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BY EMAIL AND RESS

November 20, 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-2023-0328 – Chapleau Public Utilities Corporation (CPUC) and Hydro One Networks Inc. (Hydro One) Application made under s.86(1) of the Ontario Energy Board Act,1998 to sell and purchase the electricity distribution assets of CPUC – Application and Evidence

Please find attached CPUC's and Hydro One's application made under S.86(1) of the Ontario Energy Board Act c.1998 for CPUC to sell and Hydro One to purchase substantially all of CPUC electricity distribution assets.

An electronic copy of this Application and Evidence has been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,

Joanne Richardson

Cc.
Judith Meyntz, CAO, Township of Chapleau (cao@chapleau.ca)
Alan Morin, President, CPUC (operations.puc@chapleau.ca)
Jason Rioux (Jason.rioux@gmail.com)

ONTARIO ENERGY BOARD

JOINT SUBMISSION

APPLICATION FOR HYDRO ONE NETWORKS INC. TO ACQUIRE CHAPLEAU PUBLIC UTILITIES CORPORATION

November 20, 2023

IN THE MATTER OF sections 21, 74, 77, 78, and 86 of the Ontario Energy Board Act 1998, S.O 1998, c. 15 (the "**Act**").

AND IN THE MATTER OF an Application by Chapleau Public Utilities Corporation ("**CPUC**") for leave to sell its distribution system to Hydro One Networks Inc. ("**Hydro One**"), made pursuant to section 86(1)(a) of the Act.

AND IN THE MATTER OF an Application by Hydro One pursuant to section 21 of the Act for an Order that this proceeding be disposed of without a hearing.

1.0 INTRODUCTION

Hydro One is a corporation incorporated pursuant to the Ontario *Business Corporations Act* ("**OBCA**"). Hydro One is a licenced distributor regulated by the Ontario Energy Board ("**OEB**" or "**Board**") in accordance with the Act. Hydro One's distribution system serves approximately 1.5 million customers in its service territory including individual customers in the Township of Chapleau. Hydro One is a wholly owned subsidiary of Hydro One Inc., which in turn is a wholly owned subsidiary of Hydro One Limited, a publicly listed business corporation.

CPUC is an OEB-licenced electricity distributor. CPUC's distribution service area is bounded by Panet, the Town of Cochrane, and the Township of Chapleau. CPUC was formed on January 1, 2018 by way of amalgamation of Chapleau Public Utilities Corporation (Ontario Corporation #1353009 incorporated on August 18, 1999) and Chapleau Energy Services Corporation (Ontario Corporation #1498252 incorporated on December 19, 2001). The Township of Chapleau is the sole shareholder of CPUC. CPUC's distribution system serves approximately 1,200 customers.

Hydro One and CPUC's organizational charts are provided in **Attachment 1.**

On an interim basis, Hydro One is currently managing the day-to-day operations of CPUC's business and serving the CPUC customers on behalf of CPUC pursuant to an OEB Decision and section 59 Order issued on May 23, 2023, appointing Hydro One as interim licensee for the CPUC service area for a period of six months (the **"OEB Decision and Order")**. The OEB Decision and Order is included in this Application as **Attachment 2**.

2.0 OVERVIEW OF APPLICATION

On November 6, 2023, CPUC and Hydro One entered into an Agreement of Purchase and Sale (the "**Agreement"**) pursuant to which CPUC has agreed to sell to Hydro One, and Hydro One has agreed to purchase from CPUC the business of distributing electricity to consumers and businesses within the Township of Chapleau via an asset sale. The purchase price is $2.3 million, subject to adjustments as specified in the Agreement. The Agreement contemplates the closing of the transaction to occur on the date which is the first business day of the first month which is at least ninety (90) days following the last date on which all required approvals have been obtained, including OEB approval of this Application, which ninety-day period may be adjusted either up or down by up to thirty-one (31) days by Hydro One at is sole discretion, unless the parties agree otherwise.

The Agreement is included as **Attachment 3** and includes, at Schedule E of the Agreement, the resolutions of the CPUC Board of Directors and the Township of Chapleau that together authorize the execution of the Agreement.

