Accounts receivable, gross	984
Allowance for doubtful accounts	(60)
Accounts receivable, net	924

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

(millions of Canadian dollars)	**Period from November 5 to December 31, 2015**
Allowance for doubtful accounts – beginning of period	(64)
Write-offs	9
Additions to allowance for doubtful accounts	(5)
Allowance for doubtful accounts – end of period	(60)

8. PROPERTY, PLANT AND EQUIPMENT

December 31, 2015 *(millions of Canadian dollars)*	**Property, Plant and Equipment**	**Accumulated Depreciation**	**Construction in Progress**	**Total**
Transmission	13,748	4,673	851	9,926
Distribution	9,083	3,155	236	6,164
Communication	1,006	610	18	414
Administration and service	1,517	845	36	708
	25,354	9,283	1,141	17,212

Financing charges capitalized on property, plant and equipment under construction were $8 million during the period from November 5 to December 31, 2015.

9. INTANGIBLE ASSETS

December 31, 2015 *(millions of Canadian dollars)*	**Intangible Assets**	**Accumulated Amortization**	**Development in Progress**	**Total**
Computer applications software	579	270	25	334
Other	39	9	–	30
	618	279	25	364

Financing charges capitalized on intangible assets under development were immaterial during the period from November 5 to December 31, 2015. The estimated amortization expense for intangible assets as at December 31, 2015 is as follows: 2016 – $56 million; 2017 – $56 million; 2018 – $56 million; 2019 – $47 million; and 2020 – $30 million.

10. 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)	**December 31, 2015**
Regulatory assets:	
Deferred income tax regulatory asset	1,404
Post-retirement and post-employment benefits	238
Environmental	196
Retail settlement variance accounts	113
Pension cost variance	37
2015-2017 rate rider	20
DSC exemption	10
Share-based compensation	10
Other	8
Total regulatory assets	2,036
Less: current portion	33
	2,003

(millions of Canadian dollars)	**December 31, 2015**
Regulatory liabilities:	
Green Energy expenditure variance	76
External revenue variance	87
CDM deferral variance account	53
PST savings deferral	4
Deferred income tax regulatory liability	18
Other	10
Total regulatory liabilities	248
Less: current portion	19
	229

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 income tax expense for the period from November 5 to December 31, 2015 would have been higher by approximately $16 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, for the period from November 5 to December 31, 2015 OCI would have been higher by $35 million.

Environmental

Hydro One Networks records a liability for the estimated future expenditures required to remediate environmental contamination. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. During the period from November 5 to December 31, 2015, the environmental regulatory asset decreased by $24 million to reflect related changes in the Company's PCB liability, and increased by $2 million due to changes in the LAR liability. 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-regulated accounting, operation, maintenance and administration expenses for the period from November 5 to December 31, 2015 would have been lower by $22 million. In addition, for the period from November 5 to December 31, 2015, amortization expense would have been lower by $3 million, and financing charges would have been higher by $1 million.

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. RSVA primarily includes variances relating to Power, Global Adjustment, Wholesale Market Service Charge and Transmission Network and Transmission Connection Services. 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. In 2015, the Company revised its method to estimate the unbilled accounts receivable based on new technology implemented to improve the accuracy of the estimation process. This revised method is also in compliance with OEB guidance. At December 31, 2015, the change in estimate reduced unbilled accounts receivable by approximately $121 million, with a corresponding offset to various components of RSVA. The change in estimate had no significant impact on 2015 net income.

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 lower by $1 million for the period from November 5 to December 31, 2015.

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.

Share-based Compensation

The Company recognizes costs associated with stock-based compensation in a regulatory asset as management considers it probable that stock-based compensation costs will be recovered in the future through the rate-setting process. At December 31, 2015, the stock-based compensation costs related to the share grant plans are measured at fair value estimated based on grant date Hydro One Limited share price and recognized using the graded-vesting attribution method. In the absence of rate-regulated accounting, the period from November 5 to December 31, 2015 operation, maintenance and administration expenses would have been higher by $4 million.

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.

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.

CDM Deferral Variance Account

As part of Hydro One Networks' application for 2013 and 2014 transmission rates, the Company 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. The balance in the CDM deferral variance account at December 31, 2015 relates to the actual 2013 and 2014 CDM compared to the amounts included in 2013 and 2014 revenue requirement. The OEB rate order specifically states that IESO's 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 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, 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.

11. DEBT

Hydro One issues notes for long-term financing under its Medium-Term Note Program. The terms of certain issuances are mirrored down to Hydro One Networks through the issuance of inter-company debt.

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

(millions of Canadian dollars)	**December 31, 2015**
Long-term debt	8,177
Less: Long-term debt payable within one year	(500)
Long-term debt	7,677

The long-term debt is unsecured and denominated in Canadian dollars. The long-term debt is summarized by the number of years to maturity in Note 12 – Fair Value of Financial Instruments and Risk Management.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition focuses on an exit price, which is the price that would be received in the sale of an asset or the amount that would be paid to transfer a liability.

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 December 31, 2015, 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 December 31, 2015 are as follows:

	December 31, 2015	
(millions of Canadian dollars)	**Carrying Value**	**Fair Value**
Long-term debt		
$30 million notes due 2020[1]	30	30
Other notes and debentures[2]	8,147	9,352
	8,177	9,382

[1] The fair value of the $30 million MTN Series 33 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 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 December 31, 2015, interest-rate swaps totaling $30 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 about 1% of its total long-term debt of $8,177 million. At December 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 December 31, 2015, the Company had no interest-rate swaps classified as undesignated contracts.

As part of the Norfolk Power acquisition, Hydro One assumed liabilities associated with unrealized losses on derivative instruments (interest-rate swaps) totalling $3 million. Hydro One Networks extinguished the interest rate swaps and repaid these liabilities in December 2015.

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

Fair Value Hierarchy

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

December 31, 2015 *(millions of Canadian dollars)*	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Liabilities:					
Inter-company demand facility	1,641	1,641	1,641	–	–
Long-term debt	8,177	9,382	–	9,382	–
	9,818	11,023	1,641	9,382	–

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 December 31, 2015.

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 and the Distribution Business' 2015 results of operations by approximately $13 million.

Hydro One uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. Hydro One also uses derivative financial instruments to manage interest-rate risk. Hydro One utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. In addition, Hydro One may utilize interest-rate derivative instruments to lock in interest rate levels in anticipation of future financing. Hydro One may also enter into derivative agreements such as forward-starting pay fixed-interest-rate swap agreements to hedge against the effect of future interest rate movements on long-term fixed-rate borrowing requirements. Such arrangements are typically designated as cash flow hedges. The Company's derivative instrument policy is consistent with Hydro One. No cash flow hedge agreements were outstanding as at December 31, 2015.

