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BY EMAIL AND RESS

September 22, 2023

Ms. Nancy Marconi
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

EB-2023-0130 – Hydro One Sault Ste. Marie – Application for 2024 Transmission Revenue Requirement – Interrogatory Responses

In accordance with Procedural Order No. 1 issued August 31, 2023, please find attached an electronic copy of responses provided by Hydro One Sault Ste. Marie to interrogatory questions posed by Ontario Energy Board Staff.

An electronic copy of these responses has been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,

Kathleen Burke

Kathleen Burke

OEB STAFF INTERROGATORY - 01

Reference:
Exhibit A-4-1, Page 3, Footnote 4

Preamble:
HOSSM notes that at the time of filing this application, the ESM balance submitted for disposal was slightly higher than the amount submitted pursuant to section 3.1.1 of HOSSM's 2023 RRR reporting. This is due to an error in the ESM calculation at the time of RRR submission. HOSSM stated that it will be submitting a correction to the RRR filing.

Interrogatory:
a) Please confirm that HOSSM has submitted a correction to the RRR filing. If the correction has not yet been filed, please advise as to when it will be done.

Response:
a) HOSSM confirms that it has submitted a correction to the RRR filing.

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OEB STAFF INTERROGATORY - 02

Reference:
Exhibit A-4-1, Page 3, Line 12

Preamble:
The calculation of the ESM amount is based on HOSSM's audited financial statements. However, HOSSM has not provided its audited financial statements as part of this application.

Interrogatory:
a) Please provide HOSSM's audited financial statements as an appendix to the application.

Response:
a) Please see attached.

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HYDRO ONE SAULT STE. MARIE LP

FINANCIAL STATEMENTS

DECEMBER 31, 2022

To the Partners of Hydro One Sault Ste. Marie LP

Opinion

We have audited the financial statements of Hydro One Sault Ste. Marie LP (the Entity), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of operations and comprehensive income for the year then ended
- the statement of changes in partners' equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

  (Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditors’ Responsibilities for the Audit of the Financial Statements” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity‘s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
April 26, 2023

HYDRO ONE SAULT STE. MARIE LP
STATEMENTS OF FINANCIAL POSITION
At December 31, 2022 and 2021

December 31 *(thousands of Canadian dollars)*	**2022**	**2021**
Assets		
Current assets:		
Cash	17,480	18,893
Accounts receivable	—	47
Due from related parties *(Note 20)*	4,142	3,680
	21,622	22,620
Long-term assets:		
Property, plant and equipment *(Note 5)*	216,958	209,362
Intangible assets *(Note 6)*	4,635	5,125
Deferred pension asset *(Note 7)*	1,491	3,961
	223,084	218,448
Total assets	**244,706**	**241,068**
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities *(Note 19)*	945	962
Due to related parties *(Note 20)*	286	8,492
Current portion of Trans senior bonds *(Notes 8, 19)*	94,709	3,435
	95,940	12,889
Long-term liabilities:		
Trans senior bonds *(Notes 8, 19)*	—	94,440
Deferred contributions *(Note 10)*	9,205	4,299
	9,205	98,739
Total liabilities	**105,145**	**111,628**
Subsequent Event (Note 21)		
Partners' equity	139,561	129,440
Total liabilities and partners' equity	**244,706**	**241,068**

See accompanying notes to Financial Statements.

On behalf of Hydro One Sault Ste. Marie Inc., in its capacity as general partner of Hydro One Sault Ste. Marie LP:

Andrew Spencer
Sole Director

HYDRO ONE SAULT STE. MARIE LP
STATEMENTS OF CHANGES IN PARTNERS' EQUITY
For the years ended December 31, 2022 and 2021

Year ended December 31, 2022 *(thousands of Canadian dollars)*	Capital Hydro One Sault Ste. Marie Holdings LP	Capital Hydro One Sault Ste. Marie Inc.	Accumulated Other Comprehensive Income	Retained Earnings	Total Partners' Equity
January 1, 2022	112,405	11	2,033	14,991	129,440
Net income	—	—	—	21,672	21,672
Distributions paid	—	—	—	(9,026)	(9,026)
Other comprehensive loss *(Note 7)*	—	—	(2,525)	—	(2,525)
December 31, 2022	**112,405**	**11**	**(492)**	**27,637**	**139,561**

Year ended December 31, 2021 *(thousands of Canadian dollars)*	Capital Hydro One Sault Ste. Marie Holdings LP	Capital Hydro One Sault Ste. Marie Inc.	Accumulated Other Comprehensive Income	Retained Earnings	Total Partners' Equity
January 1, 2021	112,405	11	2,483	4,142	119,041
Net income	—	—	—	19,865	19,865
Distributions paid	—	—	—	(9,016)	(9,016)
Other comprehensive loss *(Note 7)*	—	—	(450)	—	(450)
December 31, 2021	**112,405**	**11**	**2,033**	**14,991**	**129,440**

See accompanying notes to Financial Statements.

HYDRO ONE SAULT STE. MARIE LP
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2022 and 2021

Year ended December 31 *(thousands of Canadian dollars)*	**2022**	**2021**
Revenues *(Note 20)*	45,653	44,759
Costs		
Operation, maintenance and administration *(Note 13)*	9,332	9,708
Depreciation and amortization *(Note 15)*	8,920	8,728
	18,252	18,436
Net operating income	**27,401**	**26,323**
Financing charges *(Note 14)*	5,729	6,458
Income for the period	**21,672**	**19,865**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of pension liability *(Note 7)*	(2,525)	(450)
Total comprehensive income	**19,147**	**19,415**

See accompanying notes to Financial Statements.