The Agreement was entered into on a commercial basis between a willing seller and a willing buyer. It is a demonstration of the types of benefits that can be realized from voluntary consolidation. Hydro One submits that the evidence supports approval of the Application as the transaction will have a positive or neutral effect on the attainment of the OEB's statutory objectives and the customers of both local distribution companies will be held harmless. This is achieved because of the following:

- The Agreement has no material impact on the price, adequacy, reliability and quality of electricity service provided by CPUC or Hydro One.
- The Agreement promotes economic efficiency and cost-effectiveness in the distribution of electricity and facilitates the maintenance of a financially viable electricity industry.
- The Agreement has no adverse impact on the promotion of electricity conservation and demand management and the use and generation of electricity from renewable energy sources.
- The Agreement eliminates redundancies between Hydro One and CPUC and results in a single electricity service provider for the Township of Chapleau.
- Hydro One is well-positioned and resourced to facilitate innovation and technological change in the industry, in addition to supporting the Government's

IESO-planned decarbonization of the electricity grid[1] and other initiatives for Ontario's 'grid of the future'.

Hydro One's financial statements for 2021 and 2022 are provided in **Attachment 4**. CPUC's financial statements for 2022 can be found at Schedule F of **Attachment 3** and CPUC's financial statements for 2021 are provided at **Attachment 5**.

3.0 INTEGRATION OF CPUC INTO HYDRO ONE RATE CLASSES

Hydro One proposes to immediately integrate CPUC customers into Hydro One's existing rate classes. Based on customer density categorization, CPUC's residential customers will be mapped into Hydro One's R1 residential class and CPUC's general service customers will be mapped into either GS energy billed or GS demand billed rate classes. Other CPUC customers outside the residential and general service rate classes will be mapped into the appropriate Hydro One classes. Please see **Exhibit A, Tab 2, Schedule 1, Section 2.1.2** for further information on rates.

4.0 OEB APPROVAL REQUESTS

Hydro One and CPUC are seeking the following OEB relief in this Application.

- CPUC requests approval to sell its distribution system assets to Hydro One pursuant to section 86(1)(a) of the Act.
- CPUC requests that the Board, pursuant to section 77(5) of the Act, cancel CPUC's electricity distribution licence ED-2002-0528.
- Hydro One requests that the Board, pursuant to subsection 77(5) of the Act, cancel Hydro One's interim electricity distribution licence (ED-2023-0144).
- Hydro One requests that the Board, pursuant to subsection 74(1)(b) of the Act, amend Hydro One's electricity distribution licence (ED-2003–0043) in Appendix B, Tab 1[2] to:

[1] The IESO's Pathways to Decarbonization Report, December 15, 2022.
[2] Appendix B Tab1, is titled, 'Municipalities'.

a) Include the Township of Chapleau, and,

b) exclude the Township of Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997, from ED-2003–0043, Appendix B, Tab 4[3]

- Hydro One requests that the Board, pursuant to section 78 of the Act, approve the transition of CPUC customers to Hydro One's existing OEB-approved distribution rates, including specific service charges at the time of integration.
- Hydro One requests approval to continue to track costs to CPUC's previously established regulatory accounts, as approved by the OEB and to seek disposition of their balances at a future date. All CPUC rate riders will continue as per CPUC's existing rate schedules until expiry.
- Hydro One requests approval to continue to have the use of the deferral account established in EB-2023-0144 to record costs of operation and maintenance of CPUC outside of what rates were established on.
- Hydro One is seeking approval in this Application to establish two new deferral accounts:
    - a Bill Impact Mitigation deferral account to implement bill mitigation for CPUC customers, as necessary, and track these costs in this Bill Impact Mitigation deferral account.
    - Chapleau Historical Land Rights Deferral Account to track all costs necessitated by the need to secure land rights for the distribution facilities that are not obtained by CPUC prior to the closing.
- Hydro One is seeking relief from section 3.5.11 of the Standard Supply Service Code and sections 2.6 and 10.6.3 of the Retail Settlement Code to, in effect, migrate customers into Hydro One's customer billing systems as "new" customers.

[3] Appendix B Tab 4, is, which is titled, 'Municipalities in which a portion or the municipality is served by the licensee and another portion or the municipality is served by another distributor'.

- Such other relief as Hydro One and CPUC may request and the OEB determines to be just and reasonable.

5.0 PARTIES INCLUDED IN THE JOINT APPLICATION

The Joint Applicants, Hydro One and CPUC, respectfully consent to an order by the Board disposing of this proceeding without a hearing pursuant to section 21 of the Act given that (a) customers will not be affected in a material way by the transaction, (b) CPUC is already being managed on an interim basis by Hydro One pursuant to the OEB Decision and Order, and (c) the entire annual revenue requirement of CPUC is approximately equal to the materiality threshold of Hydro One Distribution and should therefore be considered immaterial with respect to the overall distribution sector.