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 December 31, 2015.

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 December 31, 2015 was not significant.

At December 31, 2015, the notional amount of fair value hedges outstanding related to interest-rate swaps was $30 million, with assets at fair value of $nil. During the period ended December 31, 2015, there was no significant impact on the results of operations as a result of any ineffectiveness attributable to fair value hedges.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At December 31, 2015 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 December 31, 2015, there was no significant accounts receivable balance due from any single customer.

At December 31, 2015, the Company's allowance for doubtful accounts was $60 million. Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2015, approximately 6% of the Company's net accounts receivable were aged more than 60 days.

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 December 31, 2015, accounts payable and accrued liabilities in the amount of $870 million are expected to be settled in cash at their carrying amounts within the next 12 months.

At December 31, 2015, the principal amount of the Company's long-term debt was $8,177 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	1.2
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	338
2019	315
2020	307
	1,709
2021-2025	1,446
2026 +	3,989
	7,144

13. CAPITAL MANAGEMENT

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. The Company considers its capital structure to consist of shareholder's equity, preferred shares, long-term debt, and the inter-company demand facility. At December 31, 2015, Company's capital structure was as follows:

(millions of Canadian dollars)	**December 31, 2015**
Long-term debt payable within one year	500
Inter-company demand facility	1,641
	2,141
Long-term debt	7,677
Common shares	5,700
Retained earnings	3,690
Contributed surplus	5
	9,395
Total capital	19,213

14. PENSION AND POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

Hydro One has a defined benefit pension plan, a supplementary pension plan, and post-retirement and post-employment benefit plans. The defined benefit pension plan (Pension Plan) is contributory and covers most regular employees of Hydro One and its subsidiaries. The supplementary pension plan provides members of the Pension Plan with benefits that would have been earned and payable under the Pension Plan but for the limitations imposed by the *Income Tax Act* (Canada). The supplementary pension plan obligation is included with other post-retirement and post-employment benefit obligations on the 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 from November 5 to December 31, 2015 of $28 million were based on an actuarial valuation effective December 31, 2013 and expected 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, 2015, the present value of Hydro One's projected pension benefit obligation was estimated to be $7,683 million. The fair value of pension plan assets available for these benefits was $6,731 million. At December 31, 2015, the net unfunded status of pension plan obligation was $952 million.

Post-Retirement and Post-Employment Benefits

During the period from November 5 to December 31, 2015, the Company charged $9 million of post-retirement and post-employment benefit costs to operations, and capitalized $11 million as part of the cost of property, plant and equipment and intangible assets. Benefits paid during the period ended December 31, 2015 were $13 million. In addition, the associated post-retirement and post-employment benefits regulatory asset was decreased by $35 million.

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

(millions of Canadian dollars)	**December 31, 2015**
Accrued liabilities	51
Post-retirement and post-employment benefit liability	1,524
	1,575

15. ENVIRONMENTAL LIABILITIES

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

Period from November 5 to December 31, 2015 *(millions of Canadian dollars)*	**PCB**	**LAR**	**Total**
Environmental liabilities, November 5	172	48	220
Interest accretion	1	–	1
Expenditures	(1)	(2)	(3)
Revaluation adjustment	(24)	2	(22)
Environmental liabilities, December 31	148	48	196
Less: current portion	12	8	20
	136	40	176

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:

December 31, 2015 *(millions of Canadian dollars)*	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities	168	49	217
Less: discounting accumulated liabilities to present value	20	1	21
Discounted environmental liabilities	148	48	196

At December 31, 2015, the estimated future environmental expenditures were as follows:

(millions of Canadian dollars)	
2016	20
2017	24
2018	24
2019	26
2020	26
Thereafter	97
	217

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 2.0% 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 $168 million. These expenditures are expected to be incurred over the period from 2016 to 2025. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in December 2015 to reduce the PCB environmental liability by $24 million.

LAR

The Company's best estimate of the total estimated future expenditures to complete its LAR program is $49 million. These expenditures are expected to be incurred over the period from 2016 to 2023. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in December 2015 to increase the land assessment and remediation environmental liability by $2 million.

16. ASSET RETIREMENT OBLIGATIONS

Hydro One records a liability for the estimated future expenditures for the removal and disposal of asbestos-containing materials installed in some of its facilities and for the decommissioning of specific switching stations located on unowned sites. AROs, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected expenditures for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate of fair value can be made. If the asset remains in service at the recognition date, the present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred and this additional carrying amount is depreciated over the remaining life of the asset. If an ARO is recorded in respect of an out-of-service asset, the asset retirement cost is charged to results of operations. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the ARO, which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired, changes in legislation or regulations, as well as for accretion of the liability due to the passage of time until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset.

In determining the amounts to be recorded as AROs, the Company estimates the current fair value for completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 3.0% to 5.0%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's AROs represent management's best estimates of the costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. AROs are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

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

17. SHARE CAPITAL

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At December 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 December 31, 2015, the Company had 207,577,181 common shares issued and outstanding.

The following table presents the change in common shares during the year ended December 31, 2015.

Year ended December 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 issued *(c)*	2,271	53,067,036
Common shares issued *(d)*	–	1
Common shares – December 31	5,700	207,557,181

(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.

(c) On November 4, 2015, Hydro One Networks issued 53,067,036 common shares to Hydro One Limited for proceeds of $2,271 million.

(d) 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 as a net result of the stock dividend and the reverse split.

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.

Earnings per Share

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

Basic and diluted earnings per common share (EPS) is calculated by dividing net income attributable to common shareholder of Hydro One Networks by the weighted average number of common shares outstanding. During the period ended December 31, 2015, the weighted average number of shares outstanding was 207,557,181. There were no dilutive securities.

18. DIVIDENDS

During the period from November 5 to December 31, 2015, no preferred share dividends and no common share dividends were declared.

19. STOCK-BASED COMPENSATION

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

At December 31, 2015, Hydro One Limited had two share grant plans, one for the benefit of certain members of the Power Workers' Union (the PWU Share Grant Plan) and one for the benefit of certain members of The Society of Energy Professionals (the Society Share Grant Plan). Hydro One and Hydro One Limited entered into an inter-company agreement, such that Hydro One will pay Hydro One Limited for the compensation costs associated with these plans. The agreement requires Hydro One Networks to reimburse Hydro One for the value of shares granted to the Company's eligible employees relating to these plans.