HYDRO ONE SAULT STE. MARIE LP
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2022 and 2021

Year ended December 31 *(thousands of Canadian dollars)*	2022	2021
Operating activities		
Net income	21,672	19,865
Adjustments for:		
Depreciation and amortization *(Note 15)*	8,642	8,467
Other	181	256
Receipt of deferred contributions *(Note 10)*	4,906	3,814
Net change in non-cash working capital and other *(Note 17)*	(8,693)	(102)
	26,708	**32,300**
Investing activities		
Additions to property, plant and equipment *(Note 5)*	(15,660)	(11,406)
	(15,660)	**(11,406)**
Financing activities		
Principal repayments on Trans senior bonds *(Note 8)*	(3,435)	(3,219)
Distributions paid	(9,026)	(9,016)
Lease obligation principal repayments	—	(188)
	(12,461)	**(12,423)**
Increase (decrease) in cash	(1,413)	8,471
Cash, beginning of year	18,893	10,422
Cash, end of year	**17,480**	**18,893**

See accompanying notes to Financial Statements.

1. GENERAL INFORMATION

Hydro One Sault Ste. Marie LP (the Partnership) was formed on May 17, 2007 and is engaged in the transmission of electricity to the area adjacent to Sault Ste. Marie, Canada and is subject to the regulations of the Ontario Energy Board (OEB). The address of the Partnership's registered office is 483 Bay Street, 8th floor, South Tower, Toronto, Ontario, Canada, M5G 2P5.

Hydro One Sault Ste. Marie Holdings LP is the Limited Partner and holds a 99.99% interest in the Partnership. Hydro One Sault Ste. Marie Inc., the General Partner, holds a 0.01% limited interest in the Partnership and is responsible for management of the Partnership. The Limited Partner is indirectly owned by Hydro One Networks Inc. (Hydro One Networks). Both the General Partner and Hydro One Networks are wholly-owned subsidiaries of Hydro One Inc., which is wholly-owned by Hydro One Limited.

2. BASIS OF PRESENTATION

Statement of compliance

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in Canadian dollars. Accounting policies are consistently applied to both years presented, unless otherwise stated.

The financial statements were approved and authorized for issue by those charged with governance of the Partnership on April 26, 2023.

Basis of measurement

The financial statements have been prepared on a going concern assumption using the historical cost basis except where otherwise noted. Historical cost is generally based on the fair value of the consideration given in exchange for assets or settlement of liabilities as at the date the transaction occurs.

Estimates and Judgments

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.

The Partnership has analyzed the impact of the pandemic on its estimates and assumptions that affect its financial results as at and for the year ended December 31, 2022 and has determined that there was no material impact. As the duration of the pandemic remains uncertain, the Partnership continues to assess its impact to the Partnership's financial results and operations.

Impairment

Assets, including property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. Intangible assets with indefinite useful lives are tested for impairment annually and whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of fair value often requires estimates and assumptions on items such as approved uniform transmission rates, discount rates, rehabilitation and restoration costs, future capital requirements and future operating performance. Changes in such estimates could impact recoverable values of these assets. Estimates are reviewed annually by management.

Judgment is involved in assessing whether there is any indication that an asset or cash generating unit (CGU) may be impaired. A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. This assessment is made based on the analysis of changes in the market or business environment, and events that have transpired that have impacted the asset or CGU.

Depreciation of property, plant and equipment and intangible assets

Each property, plant and equipment and intangible assets are assessed annually for both its physical life limitations and its economic recoverability. Those assets with a finite life are depreciated on a straight-line basis over a useful life estimated by management. Asset useful lives and residual values are re-evaluated annually.

Fair value disclosures of Trans senior bonds

The Partnership has estimated the fair value for disclosure purposes of its Trans senior bonds (Bonds) as they are not separately traded. The fair value is based on future cash flows and the timing of settlement and assumptions about discount rate, credit risk and by incorporating other assumptions made by market participants.

<u>Pension</u>

Significant estimates and assumptions are made in determining pension benefits as there are numerous factors that will affect the pension obligation. The actuarial determination of the accrued benefit obligation for pension uses the projected unit credit method prorated on service which incorporates management's best estimate of other cost escalation, mortality rates, retirement ages of employees and other actuarial factors. In addition, actuarial determinations used in estimating obligations relating to the defined benefit plans incorporate assumptions using management's best estimates of factors including plan performance and retirement dates of employees.

3. SIGNIFICANT ACCOUNTING POLICIES

The Partnership has consistently applied the following accounting policies to both periods presented in these financial statements:

Financial Instruments

The Partnership recognizes all financial instruments at fair value upon initial recognition and subsequently classifies them into one of the following three measurement categories (i) measured at amortized cost, (ii) fair value through other comprehensive income (FVTOCI) or (iii) fair value through profit and loss (FVTPL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. At December 31, 2022, the Partnership held the following financial instruments: cash, accounts receivable, due from related parties, leases, accounts payable and accrued liabilities, due to related parties and Bonds. All of these financial instruments are measured and classified at amortized cost.

The Partnership initially recognizes other financial liabilities and loans and receivables on the trade date. The Partnership derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

Other financial liabilities including borrowings are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost using the effective interest method. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Property, Plant and Equipment

<u>Recognition and Measurement</u>

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The cost of major inspections or overhauls is capitalized and costs relating to the replacement of a major part of property, plant and equipment are recognized in the carrying amount of the asset to which that part relates, if it is probable that the inspection, overhaul or replacement part will generate future economic benefits and its cost can be measured reliably. The carrying amount of previous inspections and overhauls, or the part being replaced is derecognized and any gain or loss is recognized against income. The cost of the day-to-day servicing of property, plant and equipment is recognized in operating and administration or maintenance expense as incurred.