CONTACT INFORMATION

The Joint Applicants request that a copy of all documents filed with the Board be served on the Applicants and the Applicants' counsel, as provided below:

a) The Applicant:

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b) The Applicant's Counsel:

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c) The Co-Applicant:

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d) The Co-Applicant: Legal Counsel and / or Municipality:

Judith Meyntz
Chief Administrative Officer
Township of Chapleau

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IMPACT OF THE ACQUISITION

1.0 INTRODUCTION

This Schedule provides an assessment of how the Agreement impacts CPUC and Hydro One operations relative to the OEB's statutory objectives, and, more specifically, details how it promotes economic efficiency and cost-effectiveness in the distribution sector.

The consolidation of small utilities has been the focus of the government[1] and has been documented as being in the best interests of the industry and electricity customers. Contextually, the OEB defines a small utility as a utility serving less than 30,000 customers.[2] CPUC's customer base is less than 1,300 customers representing less than 0.01% of all electricity customers across the province. CPUC has an annual revenue requirement of approximately $1 million. Comparatively, Hydro One's electricity distribution business serves over 1.5 million customers and has a materiality threshold of $1 million. Additionally, CPUC's service territory is surrounded by Hydro One's service territory as shown in the attached map (see **Attachment 6**).

2.0 IMPLEMENTATION OF THE TRANSACTION & THE NO HARM TEST

The *Handbook to Electricity Distributor and Transmitter Consolidations* (the "**Handbook**"), requires applicants to provide evidence to demonstrate there will be no harm caused by the proposed transaction with respect to the OEB's statutory objectives for electricity.[3] The transaction will result in no harm to CPUC customers or Hydro One customers. To demonstrate no harm, however, it is pertinent to understand CPUC's current challenges.

[1] Minister of Energy Mandate Letter to the OEB – November 15, 2021
[2] Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications – For Small Utilities issued December 16, 2021, page 1
[3] Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sched. B

2.1 CPUC'S CURRENT CHALLENGES

Currently, CPUC has several challenges to sustain its operations on a go-forward basis. As highlighted in the letter CPUC sent the OEB on May 9, 2023, beyond immediate staffing and succession planning challenges, ongoing changes in the electricity sector that increase distributor responsibilities beyond simply delivering power to consumers will require adoption and management of distributed energy resources, battery storage, and other technologies, that require skillsets and resources beyond the capacity of a small utility.[4] Furthermore, aging infrastructure and growing electricity loads, associated with mandates for decarbonization resulting in electrification of new industries (e.g., the onset of electric vehicles and transitioning heating loads to electricity), trigger the need for large capital investments across all of Ontario's electricity distribution systems, including CPUC's. It is very likely that those investment requirements will quickly outpace the financial capabilities of CPUC and the Township of Chapleau[5] and ultimately will result in rate increases.

Since taking on the operations of CPUC, Hydro One has identified areas where investments in the asset base of CPUC are required to ensure the safe and reliable supply of electricity to ratepayers. These asset needs were provided to the OEB in an **Observation Report** dated September 29, 2023, and filed as **Attachment 7** to this Application.

2.1.1 NO HARM REGARDING ADEQUACY, RELIABILITY AND QUALITY OF ELECTRICITY SERVICE

The proposed transaction is not expected to cause any degradation in the adequacy, reliability, or quality of electricity service in CPUC's service territory. CPUC customers can expect to benefit from operational efficiencies by having the CPUC assets integrated into Hydro One's larger distribution system. Additionally, CPUC customers can expect to have access to, and benefits from additional customer services not previously available to them. Some examples of those benefits are:

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[4] CPUC letter to the OEB dated May 9, 2023, included at **Attachment 8**.
[5] Ibid.