The PWU Share Grant Plan provides for the issuance of common shares of Hydro One Limited from treasury 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. To be eligible, an employee must be a member of the Pension Plan on April 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. The requisite service period for the PWU share grant plan begins on July 3, 2015, which is the date the share grant plans were ratified by the PWU. The number of common shares issued annually to each eligible employee will be equal to 2.7% of such eligible employee's salary as at April 1, 2015, divided by $20.50, being the price of the common shares of Hydro One Limited in the IPO. The aggregate number of Hydro One Limited common shares issuable under the PWU Share Grant Plan shall not exceed 3,981,763 common shares. In 2015, 3,913,671 Hydro One Limited common shares were granted under the PWU Share Grant Plan relevant to the total share based compensation recognized by Hydro One Networks.

The Society Share Grant Plan provides for the issuance of common shares of Hydro One Limited from treasury 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. To be eligible, an employee must be a member of the Pension Plan on September 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. Therefore the requisite service period for the Society Share Grant Plan begins on September 1, 2015. The number of common shares issued annually to each eligible employee will be equal to 2.0% of such eligible employee's salary as at September 1, 2015, divided by $20.50, being the price of the common shares of Hydro One Limited in the IPO. The aggregate number of Hydro One Limited common shares issuable under the Society Share Grant Plan shall not exceed 1,434,686 common shares. In 2015, 1,352,503 Hydro One Limited common shares were granted under the Society Share Grant Plan relevant to the total share based compensation recognized by Hydro One Networks.

The fair value of the Hydro One Limited share grants is estimated based on the grant date Hydro One Limited share price of $20.50 and is recognized using the graded-vesting attribution method as the share grant plans have both a performance condition and a service condition. Total fair value of shares granted to employees of Hydro One Networks in 2015 is $108 million. Total share based compensation recognized during 2015 by Hydro One Networks was $10 million and was recorded as a regulatory asset. The historical turnover rate relating to members of the Power Workers' Union and The Society of Energy Professionals is not believed to be reflective of a future turnover rate due to benefits conferred by the share grant plans. At December 31, 2015, the Company expects all eligible employees to receive the share grants until such time that they no longer meet the eligibility criteria and therefore, a forfeiture rate of 0% is assumed in amounts recognized during 2015. The Company will reevaluate this assumption in subsequent periods based on actual experience.

A summary of the Company's share grant activity under the Share Grant Plans as of December 31, 2015 is presented below:

Period from November 5 to December 31, 2015	Share Grants *(Number)*	Weighted-Average Price
Outstanding – beginning of period	–	–
Granted (non-vested)	5,266,174	$20.50
Outstanding – end of period	5,266,174	–

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. Hydro One Networks 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.

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 majority 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 December 31, 2015, Hydro One Networks purchased power in the amount of $416 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 December 31, 2015 were $231 million. Consistent with the Company's revenue recognition policy, $228 million was recognized during the period ended December 31, 2015 related to these services.
- Hydro One Networks receives amounts for rural rate protection from the IESO. For the period ended December 31, 2015, revenues include $21 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 December 31, 2015, Hydro One Networks received $3 million from the IESO related to these programs.

OPG

- During the period from November 5 to December 31, 2015, power purchased from OPG was not significant.
- 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 December 31, 2015, revenues related to the provision of construction and equipment maintenance services with respect to these service level agreements were $1 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 December 31, 2015, Hydro One purchased power in the amount of $1 million from power contracts administered by the OEFC.
- During the period ended December 31, 2015, the Company paid a $3 million 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 December 31, 2015, Hydro One Networks incurred $2 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 December 31, revenues related to the provision of services with respect to these service level agreements were not significant.

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)	**December 31, 2015**
Accounts receivable	179
Accrued liabilities[1]	(132)

[1] Included in accrued liabilities at December 31, 2015 are amounts owing to the IESO in respect of power purchases of $127 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 December 31, 2015 revenues include $1 million related to the provision of services to Hydro One Limited and its other subsidiaries. During period ended December 31, 2015, services were purchased from Hydro One Limited and its other subsidiaries totalling $7 million, of which $5 million was expensed, and $2 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. During the period ended December 31, 2015, financing charges include interest expense on the long-term debt in the amount of $60 million, and interest expense on the inter-company demand facility in the amount of $3 million. At December 31, 2015, the Company had accrued interest payable to Hydro One totalling $94 million.
- At December 31, 2015, common share dividends of $25 million were payable to Hydro One.
- In 2015, Hydro One Limited established certain stock-based compensation plans, however they represent components of costs of Hydro One and its subsidiaries, including Hydro One Networks in current and future periods. Hydro One and Hydro One Limited entered into an inter-company agreement, such that Hydro One will pay Hydro One Limited for the compensation costs associated with the share grant plans. The agreement requires Hydro One Networks to reimburse Hydro One for the value of shares granted to the Company's eligible employees relating to these plans. At December 31, 2015, Hydro One Networks had a payable of $10 million to Hydro One associated with these plans. See Note 19 – Stock-based Compensation.

21. STATEMENTS OF CASH FLOWS

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

(millions of Canadian dollars)	**Period from November 5 to December 31, 2015**
Accounts receivable	156
Materials and supplies	4
Other assets	(6)
Accounts payable	(13)
Accrued liabilities	32
Accrued interest	(1)
Long-term accounts payable and other liabilities	10
Post-retirement and post-employment benefit liability	3
	185

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 November 5 to December 31, 2015**
Capital investments in property, plant and equipment	(293)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	4
Capital expenditures – property, plant and equipment	(289)

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 November 5 to December 31, 2015**
Capital investments in intangible assets	(10)
Net change in accruals included in capital investments in intangible assets	(1)
Capital expenditures – intangible assets	(11)

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 December 31, 2015, capital contributions from these reassessments totalled $61 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.

Supplementary Information

(millions of Canadian dollars)	**Period from November 4 to December 31, 2015**
Net interest paid	72
Income taxes / PILs paid	253

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 December 31, 2015, the annual commitments under the outsourcing agreements were as follows: 2016 – $167 million; 2017 – $138 million; 2018 – $106 million; 2019 – $99 million; 2020 – $2 million; and thereafter – $11 million.