Costs included in the carrying amount of property, plant and equipment include expenditures that are directly attributable to the acquisition or construction of the asset. The cost of self-constructed assets includes: materials, services, direct labour and directly attributable overheads.

Borrowing costs associated with major projects are capitalized during the construction period, if those projects meet the definition of a qualifying asset, meaning those projects that are under construction for a substantial period of time. Capitalization of borrowing costs is suspended during extended periods in which construction development is interrupted. Assets under construction are recorded as work-in-progress until they become available for use.

When property, plant and equipment is disposed of or retired, the related cost, accumulated depreciation and any accumulated impairment losses are eliminated. Any resulting gains or losses are reflected in income in the period the asset is disposed of or retired.

Depreciation

The cost, net of estimated residual values, of an asset classified as property, plant and equipment is depreciated over the estimated useful life of the asset using a straight-line method. The estimated useful lives, residual values and method of depreciation are based on depreciation studies and are reviewed annually for reasonableness. Land is not depreciated. Construction work-in-progress assets are not depreciated until the assets become available for their intended use. A summary of average service lives and depreciation rates for the various classes of assets is included below:

	Average Service Life	Rate Range	Rate Average
Property, plant and equipment			
Transmission	47 years	1% - 16%	3 %
Communication	19 years	3% - 17%	8 %
Administration and service	21 years	4% - 15%	5 %
Intangible assets	5 years	7% - 14%	10 %

Impairment

At each reporting date, the Partnership reviews the carrying amount of its non-financial assets to determine whether there is any indication of impairment. Impairment assessments are conducted at the CGU level. If any such indication exists, the recoverable amount of the CGU is estimated.

The recoverable amount of the CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in income if the carrying amount of a CGU exceeds its recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. If such indications exist, the Partnership estimates the recoverable amount of that CGU. A reversal of an impairment loss is recognized up to the lesser of the recoverable amount or the carrying amount that would have been determined (net of depreciation charges) had no impairment loss been recognized on the CGU.

Intangible Assets

Acquired intangible assets having finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are capitalized if: (i) It is probable that the asset acquired or developed will generate future economic benefits, (ii) the intangible asset is identifiable, and (iii) the Partnership exerts control over the economic benefit to be derived from the asset. The costs incurred to establish technological feasibility or to maintain existing levels of performance are recognized in operating or maintenance expense as incurred.

The carrying costs of intangible assets include expenditures that are directly attributable to the acquisition or development of the asset. The cost of self-developed assets includes materials, services, direct labour and directly attributable overheads. Borrowing costs associated with major projects (qualifying assets) are capitalized during the development period. Qualifying assets are those projects that are under development for a substantial period of time. Assets under development are recorded as in progress until they become available for use.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized against income as incurred.

Amortization is based on the cost of the asset less its residual value and is calculated using the straight-line method over the estimated useful life of the asset from the date the asset is available for use, and is generally recognized against income. The useful lives of intangible assets range from 5 to 15 years. Land rights with indefinite lives are not amortized.

The estimated useful lives, residual values and method of amortization are reviewed annually for reasonableness.

Intangible assets with an indefinite life are tested for impairment on an annual basis.

Employee Future Benefits

As a result of the integration of the Partnership operations into Hydro One Networks, employees of the Partnership were transferred to Hydro One Networks. See Note 7 - Pension and Employee Future Benefits for details.

Pension Plans

The Partnership's net obligation regarding the defined benefit pension plan (HOSSM DB Plan) is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Partnership, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Partnership determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized against income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately against income. The Partnership recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any relating actuarial gains or losses and past service costs that had not been previously been recognized.

Obligations for contributions to the defined contribution pension plan (HOSSM DC Plan) are expensed as the related service is provided by the employees.

Revenue

Revenues predominantly consist of transmission tariffs, which are collected through OEB-approved Uniform Transmission Rates (UTRs) which are applied against the monthly peak demand for electricity across the Partnership's high-voltage network. OEB-approved UTRs are based on an approved revenue requirement that includes a rate of return. The transmission tariffs are designed to recover revenues necessary to support the Partnership's transmission system with sufficient capacity to accommodate the maximum expected demand which is influenced by weather and economic conditions. Revenues are recognized as electricity is transmitted and delivered to customers.

Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered. Revenues are recorded net of indirect taxes.

<u>Deferred Contributions</u>

Contributions in aid of construction of property, plant and equipment received from customers where the Partnership has an on-going performance obligation to the customer are presented as deferred contributions when received and subsequently recognized as revenue over the useful lives of the associated assets.

Foreign Currency

Transactions in foreign currencies are translated to the functional currency of the Partnership at exchange rates at the dates of the transactions.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or development of a qualifying asset are added to the cost of that asset, until it is available for use. Qualifying assets are those that take a substantial period of time to get ready for their intended use. The Partnership capitalizes borrowing costs by applying its cost of debt. All other borrowing costs are recognized in finance expense in the period in which they are incurred.

Leases

<u>Partnership as a Lessee</u>

At the commencement date of a lease (main lease), the minimum lease payments are discounted and recognized as a lease obligation. Discount rates used correspond to Hydro One Inc.'s incremental borrowing rates. Renewal options are assessed for their likelihood of being exercised and are included in the measurement of the lease obligations when it is reasonably certain they will be exercised. The Partnership does not recognize leases with a term of less than 12 months. A corresponding Right-of-use (ROU) asset is recognized at the commencement date of a lease. The ROU asset is measured as the lease obligation adjusted for any lease payments made and/or any lease incentives and initial direct costs incurred. The ROU assets and corresponding lease obligations are included on the balance sheets.