- Customer Center Support availability:
    - Hydro One's contact Centres are open on weekdays between the hours of 7:30 a.m. to 8:00 p.m., and Saturdays from 9:00 a.m. to 3:00 p.m.
    - Hydro One's award-winning Interactive Voice Response system is available 24 hours a day, 7 days a week.
- Outage Management – CPUC customers will now have access to online outage details, including estimated restoration times via smart-phone or other battery-charged laptops and devices. Customers will have the option to sign up for e-mail or text outage notifications.
- Initiatives to Help Customers Manage their Bills - Hydro One helps customers reduce their monthly bills through electricity conservation programs and remains committed to delivering industry leading Conservation and Demand Management initiatives. Hydro One typically tops-up Low-Income Energy Assistance Program ("LEAP") funding to help those least able to afford their electricity bills. Customers can also sign up for digital notices that include notifications that their eBill is ready, how much electricity they are consuming mid-month, and payment receipt alerts. All of this helps to provide customers with the information they need to effectively manage their energy consumption and their finances. Hydro One provides a range of support to Indigenous customers through the First Nations Delivery Credit, First Nations Conservation program and Hydro One's Get Local program. CPUC customers will now have access to these services.
- New Services – As a Hydro One customer, former CPUC ratepayers will have access to services like Green Button, Ultra Low Overnight rate, and faster access to recent emerging needs such as EV charging networks, broadband internet, DERs and other emerging technologies.

CPUC's service territory is contiguous with Hydro One's service territory and Hydro One already serves residential and business customers, including Indigenous communities, on the outskirts of the Township of Chapleau. Hydro One as the host distributor for CPUC is familiar with CPUC's service territory. Given the foregoing, Hydro One is the natural consolidator for this service territory. The elimination of the artificial electrical boundary between these contiguous distributors will result in operational efficiencies that will not deteriorate reliability or quality of service and will likely result in benefits in these areas. For instance, by planning the electricity requirements for both the local Hydro One and CPUC service areas, Hydro One will be able to efficiently assess both the operating and capital needs associated with serving customers across the broader local area.

As part of the transaction, Hydro One will employ, and thereby retain local and institutional knowledge from CPUC's field staff. This, together with access to Hydro One's regional operations staff, will allow Hydro One to maintain reliability and quality of service for CPUC's customers. Relative to the status quo, the expectation is that quicker customer connections and response times are likely, given Hydro One's proximity and resource availability. As a result, there is no reason to expect any degradation to response times or reliability because of the transaction.

The acquisition of the CPUC's system assets is also expected to bring ancillary reliability and quality of service benefits to adjacent existing Hydro One customers in northern Ontario, where the distances between populated townships are generally significantly greater compared to those in the more populated/dense areas of southwestern Ontario. For example, the First Nation communities located near the Township of Chapleau, along with other customers on the outskirts of the Township (located in Hydro One's current service territory), are served by Hydro One's Timmins Operations Centre, approximately 200 km away. With the acquisition of CPUC and by retaining CPUC's established Service Centre, these customers can expect to experience positive reliability and quality improvements from the removal of the artificial distribution service area border, including, shorter response times.

2.1.2 NO HARM REGARDING PRICE

The transaction is not expected to harm customers with respect to price.

To assess no harm with respect to price, the OEB's MAAD Handbook[6] requires a comparative cost forecast of the proposed transaction for OM&A and capital expenditures to that of the existing utility absent the transaction, i.e., the "status quo" forecast.

In the EB-2023-0144, OEB Decision and Order, the OEB determined that CPUC is likely to fail to meet its obligations relating to the supply of electricity to consumers in the Township of Chapleau. Furthermore, in the Observation Report, several asset concerns have been raised including, but not limited to, the following: (i) assets operating at or beyond their expected service life that include submarine feeders and transformers that have components that have been identified as being defective, (ii) the existence of older fuse technology that delays restoration of power in the event of temporary faults, (iii) clearances from live equipment to ground are inconsistent with current industry standards and (iv) station locations abut waterbodies and in the event of a catastrophic transformer failure, oil may be released into the nearby body of water.

If the utility were to continue operations consistent with existing expenditure levels, CPUC customers could be facing loss of supply, safety and environmental risks and large capital investments in the near future which will impact their cost to serve. For these reasons, an existing utility status quo forecast has not been provided in this application. Hydro One cannot confirm if and when CPUC would have addressed these anticipated deficiencies in the absence of the transaction.

Therefore, though Hydro One has provided the preceding four years as a proxy of the OM&A and capital expenditures necessary to operate the utility, Hydro One qualifies that using these cost structures is not an appropriate gauge by which to adjudicate the no harm test. Prior expenditures have inadequately positioned CPUC to continue to operate reliably

[6] Section 2.2.4.

to meet its obligations as documented in the letter filed by Hydro One, CPUC and the Township in support of the interim licence proceeding, and further documented in the Observation Report recently submitted to the OEB. Relying on prior cost actuals to assess no harm is distorted because CPUC's existing cost structures have been insufficient to meet existing regulatory requirements and sustain reliable service to existing CPUC customers into the future. It can reasonably be assumed that maintaining existing CPUC expenditure levels will deteriorate the service which existing CPUC customers currently receive and limit the ability to provide new electrification services to the residents of the Township of Chapleau. To rely on historic expenditures or a status quo forecast provided by CPUC (that does not account for imminent asset investment needs and places customers' electricity supply at risk) is myopic. These relative expenditure levels should not be used as a cost comparator for assessing no-harm without proper consideration of the consequences of those expenditure levels, i.e., a s.59 order issued by the OEB to protect ratepayers against the likely failure of the utility to meet its obligations relating to the supply of electricity to consumers in the Township of Chapleau.