Trilliant Agreement

In December 2015, Hydro One Networks entered into an agreement with Trilliant Holdings Inc. and Trilliant Networks Canada) Inc. (Trilliant) for the supply, maintenance and support services for smart meters and related hardware and software, including additional software licenses, as well as certain professional services. This agreement is for a term of ten years, from December 31, 2015 to December 31, 2025, with the option to renew for an additional term of five years at Hydro One Networks' sole discretion. At December 31, 2015, the annual commitments under the agreement were as follows: 2016 – $17 million; 2017 – $17 million; 2018 – $17 million; 2019 – $17 million; 2020 – $16 million; and thereafter – $6 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 December 31, 2015, Hydro One provided prudential support to the IESO on behalf of Hydro One Networks using parental guarantees of $325 million. In addition, as at December 31, 2015, Hydro One has provided letters of credit in the amount of $ 15 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 December 31, 2015, Hydro One had letters of credit of $139 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 December 31, 2015, the Company made lease payments totaling $1 million. At December 31, 2015, the future minimum lease payments under non-cancellable operating leases were as follows: 2016 – $10 million; 2017 – $9 million; 2018 – $7 million; 2019 – $2 million; 2020 – $7 million and thereafter – $3 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 November 5 to December 31, 2015 *(millions of Canadian dollars)*	**Transmission**	**Distribution**	**Other**	**Total**
Revenues	214	710	–	924
Purchased power	–	490	–	490
Operation, maintenance and administration	91	84	3	178
Depreciation and amortization	53	59	–	112
Income before financing charges and provision for PILs	70	77	(3)	144
Capital investments	165	138	–	303

Total Assets by Segment:

(millions of Canadian dollars)	**December 31, 2015**
Transmission	11,050
Distribution	8,275
Other	2,840
Total assets	22,165

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

25. SUBSEQUENT EVENTS

Long-term Debt

On February 24, 2016, Hydro One issued the following notes under its MTN Program:

- $500 million notes with a maturity date of February 24, 2021 and a coupon rate of 1.84%. This issuance was mirrored down to Hydro One Networks through the issuance of inter-company debt with a coupon rate of 1.86%;
- $500 million notes with a maturity date of February 24, 2026 and a coupon rate of 2.77%. $490 million of this issuance was mirrored down to Hydro One Networks through the issuance of inter-company debt with a coupon rate of 2.79%; and
- $350 million notes with a maturity date of February 23, 2046 and a coupon rate of 3.91%. This issuance was mirrored down to Hydro One Networks through the issuance of inter-company debt with a coupon rate of 3.93%.

Payments to Finance Dividends

On February 11, 2016, Hydro One Networks declared common share dividends in the amount of $2 million, and a return of stated capital in the amount of $225 million was approved, of which $24 million was paid on February 22, 2016.

Exhibit 2.2

Order 2.0b

Provide the grossed up regulatory taxes recoverable from ratepayers in 2017 and 2018 in amounts derived by multiplying taxes calculated for each of those years, under an assumed 100% allocation to shareholder of future tax savings benefits, by the 71% recapture ratio for transmission.

Response

The draft revenue requirement/charge determinant order incorporated revenue requirement reductions with respect to envelope and compensation deductions, and the disallowance of AFUDC associated with the Niagara Reinforcement Project. With these adjustments, the revised grossed up regulatory taxes recoverable from ratepayers in 2017 and 2018 is $82.2 million and $88.8 million, respectively under an assumed 100% allocation to the shareholders of the future tax savings benefit. Consistent to the methodology outlined in EB-2016-0160, the Recapture Ratio (as defined in the Decision) of 71% would then be applied on the grossed up regulatory taxes recoverable in 2017 and 2018, which results in a 29% of future tax savings to the ratepayers in the amount of $23.8 million and $25.7 million for 2017 and 2018, respectively. The final grossed up regulatory tax that has been requested in the draft revenue requirement/charge determinant order is $58.4 and $63 million for 2017 and 2018, respectively. Below is a summary of the calculation of the recoverable regulatory taxes for 2017 and 2018:

	2017	**2018**
Grossed up regulatory taxes	$ 82.2	$ 88.8
Less: 29% of future taxes savings	(23.8)	(25.7)
Revised grossed up regulatory taxes	**$ 58.4**	**$ 63.0**

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

2017 Revenue Requirement by Rate Pool

		2017 Rate Pool Revenue Requirement ($ Million)			
	Supporting Exhibit	**Network (Note 3)**	**Line Connection**	**Transformation Connection**	**Uniform Transmission Rates Revenue Requirement**
OM&A	*1.1*	196.1	39.6	98.4	334.1
Other Taxes (Grants-in-Lieu)	*Note 1*	37.6	9.4	16.6	63.6
Depreciation of Fixed Assets	*1.2*	217.9	52.8	110.6	381.3
Capitalized Depreciation	*Note 2*	(7.1)	(1.8)	(3.2)	(12.1)
Asset Removal Costs	*Note 2*	31.4	8.0	14.0	53.4
Other Amortization	*Note 2*	7.0	1.7	3.1	11.8
Return on Debt	*1.4*	169.8	42.4	74.8	287.0
Return on Equity	*1.4*	218.7	54.5	96.3	369.6
Income Tax	*1.5*	34.6	8.6	15.2	58.4
Base Revenue Requirement		**905.9**	**215.3**	**425.8**	**1547.0**
Less External Revenues	*1.6*	(16.5)	(3.9)	(7.8)	(28.2)
Total Revenue Requirement		**889.4**	**211.3**	**418.1**	**1518.8**
Less MSP Revenue	*Note 3*			(0.3)	(0.3)
Less Export Revenues	*1.7*	(39.2)			(39.2)
Less Regulatory Asset Credit	*1.8*	(31.8)	(5.4)	(10.6)	(47.8)
Plus LVSG Credit	*8.0*			13.4	13.4
Total Rates Revenue Requirement*	*Note 3*	**818.4**	**206.0**	**420.6**	**1444.9**

Note 1: Included in OEB Approved 2017 OMA total in Exhibit 1.1.

Note 2: Included in OEB Approved 2017 Depreciation total in Exhibit 1.2.

Note 3: MSP revenue as per Exhibit H1, Tab 3, Schedule 1, Table 1, and assignment to Transformation Connection rate pool as per EB-2016-0160 Decision and Order, pg. 70.

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

Summary Charge Determinants
(for Setting Uniform Transmission Rates effective January 1, 2017 to December 31, 2017)

	2017 Total MW (Note 1)
Network	244,866
Line Connection	236,891
Transformation Connection	202,461

Note 1: The sum of 12 monthly charge determinants, consistent with Exhibit E1, Tab 3, Schedule 1, Table 1.