Subsequent to the commencement date, the lease obligations are measured as the present value of the remaining unpaid lease payments using the discount rate established at the commencement date. The amortization of the ROU assets is recognized on a straight-line basis over the remaining lease term. The expense recognized during each period is the amortization of the ROU assets and the interest accretion of the lease obligations, which produces a front-loaded expense profile over the lease terms.

Partnership as a Finance Lessor

At the commencement date of a sub-lease, the ROU asset and lease obligation of the related main lease are derecognized for the portion of the main lease that is subject to a sub-lease. At the commencement of a sub-lease, the lease obligation of the main lease is reduced by the discounted future minimum payments of the sub-lease, and the ROU assets of the main lease is reduced by a corresponding amount.

4. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present International Accounting Standards (IAS) developments issued by the International Accounting Standards Board that are applicable to the Partnership:

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated impact
IAS 1	February 2021	The amendment to IAS 1 clarifies that the accounting policies required to be disclosed should be material accounting policies instead of significant policies.	January 1, 2023	No impact upon adoption
IAS 8	February 2021	The amendment to IAS 8 will replace the definition of accounting estimates to distinguish accounting policies from accounting estimates.	January 1, 2023	No impact upon adoption
IAS 12	May 2021	The amendment clarifies how companies should account for deferred tax arising on certain transactions such as leases and decommissioning obligations. The amendment introduces an exception to the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary difference.	January 1, 2023	No impact upon adoption
IAS 1	January 2020	The amendment clarifies that the classification of liabilities as current or non-current should be based on contractual arrangements as at the reporting date. The existence of the right to defer payments by at least 12 months would result in the classification as non-current liabilities regardless of the entity's expectation whether they will defer or not.	January 1, 2024	Under assessment
IFRS 16	September 2022	The amendment specifies how a seller-lessee subsequently measures the lease obligation of a sale and leaseback transaction. The amendment is specific to sale and leaseback transactions for which the lease payments include variable payments that do not depend on an index or a rate.	January 1, 2024	Under assessment
IAS 1	October 2022	The amendment clarifies that only covenants with which the Company is required to comply on or before the reporting date affect the classification of a liability as current or non-current. The amendment also defers the effective date of application to January 1, 2024.	January 1, 2024	Under assessment

5. PROPERTY, PLANT AND EQUIPMENT

(thousands of dollars)	Land	Equipment and Other Assets	Transmission Assets	Work-In-Progress	Total
Cost					
Balance - January 1, 2021	236	8,839	260,520	4,927	274,522
Additions	—	—	—	11,406	11,406
Transfers	—	3,011	7,595	(10,606)	—
Balance - December 31, 2021	236	11,850	268,115	5,727	285,928
Additions	—	—	—	15,711	15,711
Transfers	—	1,362	2,982	(4,344)	—
Balance - December 31, 2022	236	13,212	271,097	17,094	301,639
Accumulated Depreciation					
Balance - January 1, 2021	—	3,993	64,273	—	68,266
Additions (Depreciation)	—	790	7,510	—	8,300
Balance - December 31, 2021	—	4,783	71,783	—	76,566
Additions (Depreciation)	—	1,025	7,414	—	8,439
Adjustment	—	—	(324)	—	(324)
Balance - December 31, 2022	—	5,808	78,873	—	84,681
Carrying Amounts					
Balance - December 31, 2021	236	7,067	196,332	5,727	209,362
Balance - December 31, 2022	236	7,404	192,224	17,094	216,958

6. INTANGIBLE ASSETS

As at December 31, 2022 *(thousands of dollars)*	Land	Computer Software	Work-In-Progress	Total
Cost				
Balance - January 1, 2021	4,651	1,908	94	6,653
Balance - December 31, 2021	4,651	1,908	94	6,653
Adjustment	(51)	—	—	(51)
Balance - December 31, 2022	4,600	1,908	94	6,602
Accumulated Amortization				
Balance - January 1, 2021	226	1,323	—	1,549
Additions (Amortization)	—	(21)	—	(21)
Balance - December 31, 2021	226	1,302	—	1,528
Additions (Amortization)	59	144	—	203
Adjustment	49	187	—	236
Balance - December 31, 2022	334	1,633	—	1,967
Carrying Amounts				
Balance - December 31, 2021	4,425	606	94	5,125
Balance - December 31, 2022	4,266	275	94	4,635

The Partnership owns land rights and other land easements that are needed as part of the normal business operations. Land rights have been obtained through contractual rights where the transferor has transferred land rights and land easements to specific parcels of land. The Partnership has identified these land rights as intangible assets with having either indefinite useful lives (in instances where contractual rights give access to specific land parcels in perpetuity) or where land rights are over a finite period, amortize over the term of the agreement with the land owner. The Partnership accounts for land rights at cost less depreciation and cumulative impairment losses, if any.

The Partnership has not identified events or changes in circumstances that indicate that the land rights' carrying amounts exceed their recoverable amounts. The Partnership has tested land rights for impairment in accordance with annual impairment tests.

The Partnership uses fair value less cost of disposal to determine the recoverable amount as it believes that this will generally result in a value greater than or equal to the value in use. The Partnership has determined that as at December 31, 2022 and

2021, the fair value less cost of disposal is greater than the carrying amount and hence no impairment loss has been recorded. The inputs used in the fair value measurement constitute Level 2 inputs under the fair value hierarchy. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts), or inputs that are derived principally from or corroborated by observable market data or other means.