Table 1 below provides CPUC's actual OM&A and capital expenditures for the most recent complete four-year period, as published in the OEB yearbook.[7] It illustrates that with the integration of CPUC into Hydro One, significant OM&A savings, compared to prior results, are expected to be achieved. To note, Hydro One has only provided the forecast incremental cost for the four-year period immediately following approval of the transaction[8] because in 2028, the costs to serve CPUC will be integrated into Hydro One's next rebasing application's revenue requirement request.

[7] 2023 information is not yet available.
[8] Hydro One's costs for 2024 assume 4 months of the year only, due to expected MAAD application approval timelines.

Table 1 - CPUC Historic Costs and Hydro One Forecast Costs to 2027

	Year 2019 ($000's)	Year 2020 ($000's)	Year 2021 ($000's)	Year 2022 ($000's)
Prior Actual CPUC Expenditures[9]				
OM&A	832	839	732	755
Capital	124	98	150	95
Future Hydro One Forecast for CPUC	**Year 2024[10] ($000's)**	**Year 2025 ($000's)**	**Year 2026 ($000's)**	**Year 2027 ($000's)**
OM&A	158	351	350	362
Capital	64	272	243	209

Table 1 shows OM&A savings that exceed 50% per annum as a result of the acquisition. These OM&A savings are generated primarily through cost reductions in primarily administrative and back-office business functions such as, finance, regulatory, legal, information technology, and board of directors.

Table 1 shows that, on average, Hydro One anticipates spending more on capital relative to the historic expenditures. Hydro One's forecast capital is more reasonable given the existing status of the CPUC distribution system documented in the Observation Report. These costs will be undertaken to enhance CPUC's electrical system's resiliency with the aim of minimizing the likelihood of deteriorated equipment outages. Overall, because of Hydro One's forecast capital investments, CPUC's service territory will be more resilient and be better positioned to address the future needs of electrification. Hydro One anticipates that once some deficiencies noted in the Observation Report are addressed, capital cost levels will thereafter taper off to a steady state value adjusted for Hydro One's growth forecast for the acquired service territory.

[9] Results sourced from the published OEB LDC Yearbooks
[10] Assumes integration in September 2024.

Table 2 provides a further breakdown of the capital investments forecast in Table 1. Sustainment capital investments are planned to address distribution assets that are in poor condition through lines maintenance and refurbishment, wood pole replacement, stations investment, and other demand work. Significant sustainment expenditures over the forecast period include replacement of end-of-life submarine feeder and replacing oil filled equipment contaminated with PCBs, addressing several concerns identified in the Observation Report. Growth capital investments such as customer connections/ upgrades and system reinforcement are also contemplated in the forecast.

Table 2 - Hydro One Capital Forecast (Sustainment and Growth)

Future Hydro One Forecast for CPUC	Year 2024[11] ($000's)	Year 2025 ($000's)	Year 2026 ($000's)	Year 2027 ($000's)
Sustainment Capital	34	180	150	117
Growth Capital	30	92	93	93
Total	**64**	**272**	**243**	**209**

Although Table 2 shows that, on average Hydro One is planning for a higher overall capital spend, this is driven largely by the investments required to address concerns highlighted in the Observation Report and support the modest forecast growth in customer numbers in the CPUC service territory over next few years.

The status quo and Hydro One's forecast capital additions do not include any costs associated with future government or regulatory industry initiatives, policy implementation or changes that are unknown or unclear at this time. If CPUC were to continue to operate as a stand-alone utility, it would need to address these initiatives and would also incur these unaccounted-for costs.

[11] Assumed integration in September 2024

2.1.2.1 TRANSITION TO HYDRO ONE RATE STRUCTURE

Hydro One is proposing to migrate CPUC's customers into Hydro One's current rate classes upon integration. Table 3 below provides the mapping between CPUC's current rate classes and the Hydro One rate class.