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

Uniform Transmission Rates and Revenue Disbursement Allocators
(Effective for Period January 1, 2017 to December 31, 2017)
(Implementation for October 1, 2017)

Transmitter	**Revenue Requirement ($)**			
	Network	**Line Connection**	**Transformation Connection**	**Total**
FNEI	$3,583,681	$901,910	$1,841,498	$6,327,089
CNPI	$2,524,997	$635,470	$1,297,486	$4,457,953
H1N SSM	$22,976,658.16	$5,782,569	$11,806,709	$40,565,936
H1N	$818,422,450	$205,973,576	$420,551,820	$1,444,947,847
B2MLP	$33,700,000	$0	$0	$33,700,000
All Transmitters	$881,207,786	$213,293,525	$435,497,514	$1,529,998,825

Transmitter	**Total Annual Charge Determinants (MW)**			
	Network	**Line Connection**	**Transformation Connection**	
FNEI	187.120	213.460	76.190	
CNPI	522.894	549.258	549.258	
H1N SSM	3,498.236	2,734.624	635.252	
H1N	244,865.656	236,890.824	202,461.050	
B2MLP	0.000	0.000	0.000	
All Transmitters	249,073.906	240,388.166	203,721.750	

Transmitter	**Uniform Rates and Revenue Allocators**			
	Network	**Line Connection**	**Transformation Connection**	
Uniform Transmission Rates ($/kW-Month)	**3.54**	**0.89**	**2.14**	
FNEI Allocation Factor	**0.00407**	**0.00423**	**0.00423**	
CNPI Allocation Factor	**0.00287**	**0.00298**	**0.00298**	
H1N SSM Allocation Factor	**0.02607**	**0.02711**	**0.02711**	
H1N Allocation Factor	**0.92875**	**0.96568**	**0.96568**	
B2MLP Allocation Factor	**0.03824**	**0.00000**	**0.00000**	
Total of Allocation Factors	1.00000	1.00000	1.00000	

Note 1: FNEI Rates Revenue Requirement and Charge Determinants per Board Decision and Order on EB-2009-0387 dated December 9, 2010. Set as Interim on December 29, 2015 under EB-2015-0368.

Note 2: CNPI Rates Revenue Requirement and Charge Determinants per OEB Decision EB-2014-0204 dated June 25, 2015 and 2016 order under EB-2015-0354, issued January 14, 2016.

Note 3: H1N SSM 2017 Rates Revenue Requirement and Charge Determinants per OEB Decision EB-2016-0356, issued September 28, 2017.

Note 4: H1N Rates Revenue Requirement and Charge Determinants per OEB Decision EB-2016-0160, issued September 28, 2017.

Note 5: B2M LP 2017 Revenue Requirement per Board Decision and Order EB-2016-0349 dated June 29, 2017.

Note 6: Calculated data in shaded cells.

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

2017 Revenue Requirement and Charge Determinant Assumptions for Other Transmitters

Table 1
Approved Annual Revenue Requirement and Charge Determinants

Transmitter	Annual Revenue Requirement ($)	Annual Charge Determinants (MW)			Approval Reference
		Network	Line Connection	Transformation Connection	
Five Nations Energy Inc. (FNEI)	$6,327,089	187.120	213.460	76.190	*Note 1*
Canadian Niagara Power Inc. (CNPI)	$4,457,953	522.894	549.258	549.258	*Note 2*
Hydro One Sault Ste. Marie Inc. (H1N SSM)	$40,565,936	3,498.236	2,734.624	635.252	*Note 3*
Bruce to Milton Limited Partnership (B2M LP)	$33,700,000	-	-	-	*Note 4*

Note 1: FNEI Rates Revenue Requirement and Charge Determinants per Board Decision and Order on EB-2009-0387 dated December 9, 2010. Set as Interim on December 29, 2015 under EB-2015-0368.

Note 2: CNPI Rates Revenue Requirement and Charge Determinants per OEB Decision EB-2014-0204 dated June 25, 2015 and 2016 order under EB-2015-0354, issued January 14, 2016.

Note 3: H1N SSM 2017 Rates Revenue Requirement and Charge Determinants per OEB Decision EB-2016-0356, issued September 28, 2017.

Note 4: B2M LP 2017 Revenue Requirement per Board Decision and Order EB-2016-0349 dated June 29, 2017.

2017 ONTARIO UNIFORM TRANSMISSION RATE SCHEDULES

EB-2016-0160
EB-2017-0280

The rate schedules contained herein shall be effective January 1, 2017 and Implemented as of October 1, 2017

Issued: October, 2017
Ontario Energy Board

TERMS AND CONDITIONS

(A) APPLICABILITY The rate schedules contained herein pertain to the transmission service applicable to: •The provision of Provincial Transmission Service (PTS) to the Transmission Customers who are defined as the entities that withdraw electricity directly from the transmission system in the province of Ontario. •The provision of Export Transmission Service (ETS) to electricity market participants that export electricity to points outside Ontario utilizing the transmission system in the province of Ontario. The Rate Schedule ETS applies to the wholesale market participants who utilize the Export Service in accordance with the Market Rules of the Ontario Electricity Market, referred to hereafter as Market Rules. These rate schedules do not apply to the distribution services provided by any distributors in Ontario, nor to the purchase of energy, hourly uplift, ancillary services or any other charges that may be applicable in electricity markets administered by the Independent Electricity System Operator (IESO) of Ontario.

(B) TRANSMISSION SYSTEM CODE The transmission service provided under these rate schedules is in accordance with the Transmission System Code (Code) issued by the Ontario Energy Board (OEB). The Code sets out the requirements, standards, terms and conditions of the transmitter's obligation to offer to connect to, and maintain the operation of, the transmission system. The Code also sets out the requirements, standards, terms and conditions under which a Transmission Customer may connect to, and remain connected to, the transmission system. The Code stipulates that a transmitter shall connect new customers, and continue to offer transmission services to existing customers, subject to a Connection Agreement between the customer and a transmitter.

(C) TRANSMISSION DELIVERY POINT The Transmission Delivery Point is defined as the transformation station, owned by a transmission company or by the Transmission Customer, which steps down the voltage from above 50 kV to below 50 kV and which connects the customer to the transmission system. The demand registered by two or more meters at any one delivery point shall be aggregated for the purpose of assessing transmission charges at that delivery point if the corresponding distribution feeders from that delivery point, or the plants taking power from that delivery point, are owned by the same entity within the meaning of Ontario's *Business Corporations Act*. The billing demand supplied from the transmission system shall be adjusted for losses, as appropriate, to the Transmission Point of Settlement, which shall be the high voltage side of the transformer that steps down the voltage from above 50 kV to below 50 kV.