7. PENSION AND EMPLOYEE FUTURE BENEFITS

As a result of the integration of the Partnership operations into Hydro One Networks, employees of the Partnership were transferred to Hydro One Networks. Members of the HOSSM DB Plan ceased to accrue pension benefits under the HOSSM DB Plan as at September 30, 2018 and joined the Hydro One Defined Benefit Pension Plan or the Hydro One Defined Contribution Pension Plan (depending on employment type) effective October 1, 2018. The HOSSM DB Plan was amended to cease benefit accruals as at October 1, 2018 and provide pre-retirement indexation of the accrued benefits for active members while they are with Hydro One Networks.

Effective October 1, 2018, members of the HOSSM DC Plan joined either the Hydro One Defined Contribution or the Hydro One Defined Benefit Pension Plan. The HOSSM DC Plan continues to exist separately. Effective October 1, 2018, no contributions are being made by members or the Partnership to the HOSSM DC Plan.

In 2022, the Partnership contributions to the HOSSM DB Plan was $81 thousand (2021 - $82 thousand). The minimum 2023 Partnership contributions to the HOSSM DB Plan are estimated to be $81 thousand.

The following tables provide information for the HOSSM DB Plan and the Non-Pension Benefit Plans

Year ended December 31 *(thousands of dollars)*	**2022** **HOSSM DB Plan**	**2021** **HOSSM DB Plan**
Change in accrued benefit obligation		
Accrued benefit obligation, beginning of year	25,211	27,301
Interest cost	738	694
Benefits paid	(1,311)	(1,307)
Remeasurements:		
Effect of changes in financial assumptions	(5,234)	(1,450)
Effect of experience adjustments	34	(27)
Accrued benefit obligation, end of year	19,438	25,211
Change in plan assets		
Fair value of plan assets, beginning of year	34,390	32,201
Return (loss) on plan assets	(6,257)	2,782
Employer contributions	81	82
Benefits paid	(1,311)	(1,307)
Administrative expenses	(89)	(190)
Interest income	1,015	822
Fair value of plan assets, end of year	27,829	34,390
Changes in asset ceiling	1,468	4,519
Net benefit asset	1,491	3,961
Total expense recognized in profit and loss		
Net interest expense	(62)	(111)
Administrative expenses and taxes	89	—
Total expense recognized in profit and loss	27	(111)
Actuarial losses recognized in statement of comprehensive income		
Effect in changes in financial assumptions	(5,234)	(1,450)
Effect of experience adjustments	34	(27)
Return (loss) on plan assets	6,257	(2,592)
Changes in asset ceiling	1,468	4,519
Total actuarial losses recognized in statement of comprehensive income	2,525	450

The following table presents effects of changes in assumptions for the HOSSM DB Plan:

Year ended December 31 *(thousands of dollars)*	**2022**	**2021**
Discount Rate		
Increase by 100 basis points	17,400	22,090
Decrease by 100 basis points	21,916	29,117
Inflation Rate		
Increase by 100 basis points	20,331	28,050
Decrease by 100 basis points	17,089	22,891

The following table presents significant actuarial assumptions for the HOSSM DB Plan:

Year ended December 31	**2022**	**2021**
Weighted-average actuarial assumptions used:		
Discount rate	5.10 %	3.00 %
Inflation rate	2.00 %	1.75 %

The following table presents the HOSSM DB Plan asset allocations:

December 31	**2022**	**2021**
Fixed income	39 %	35 %
Equity	61 %	65 %
Total	100 %	100 %

8. TRANS SENIOR BONDS

The Bonds have an initial principal amount of $120 million and are secured by a charge on the Partnership's transmission real property assets, both present and future. On behalf of the Partnership, Hydro One maintains a letter of credit in the amount of $3,496 thousand to cover six months of interest payments on the Bonds.

The fair market value of the Bonds as at December 31, 2022 was $95,426 thousand based on current market prices for debt with similar terms (2021 - $105,817 thousand). Amortization of deferred financing fees in 2022 related to the Partnership's Bonds are included in financing charges and totaled $269 thousand (2021 - $262 thousand).

The Bonds bear interest at the rate of 6.6% per annum. Semi-annual payments of interest are due and payable on June 16 and December 16 each year up until and including June 16, 2023. Equal blended semi-annual payments of principal and interest on the Bonds commenced on December 16, 2013 and continued until and including December 16, 2022. The remaining principal balance of the Bonds will be fully due on June 16, 2023.

As at December 31 *(thousands of dollars)*	**2022**	**2021**
Bonds - principal balance	94,847	98,282
Less: unamortized deferred financing fees	(138)	(407)
Less: current portion	(94,709)	(3,435)
Bonds, long-term portion	—	94,440

As at December 31, 2022, principal repayments due in each of the next five years were as follows:

(thousands of dollars)	**2023**	**2024**	**2025**	**2026**	**2027**
Principal repayments	94,847	—	—	—	—

Reconciliation of movements of liabilities to cash flows arising from financing activities:

Year ended December 31 *(thousands of dollars)*	**2022**	**2021**
Bonds, including current portion - beginning of year	97,875	100,832
Add: non-cash amortization of deferred financing costs	269	262
Less: cash outflows for principal repayments	(3,435)	(3,219)
Bonds, including current portion - end of year	94,709	97,875

9. LEASES

The Partnership had a lease contract (Head lease) for a building used in administrative and service-related functions, which the Partnership has a sub-lease contract (Sub lease) for a portion of the building. The Sub lease term mirrors the term of the Head lease and is recognized as a finance lease by the Partnership. The Head lease was renewed in June 2020 for an additional term of one year and expired on December 31, 2021. As a result, the Sub lease had also expired on December 31, 2021. Other information related to the Partnership's Head lease and Sub lease are as follows:

Partnership as lessee

(thousands of dollars)	2022	2021
ROU asset - January 1	—	188
Amortization	—	(188)
ROU asset - December 31	—	—

The Partnership recognized amounts related to the Head lease in the statement of operations and comprehensive income as follows:

Year ended December 31 *(thousands of dollars)*	2022	2021
Amortization of ROU asset *(Note 15)*	—	188
Income from sub-leasing ROU asset	—	190
Interest on lease obligations	—	2

At December 31, 2021, the Head lease had expired and was not renewed in 2021 or 2022. As a result, there are no future lease payments to be made.