(D) TRANSMISSION SERVICE POOLS The transmission facilities owned by the licenced transmission companies are categorized into three functional pools. The transmission lines that are used for the common benefit of all customers are categorized as Network Lines and the corresponding terminating facilities are Network Stations. These facilities make up the Network Pool. The transformation station facilities that step down the voltage from above 50 kV to below 50 kV are categorized as the Transformation Connection Pool. Other electrical facilities (i.e. that are neither Network nor Transformation) are categorized as the Line Connection Pool. All PTS customers incur charges based on the Network Service Rate (PTS-N) of Rate Schedule PTS. The PTS customers that utilize transformation connection assets owned by a licenced transmission company also incur charges based on the Transformation Connection Service Rate (PTS-T). The customer demand supplied from a transmission delivery point will not incur transformation connection service charges if a customer fully owns all transformation connection assets associated with that transmission delivery point. The PTS customers utilize lines owned by a licenced transmission company to connect to Network Station(s) also incur charges based on the Line Connection Service Rate (PTS- L). The customer demand supplied from a transmission delivery point will not incur line connection service charges if a customer fully owns all line connection assets connecting that delivery point to a Network Station. Similarly, the customer demand will not incur line connection service charges for demand at a transmission delivery point located at a Network Station.

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

(F) METERING REQUIREMENTS In accordance with Market Rules and the Transmission System Code, the transmission service charges payable by Transmission Customers shall be collected by the IESO. The IESO will utilize Registered Wholesale Meters and a Metering Registry in order to calculate the monthly transmission service charges payable by the Transmission Customers. Every Transmission Customer shall ensure that each metering installation in respect of which the customer has an obligation to pay transmission service charges arising from the Rate Schedule PTS shall satisfy the Wholesale Metering requirements and associated obligations specified in Chapter 6 of the Market Rules, including the appendices therein, whether or not the subject meter installation is required for settlement purposes in the IESO-administered energy market. A meter installation required for the settlement of charges in the IESO-administered that energy market may be used for the settlement of transmission service charges. The Transmission Customer shall provide to the IESO data required to maintain the information for the Registered Wholesale Meters and the Metering Registry pertaining to the metering installations with respect to which the Transmission Customers have an obligation to pay transmission charges in accordance with Rate Schedule PTS. The Metering Registry for metering installations required for the calculation of transmission charges shall be maintained in accordance with Chapter 6 of the Market Rules. The Transmission Customers, or Transmission Customer Agents if designated by the Transmission Customers, associated with each Transmission Delivery Point will be identified as Metered Market Participants within the IESO's Metering Registry. The metering data recorded in the Metering Registry shall be used as the basis for the calculation of transmission charges on the settlement statement for the Transmission Customers identified as the Metered Market Participants for each Transmission Delivery Point. The Metering Registry for metering installations required for calculation of transmission charges shall also indicate whether or not the demand associated with specific Transmission Delivery Point(s) to which a Transmission Customer is connected attracts Line and/or Transformation Connection Service Charges. This information shall be consistent with the Connection Agreement between the Transmission Customer and the licenced Transmission Company that connects the customer to the IESO-Controlled Grid.

(**G) EMBEDDED GENERATION** The Transmission Customers shall ensure conformance of Registered Wholesale Meters in accordance with Chapter 6 of Market Rules, including Metering Registry obligations, with respect to metering installations for embedded generation that is located behind the metering installation that measures the net demand taken from the transmission system if (a) the required approvals for such generation are obtained after October 30, 1998; and (b) the generator unit rating is 2 MW or higher for renewable generation and 1 MW or higher for non-renewable generation; and (c) the Transmission Delivery Point through which the generator is connected to the transmission system attracts Line or Transformation Connection Service charges. These terms and conditions also apply to the incremental capacity associated with any refurbishments approved after October 30, 1998, to a generator unit that was connected through an eligible Transmission Delivery Point on or prior to October 30, 1998 and the approved incremental capacity is 2 MW or higher for renewable generation and 1 MW or higher for non-renewable generation. The term renewable generation refers to a facility that generates electricity from the following sources: wind, solar, Biomass, Bio-oil, Bio-gas, landfill gas, or water. Accordingly, the distributors that are Transmission Customers shall ensure that connection agreements between them and the generators, load customers, and embedded distributors connected to their distribution system have provisions requiring the Transmission Customer to satisfy the requirements for Registered Wholesale Meters and Metering Registry for such embedded generation even if the subject embedded generator(s) do not participate in the IESO-administered energy markets.

(H) EMBEDDED CONNECTION POINT In accordance with Chapter 6 of the Market Rules, the IESO may permit a Metered Market Participant, as defined in the Market Rules, to register a metering installation that is located at the embedded connection point for the purpose of recording transactions in the IESO-administered markets. (The Market Rules define an embedded connection point as a point of connection between load or generation facility and distribution system). In special situations, a metering installation at the embedded connection point that is used to settle energy market charges may also be used to settle transmission service charges, if there is no metering installation at the point of connection of a distribution feeder to the Transmission Delivery Point. In above situations: •The Transmission Customer may utilize the metering installation at the embedded connection point, including all embedded generation and load connected to that point, to satisfy the requirements described in Section (F) above provided that the same metering installation is also used to satisfy the requirement for energy transactions in the IESO- administered market. •The Transmission Customer shall provide the Metering Registry information for the metering installation at the embedded connection point, including all embedded generation and load connected to that point, in accordance with the requirements described in Section (F) above so that the IESO can calculate the monthly transmission service charges payable by the Transmission Customer.

RATE SCHEDULE: (PTS) PROVINCIAL TRANSMISSION RATES

APPLICABILITY:

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

	Monthly Rate ($ per kW)
Network Service Rate (PTS-N):	**3.54**
$ Per kW of Network Billing Demand [1,2]	
Line Connection Service Rate (PTS-L):	**0.89**
$ Per kW of Line Connection Billing Demand [1,3]	
Transformation Connection Service Rate (PTS-T):	**2.14**
$ Per kW of Transformation Connection Billing Demand [1,3,4]	

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

Notes:

1 The demand (MW) for the purpose of this rate schedule is measured as the energy consumed during the clock hour, on a "Per Transmission Delivery Point" basis. The billing demand supplied from the transmission system shall be adjusted for losses, as appropriate, to the Transmission Point of Settlement, which shall be the high voltage side of the transformer that steps down the voltage from above 50 kV to below 50 kV at the Transmission Delivery Point.

2. The Network Service Billing Demand is defined as the higher of (a) customer coincident peak demand (MW) in the hour of the month when the total hourly demand of all PTS customers is highest for the month, and (b) 85 % of the customer peak demand in any hour during the peak period 7 AM to 7 PM (local time) on weekdays, excluding the holidays as defined by IESO. The peak period hours will be between 0700 hours to 1900 hours Eastern Standard Time during winter (i.e. during standard time) and 0600 hours to 1800 hours Eastern Standard Time during summer (i.e. during daylight savings time), in conformance with the meter time standard used by the IMO settlement systems.