Partnership as lessor

In 2022, the Partnership recognized interest income on lease receivables of $nil (2021 - $1 thousand) and lease income from the Sub lease of $nil (2021 - $190 thousand).

At December 31, 2021, the Sub lease had expired and was not renewed in 2021 or 2022. As a result, there are no future lease payments to be received.

10. DEFERRED CONTRIBUTIONS

At December 31, 2022, the Partnership had contributions from customers totalling $9,205 thousand (2021 - $4,299 thousand) in aid of construction of property, plant and equipment. $3 thousand have been recognized as revenue in 2022 (2021- $2 thousand).

11. PARTNERSHIP UNITS

The Partnership is authorized to issue an unlimited number of Class A and Class B partnership units. At December 31, 2022 and 2021, 20,285,007 Class A units and 2 Class B units were issued and outstanding.

12. COMMITMENTS AND CONTINGENCIES

Letters of credit

On behalf of the Partnership, Hydro One maintains a letter of credit of $3,496 thousand to cover six months of interest payments on the Bonds. At December 31, 2022, no amounts have been drawn against this letter of credit.

Contingencies

The Partnership is from time to time involved in legal proceedings of a nature considered normal to its business. Except as disclosed below, the Partnership believes that none of the litigation in which it is currently involved, or has been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to its financial condition or results of operations. The Partnership is not subject to any material regulatory actions.

There are no specified decommissioning costs relating to the Partnership’s assets. The Partnership has a comprehensive repair and capital expenditure program to ensure that its transmission lines are maintained to industry standards. Replacement of the assets occurs in accordance with a long term capital plan and would involve typical costs of removal as part of that process. In the circumstance where a portion of a line or other assets were removed completely, there may be some contractual obligations under private or crown easements or other land rights which require the transmission owner to reinstate the land to a certain standard, typically the shape it was prior to the construction of the transmission assets. As well, certain environmental, land use and/or utility legislation, regulations and policy may apply in which the Partnership would have to comply with remediation requirements set by the government. The requirements will typically depend on the specific property characteristics and what criteria the government determines to be appropriate to meet safety and environmental concerns. These asset lives are indeterminate given their nature. As the individual assets or components reach the end of their useful lives, they are retired and replaced. Historically, certain asset components have been replaced a number of times, thus creating a perpetual asset with an indeterminate life. As such, the retirement date for these lines cannot be reasonably estimated and therefore, the fair value of the associated liability cannot be determined at this time. As a result, no liability has been accrued in these financial statements.

13. OPERATION, MAINTENANCE, AND ADMINISTRATION COSTS

Year ended December 31 *(thousands of dollars)*	**2022**	**2021**
Compensation expenses	4,467	4,332
Contract expenses	1,365	956
Maintenance of facilities and real estate	1,049	1,618
Administration expenses	964	1,243
Materials	230	347
Other	1,257	1,212
	9,332	9,708

14. FINANCING CHARGES

Year ended December 31 *(thousands of dollars)*	**2022**	**2021**
Interest expense on Bonds	6,431	6,647
Amortization of deferred financing fees on Bonds	269	262
Less: Capitalized interest	(422)	(330)
Other	(549)	(121)
	5,729	6,458

15. DEPRECIATION AND AMORTIZATION

Year ended December 31 *(thousands of dollars)*	**2022**	**2021**
Depreciation of property, plant and equipment	8,439	8,300
Amortization of intangible assets	203	(21)
Amortization of right-of-use asset	—	188
Depreciation and amortization	8,642	8,467
Asset removal costs	278	261
	8,920	8,728

16. INCOME TAXES

The Partnership is not a taxable entity for federal and provincial income tax purposes. Accordingly, no current or deferred tax expenses are recognized in the Partnership's financial statements.

17. STATEMENTS OF CASH FLOWS

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

Year ended December 31 *(thousands of dollars)*	**2022**	**2021**
Accounts receivable	47	(10)
Due from related parties	(462)	(303)
Deferred pension asset	(55)	(193)
Accounts payable and accrued liabilities	(17)	228
Due to related parties	(8,206)	176
	(8,693)	(102)

Supplementary Information

Year ended December 31 *(thousands of dollars)*	**2022**	**2021**
Net interest paid	5,883	6,527

18. CAPITAL RISK MANAGEMENT

The Partnership's primary capital management objective is to ensure the sustainability of its capital to support continuing operations, meet its financial obligations, allow for growth opportunities and provide stable distributions to its partners. The Partnership manages its capital to maintain an investment grade credit rating while prudently making use of leverage in order to provide its ultimate parent with enhanced returns. In addition, the Partnership manages its capital to ensure access to incremental borrowings needed to fund new growth initiatives.

The Partnership manages its capital structure in accordance with changes in economic conditions. Generally, capital expenditures, operating activities and contractual obligations are funded with intercompany borrowings. In order to adjust the capital structure, the Partnership may elect to adjust the distribution amount paid to its partners, increase or reduce the equity participation in new and existing operations, adjust the level of capital spending or issue new partnership units.