3. The Billing Demand for Line and Transformation Connection Services is defined as the Non-Coincident Peak demand (MW) in any hour of the month. The customer demand in any hour is the sum of (a) the loss-adjusted demand supplied from the transmission system plus (b) the demand that is supplied by an embedded generator unit for which the required government approvals are obtained after October 30, 1998 and which have installed capacity of 2MW or more for renewable generation and 1 MW or higher for non-renewable generation, on the demand supplied by the incremental capacity associated with a refurbishment approved after October 30, 1998, to a generator unit that existed on or prior to October 30, 1998.. The term renewable generation refers to a facility that generates electricity from the following sources: wind, solar, Biomass, Bio-oil, Bio-gas, landfill gas, or water. The demand supplied by embedded generation will not be adjusted for losses.

4. The Transformation Connection rate includes recovery for OEB approved Low Voltage Switchgear compensation for Toronto Hydro Electric System Limited and Hydro Ottawa Limited.

TERMS AND CONDITIONS OF SERVICE:

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

RATE SCHEDULE: (ETS) EXPORT TRANSMISSION SERVICE

APPLICABILITY:

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

	Hourly Rate
Export Transmission Service Rate (ETS):	$1.85 / MWh

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

TERMS AND CONDITIONS OF SERVICE:

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

HYDRO ONE NETWORKS INC.
WHOLESALE METER SERVICE
AND EXIT FEE SCHEDULE

HYDRO ONE NETWORKS - WHOLESALE METER SERVICE

APPLICABILITY:

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

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

a) Fee for Wholesale Meter Service

The *metered market participant* in respect of a *load facility* (including customers of an LDC) shall be required to pay an annual fee of $7,900 for each *meter point* that is under the transitional arrangement for a *metering installation* in accordance with Section 3.2 of Chapter 6 of the Market Rules for the Ontario Electricity Market.

This Wholesale Meter Service annual fee shall remain in place until all the remaining meter points exit the transitional arrangement.

b) Fee for Exit from Transitional Arrangement

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

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

Low Voltage Switchgear (LVSG) Credit
Effective January 1, 2017

Charge Determinant (MW) *(Note 1)*	**Transformation Pool Revenue Requirement Before LVSG Credit ($M)** *(Note 2)*	**Rate Before LVSG Credit ($/kw/month)**	**Total Annual 2017 NCP Demand for Toronto Hydro and Hydro Ottawa (MW)** *(Note 3)*	**LVS Proportion (%)** *(Note 4)*	**Final Annual LVSG Credit ($M)** *(Note 5)*
(A)	(B)	(C) = (B)/(A)	(D)	(E)	(F) = (C)x(D)x(E)
202,461	407.1	2.0	35,132	19.0%	13.4

Note 1: Per Exhibit 5.0

Note 2: Equals Total Revenue Requirement for Transformation Connection Pool less Non-Rate Revenues allocated to Transformation Connection Pool, as per information in Exhibit 3.0

Note 3: Per EB-2016-0160, Exhibit G1, Tab 3, Schedule 1, Table 6; Sum of Toronto Hydro and Hydro Ottawa total annual 2017 NCP Demand, 27,141 MW and 7,991 MW, respectively.

Note 4: Per EB-2016-0160, Exhibit G1, Tab 3, Schedule 1, page 7

Note 5: Per EB-2016-0160, Exhibit G1, Tab 3, Schedule 1, Table 6; Sum of Toronto Hydro and Hydro Ottawa total annual 2017 LVSG credit, $10,369,906 and $3,053,191 , respectively.

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

2017 Bill Impacts on Transmission-Connected and Distribution-Connected Customers

Table 1: Average Bill Impacts on Transmission and Distribution-connected Customers

Description	**2016**	**2017**
Rates Revenue Requirement[1]	$ 1,480.5	$ 1,444.9
% Increase in Rates RR over prior year		-2.4%
% Impact of load forecast change		2.1%
Net Impact on Average Transmission Rates		-0.3%
Transmission as a % of Tx-connected customer's Total Bill		8.3%
Estimated Average Bill impact		0.0%
Transmission as a % of Dx-connected customer's Total Bill		6.8%
Estimated Average Bill impact		0.0%

[1]Includes MSP revenue of -$0.3M as shown in Exhibit 3.0. This accounts for the difference from the total rates revenue requirement shown in Exhibit 2.0.

Table 2: Typical Medium Density (R1) Residential Customer Bill Impacts

	Typical R1 Residential Customer		
	350 kWh	**750 kWh**	**1800 kWh**
Total Bill as of May 1, 2016[1]	$ 102.95	$ 179.37	$ 379.98
RTSR included in 2016 R1 Customer's Bill	$ 4.37	$ 9.36	$ 22.47
Estimated 2017 RTSR[2]	$ 4.36	$ 9.33	$ 22.40
2017 change in Monthly Bill	**$ (0.01)**	**$ (0.03)**	**$ (0.06)**
2017 change as a % of total bill	*0.0%*	*0.0%*	*0.0%*

[1]Total bill including HST, based on time-of-use commodity pricing effective May 1, 2016 and 2016 distribution rates approved per Distribution Rate Order EB-2015-0079

[2]The impact on RTSR is assumed to be the net impact on average Transmission rates per Table 1, adjusted for Hydro One's revenue disbursement allocator per approved 2016 UTRs

Table 3: Typical General Service Energy less than 50 kW (GSe < 50 kW) Customer Bill Impacts

	GSe Customer Monthly Bill		
	1,000 kWh	**2,000 kWh**	**15,000 kWh**
Total Bill as of May 1, 2016[1]	$ 262.79	$ 492.00	$ 3,471.80
RTSR included in 2016 GSe Customer's Bill	$ 10.19	$ 20.39	$ 152.89
Estimated 2017 RTSR[2]	$ 10.16	$ 20.33	$ 152.46
2017 change in Monthly Bill	**$ (0.03)**	**$ (0.06)**	**$ (0.44)**
2017 change as a % of total bill	*0.0%*	*0.0%*	*0.0%*

[1]Total bill including HST, based on time-of-use commodity pricing effective May 1, 2016 and 2016 distribution rates approved per Distribution Rate Order EB-2015-0079

[2]The impact on RTSR is assumed to be the net impact on average Transmission rates per Table 1, adjusted for Hydro One's revenue disbursement allocator per approved 2016 UTRs

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2016-0160

2017 Foregone Revenue Calculation

HONI Transmission Charge Determinant Forecast for the Year 2017, After Deducting the Load Impact of CDM and Embedded Generation (MW)