The Partnership manages its capital in order to maintain a debt to capitalization ratio below 75%. Debt is the total principal balance of the Bonds (see Note 8 - Trans Senior Bonds). Capitalization is calculated as Debt (as defined hereto) and partners' equity (see statements of financial position). At December 31, 2022, the ratio was 40% (2021 - 43%). The table below presents the details of the Partnership's capitalization and the calculation of the ratio:

As at December 31 *(thousands of dollars)*	**2022**	**2021**
Bonds - principal balance	94,847	98,282
Debt	94,847	98,282
Partners' equity	139,561	129,440
Capitalization	234,408	227,722
Debt to Capitalization	40 %	43%

There has been no change in the Partnership's approach to managing capital in 2022 or 2021.

19. FINANCIAL INSTRUMENTS

Fair value measurement

The Partnership defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table presents the financial instruments of the Partnership at December 31, 2022 and 2021:

	December 31, 2022		**December 31, 2021**	
(thousands of dollars)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial liabilities				
Bonds	94,709	95,426	97,875	105,817

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities, and due to and from related parties approximate fair value due to their short-term nature of these instruments. Due to the use of subjective judgments and uncertainties in the determination of fair values, these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Fair value hierarchy

The following provides a description of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments are classified as level 1, except for the Bonds which are classified as level 2.

There were no transfers between any of the levels during the years ended December 31, 2022 or 2021.

Financial risk management

The Partnership has exposure to the following risks from its use of financial instruments: market risk, credit risk and liquidity risk.

The Partnership's management has overall responsibility for the establishment and oversight of the Partnership's risk management framework. Risk management policies are established to identify and analyze the risks faced by the Partnership, to set appropriate risk limits and controls and to monitor risks and ensure adherence to these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Partnership's activities. The Partnership, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations. The objectives, policies and processes for managing risk were consistent with those in the prior year.

Market Risk

Market risk is the risk that changes in market prices (interest rates) will affect the Partnership's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Partnership's Bonds are subject to a fixed interest rate of 6.6% per annum, payable semi-annually on June 16 and December 16. As a result of having fixed-rate debt, fluctuations in market interest rates are not expected to materially affect the Partnership's cash flows.

Credit Risk

Credit risk is the risk of financial loss to the Partnership if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Partnership's receivables from counterparties. The carrying amount of financial assets represents the maximum credit exposure.

The Partnership actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts, and continually monitors these exposures.

The majority of accounts receivable transactions entered by the Partnership are with the Independent Electricity System Operator (IESO). The IESO operates the provincial transmission system, and is a reliable counterparty. The quality of the Partnership's counterparties mitigates the Partnership's exposure to credit risk.

The Partnership's maximum exposure to credit risk as at December 31 is as follows:

As at December 31 *(thousands of dollars)*	**2022**	**2021**
Accounts receivable	—	47

The Partnership is also exposed to credit risk on cash. Credit risk is mitigated by ensuring the majority of the financial assets are placed with a major Canadian financial institution with strong investment-grade ratings by a primary ratings agency. The credit risk of cash has been assessed as low.

Liquidity Risk

Liquidity risk is the risk that the Partnership will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Partnership manages liquidity risk by forecasting cash flows required by operations and anticipating investing and financing activities to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Partnership's reputation.

The remaining principal balance of the trans senior bonds will come due on June 16, 2023. The Company has a commitment from it's parent, Hydro One Inc., to fund the repayment of these bonds.

The following table presents a summary of the Partnership's principal repayments and interest payments on the Bonds, and accounts payable and accrued liabilities:

As at December 31, 2022 *(thousands of dollars)*	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Bonds - principal repayments	94,847	94,847	—	—	—
Bonds - interest payments	3,130	3,130	—	—	—
Accounts payable and accrued liabilities	945	945	—	—	—
	98,922	98,922	—	—	—

20. RELATED PARTY TRANSACTIONS AND BALANCES

The Province of Ontario is a shareholder of Hydro One Limited with approximately 47.3% ownership at December 31, 2022. The IESO is a related party to the Partnership because it is controlled or significantly influenced by the Ministry of Energy. The Partnership has received services from entities under common control in the normal course of operations. The following is a summary of the Partnership's related party transactions during the years ended December 31, 2022 and 2021:

Year ended December 31 *(thousands of dollars)*			
Related Party	**Transaction**	**2022**	**2021**
IESO	Revenues for transmission services	41,584	44,074
Hydro One Networks	Services received[1]	24,993	21,054
Hydro One Inc.	Services received[1]	23	38
Hydro One Sault Ste. Marie Holdings LP	Distributions paid	9,026	9,016

[1] Services received include corporate cost allocation, capital project upgrades and transmission system operating services.

The amounts due to and from related parties at December 31, 2022 and 2021 are as follows:

As at December 31 *(thousands of dollars)*	2022	2021
Due from related parties	4,142	3,680
Due to related parties	286	8,492

The balances payable and receivable for these services are non-interest bearing and unsecured.

21. SUBSEQUENT EVENT

Subsequent to December 31, 2022, the Partnership paid distributions of $2,000 thousand.

OEB STAFF INTERROGATORY - 03

Reference:
Exhibit A-4-1, Page 5

Preamble:
HOSSM has shown calculation for "Over/(Under) earning (%)" as K= H – J, or Over/(Under) earning (%) = Regulated Net Income – Allowed ROE.

This appears to be an error and OEB staff believe the formula should be Over/(Under) earning (%) = Achieved ROE – Allowed ROE. HOSSM's calculations in Table 4 appear to use this formula.

Interrogatory:
a) Please confirm that the formula should read K = I – J, or Over/(Under) earning (%) = Achieved ROE – Allowed ROE.

Response:
a) Confirmed, the formula should have read K = I – J, or Over/(Under) earning (%) = Achieved ROE – Allowed ROE.

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OEB STAFF INTERROGATORY - 04

Reference:

Exhibit A-4-1, Page 5

Preamble:

HOSSM has shown the capital structure and debt rates in the ESM calculation table. Long term debt or "E" is listed at 6.87%.

Interrogatory:

a) Please confirm whether the long term debt rate used represents HOSSM's updated/current long term debt rate.

b) Does the long term debt rate impact any of the calculations in Table 4? If so, please provide additional details on the relevant calculations.

Response:

a) The long-term debt rate used is HOSSM's OEB-approved long term debt rate.

b) As part of the Regulated Net Income calculation of $14,381,035 (or "H"), there is an adjustment for interest for deemed debt that uses the long-term debt rate. Please see highlighted sections below.

Calculation of ROE on a Deemed Basis

UTILITY NAME: Hydro One Sault Ste. Marie LP
YEAR END DATE: December 31, 2022

Please input based on your utility in the grey cells.

Regulatory Net Income Calculation:				*Staff Comments*
Regulated net income, as per RRR 2.1.13 reconciliation		$ 21,672,000	A	*Must match regulated net income amount from 2.1.13 template. Input net surplus as positive number and net deficit as a negative number.*
Remove:				
Future/deferred taxes		$ 0	B	*Must match account 6115. Input deferred tax expense as a negative number and deferred tax income as a positive number.*
Impact of changes in regulatory assets/liabilities		$ 141,974	B1	*As a result of IFRS, net changes in regulatory assets are included in Net Income.*
Non rate regulated items		$ 0	C	*As an example, non rate regulated items may include income/expenses associated with generation or CDM.*
Income Tax Provision		$ 4,858,544	C1	*GLPT is a partnership, and as such does not record a provision for tax in Net Income. This represents the income tax provision recovered in revenue.*
Adjustment to interest expense - for deemed debt		$ 2,290,447	D (=W)	
Adjusted regulated net income		$ 14,381,035	E = A-B-B1-C-C1-D	
Deemed Equity Calculation:				*Staff Comments*
Rate Base:				
Cost of power		$ 0	F	*Must match sum of accounts 4705 to 4751 inclusive. Input as positive number.*
Operating expenses		$ 9,332,000	G	*Must approximate sum of accounts 4505-4640, 4805-5695, 6105, 6205-6225, 6310-6415. Input as positive number.*
Total		$ 9,332,000	H = F + G	
Working capital allowance %		4.40%		*Must match percentage allowance in last approved CoS rate proceeding*
Total working capital allowance		$ 410,982	J	
Fixed Assets				
Opening balance - regulated fixed assets (NBV)	$ 206,620,311			*Please make the necessary adjustments to bring the fixed assets reported in the Audited Financial Statements to reflect the regulated rate base.*
Closing balance - regulated fixed assets (NBV)	$ 202,424,170			*NBV = Net Book Value*
Average regulated fixed assets	$ 204,522,241	$ 204,522,241	K	
Total rate base		**$ 204,933,223**	L = J + K	
Regulated deemed short-term debt	4%	$8,197,328.91	M	
Regulated deemed long-term debt	56%	$114,762,604.72	N	
Regulated deemed equity	40%	$81,973,289.09	P	
		$ 204,933,223		
Regulated Rate of Return on Deemed Equity				*Staff Comments*
		17.54%	Q = E / P	
ROE% from most recent cost of service application	**last approved EDR**	**9.19%**	R	*Must match approved ROE from last CoS rate proceeding*
Difference - maximum deadband 3%		**8.35%**	S = Q - R	
Interest adjustment on deemed debt:				*Staff Comments*
Regulated deemed short-term debt - as above	$ 8,197,329	6.67%		
Regulated deemed long-term debt - as above	$ 114,762,605	93.33%		
	$ 122,959,934	100.00%		
Short-term debt rate	1.65%	0.110%		*Interest rate on short-term debt from last approved CoS rate proceeding*
Long-term debt rate	6.87%	6.412%		*Interest rate on long-term debt from last approved CoS rate proceeding*
Average debt rate		6.52%		
Regulated deemed debt - as above	$ 122,959,934			
Weighted average interest rate	6.52%			
Deemed interest	$ 8,019,447	T		
Interest expense as per the OEB trial balance	$ 5,729,000	U		*Must match sum of accounts 6005-6045*
Difference	$ 2,290,447	V = T - U		
				Tax impact not required here as captured in tax line already.
Interest adjustment on deemed debt:	$ 2,290,447	V		

OEB STAFF INTERROGATORY - 05

Reference:
Exhibit A-4-1, Page 4, Line 8

Preamble:
HOSSM has indicated that the ROE calculation is "normalized for revenue impacting items such as entries recorded in the year which relate to prior years to normalize the in-year net income".

Interrogatory:
a) Please confirm and explain the normalizing adjustments made in this application.

Response:
a) There were two adjustments made to normalize for entries recorded in the year which relate to prior years in order to normalize the in-year net income. These two adjustments are the following:

   In HOSSM's property tax variance account, $151,763 was recorded in 2022 relating to 2018 to 2021. In order to normalize the in-year net income, the $151,763 was removed from the amounts recorded in the account for 2022 as the $151,763 relates to prior years.

   In HOSSM's tax rules changes variance account, there was a $17,786 reduction booked in 2022 relating to prior years. In order to normalize the in-year net income, the $17,786 reduction was added back to the amounts recorded in the account in 2022 as the $17,786 reduction relates to prior years.

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