Charge Determinant	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	21,081	20,558	20,269	18,074	19,383	21,977	22,833	21,929	20,197	18,234	19,535	20,795	244,866
Line Connection	20,138	19,728	19,307	17,381	19,002	20,933	22,160	21,140	19,647	18,029	18,878	20,547	236,891
Transformation Connection	17,264	16,973	16,645	14,788	16,304	18,010	19,103	18,095	17,142	14,829	15,862	17,446	202,461

Monthly Charge Determinant Share of Annual Total

% Share	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	8.61%	8.40%	8.28%	7.38%	7.92%	8.98%	9.32%	8.96%	8.25%	7.45%	7.98%	8.49%	100.00%
Line Connection	8.50%	8.33%	8.15%	7.34%	8.02%	8.84%	9.35%	8.92%	8.29%	7.61%	7.97%	8.67%	100.00%
Transformation Connection	8.53%	8.38%	8.22%	7.30%	8.05%	8.90%	9.44%	8.94%	8.47%	7.32%	7.83%	8.62%	100.00%

2017 UTR Charge Determinant (including all Transmitters)

Charge Determinant	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	21,444	20,912	20,617	18,384	19,717	22,355	23,226	22,306	20,544	18,548	19,871	21,152	249,074
Line Connection	20,436	20,020	19,592	17,637	19,283	21,242	22,488	21,452	19,937	18,295	19,157	20,850	240,388
Transformation Connection	17,372	17,079	16,749	14,880	16,405	18,122	19,222	18,208	17,248	14,921	15,961	17,555	203,722

2016 Approved UTRs

	$/kw-month	Hydro One Revenue Allocators
Network	3.66	0.93219
Line Connection	0.87	0.96648
Transformation Connection	2.02	0.96648

1. 2017 Revenue at 2016 Approved Rates and 2017 Load Forecast

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	73.2	71.3	70.3	62.7	67.3	76.3	79.2	76.1	70.1	63.3	67.8	72.2	849.8
Line Connection	17.2	16.8	16.5	14.8	16.2	17.9	18.9	18.0	16.8	15.4	16.1	17.5	202.1
Transformation Connection	33.9	33.3	32.7	29.1	32.0	35.4	37.5	35.5	33.7	29.1	31.2	34.3	397.7
Total	**124.3**	**121.5**	**119.5**	**106.6**	**115.5**	**129.5**	**135.7**	**129.7**	**120.5**	**107.8**	**115.1**	**124.0**	**1,449.6**

Total to end of September = 1102.8

2017 Forecast UTR Reflecting Board Decision

	$/kw-month	Hydro One Revenue Allocators
Network	3.54	0.92875
Line Connection	0.89	0.96568
Transformation Connection	2.14	0.96568

2. 2017 Revenue at Proposed UTR Rates and 2017 Load Forecast

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	70.5	68.8	67.8	60.4	64.8	73.5	76.4	73.3	67.5	61.0	65.3	69.5	818.9
Line Connection	17.6	17.2	16.8	15.2	16.6	18.3	19.3	18.4	17.1	15.7	16.5	17.9	206.6
Transformation Connection	35.9	35.3	34.6	30.8	33.9	37.4	39.7	37.6	35.6	30.8	33.0	36.3	421.0
Total	**124.0**	**121.3**	**119.2**	**106.4**	**115.3**	**129.2**	**135.4**	**129.4**	**120.3**	**107.5**	**114.8**	**123.7**	**1,446.5**

2017 Forgone Revenue (2 - 1)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	-2.7	-2.6	-2.6	-2.3	-2.4	-2.8	-2.9	-2.8	-2.5	-2.3	-2.5	-2.6	-30.9
Line Connection	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4	4.5
Transformation Connection	2.0	2.0	1.9	1.7	1.9	2.1	2.2	2.1	2.0	1.7	1.8	2.0	-26.4
Total	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.2**	**-0.3**	**-0.3**	**-0.3**	**-0.2**	**-0.3**	**-0.3**	**-0.2**	**-3.1**

Total to end of September = -2.4

Exhibit 10.0

In the Decision, the OEB directed Hydro One to (a) modify language in the proposed in-service variance account for 2017 and 2018, and (b) provide a draft accounting order for the deferral account for foregone transmission revenue. To comply with the OEB's direction, Hydro One has provided the draft accounting orders in the following exhibits.

Exhibit 10.1

PROPOSED ACCOUNTING ENTRIES
IN-SERVICE CAPITAL ADDITIONS VARIANCE ACCOUNT

To record the impact on 2017 and 2018 Transmission Revenue Requirement due to an actual amount for 2016 in-service additions that is less than $911.7 million; along with the difference between the 2017 and 2018 in-service additions embedded in 2017 and 2018 rate base and actual in-service additions in each of those years. This account will be calculated annually and interest applied consistent with the Board-approved rate. The accounting entries to be recorded are as follows:

USofA #	**Account Description**
Dr/Cr: 4110	Transmission Services Revenue
Cr/Dr: 2405	Other Regulatory Liabilities – Sub account “In-service Capital Additions Variance Account”

To record the differences between revenue requirement associated with the actual in-service capital additions during a rate year and the revenue requirement associated with the Board-approved in-service capital additions for that year.

USofA #	**Account Description**
Dr/Cr: 6035	Other Interest Expense
Cr/Dr: 2405	Other Regulatory Liabilities – Sub account “In-service Capital Additions Variance Account”

To record interest improvement on the principal balance of the “In-service Capital Additions Variance Account”.

Exhibit 10.2

PROPOSED ACCOUNTING ENTRIES
FOREGONE TRANSMISSION REVENUE DEFERRAL ACCOUNT

This account records the differences between revenue earned by Hydro One Networks Transmission under the interim 2017 rates set at the 2016 Uniform Transmission Rates (UTR) level, and the revenues that would have been received under the approved 2017 UTR based on the Board approved 2017 load forecast ("Foregone Revenue"). The account will capture the Foregone Revenue from January 1, 2017 to the date when the approved 2017 UTR are reflected in the revenue earned by Hydro One Networks. The accounting entries to be recorded are as follows:

USofA #	**Account Description**
Dr: 1508	Other Regulatory Assets – Sub account "Foregone Transmission Revenue Deferral Account"
Cr: 4110	Transmission Services Revenue

To record the Foregone Revenue.

USofA #	**Account Description**
Dr: 1508	Other Regulatory Assets – Sub account "Foregone Transmission Revenue Deferral Account"
Cr: 6035	Other Interest Expense

To record interest improvement on the principal balance of the "Foregone Transmission Revenue Deferral Account".