Table 3 - Proposed CPUC Customer Rate Class Mapping

CPUC's Current Rate Classes	Proposed Move to Hydro One Rate Classes	Number of Customers (per 2022 RRR)
Residential	Residential Medium Density - R1	1,061
General Service < 50kW	General Service Energy-billed - GSe	151
General Service 50-4,999 kW	General Service Demand-billed - GSd	12
USL	USL	4
Sentinel Lighting	Sentinel Lighting	23
Street Lighting*	Street Lighting	1

* CPUC currently has 324 street light devices under 1 customer account.

Both CPUC (EB-2023-0011, for rates effective May 1, 2024) and Hydro One (EB-2023-0030, for rates effective January 1, 2024) currently have an application for approval of 2024 delivery rates before the OEB. The proposed rates in these applications are used to calculate the bill impacts in Tables 4 and 5 below.

Table 4 below provides the resulting impacts on CPUC's typical residential and general service customers' total bill upon integration in the absence of any bill impact mitigation.[12]

[12] Assumed integration date: September 2024

Table 4 - Impacts on 2024 Total Bill – before mitigation

	Residential/R1* (750kWh/month)	GS<50 kW/GSe (2,000kWh/month)	GS 50-4,999kW/GSd (93 kW)**
Total Bill (CPUC)	$136.53	$356.95	$6,482.98
Total Bill (Hydro One)	$142.88	$446.51	$7,931.25
Difference ($)	$6.35	$89.57	$1,448.27
Difference (%)	5%	25%	22%

* Includes Distribution Rate Protection credit.
** Average monthly peak demand of 93kW is based on the latest consumption data

Bill Impact Mitigation Prior to January 1, 2025:

As shown in Table 4, total bill impacts for CPUC's residential customers is below 10% due to the applicable Distribution Rate Protection (DRP) credit. As such, no further mitigation is proposed for residential customers. For all non-residential customers, Hydro One proposes to freeze distribution charges at the OEB-approved 2024 values between the integration date (expected in September 2024) and December 31, 2024. The intent of freezing distribution charges for all non-residential classes during this interim period is to minimize their rate impact over that period. As a result of the frozen distribution charges for non-residential customers, the total bill impact for all non-residential customers will be below 10%. Table 5 below provides the total bill impacts for typical general service customers with the proposed mitigation plan for 2024.

Table 5 - Impacts on 2024 Total Bill – After Mitigation

	GS<50 kW/GSe (2,000 kWh/month)	**GS 50-4,999kW/GSd** (93 kW)
Total Bill (CPUC)	$356.95	$6,482.98
Total Bill (Hydro One)	$373.41	$6,506.74
Difference ($)	$16.46	$23.76
Difference (%)	4.6%	0.4%

Bill Impact Mitigation Plan for 2025-2027

Starting January 2025, Hydro One proposes to limit the annual total bill impacts for all non-residential CPUC customers to no more than 10%, consistent with the OEB's historical use of the 10% mitigation threshold. With DRP, the total bill impact for Hydro

One R1 Residential customers will be below 10% and therefore they will not require mitigation.

2.2 REGULATORY ACCOUNTS & RATE RIDERS

Hydro One is seeking OEB approval to establish two new deferral and variance accounts – Historical Land Rights and Bill Impact Mitigation deferral accounts.

1. **Chapleau Historical Land Rights Deferral Account.** This Account will track all costs necessitated to secure all land rights for the distribution facilities that are outstanding and not obtained by CPUC prior to closing. Currently, CPUC has assets in-situ without appropriate required land rights. CPUC has committed to making efforts to attain all outstanding land rights; however, in the event rights are not secured, Hydro One requests the establishment of the Historical Land Rights Deferral Account to capture these costs. Please see **Appendix A** for further information of this request.

2. **Bill Impact Mitigation Deferral Account**. This Account will be used to track all costs incurred to provide bill impact mitigation to CPUC customers from the time of integration into Hydro One's rates until the expiry of Hydro One Distribution's current Custom IR period, December 31, 2027. The proposed use of this account is consistent with the OEB approval in EB-2013-0416. Please see **Appendix A** for further information on this request.

The draft accounting orders, including the accounting entries for each proposed account, are provided in **Appendix B** and **C**, respectively.

Existing CPUC Regulatory Accounts

CPUC's existing OEB-approved deferral and variance accounts will be ringfenced and maintained separate from Hydro One's deferral and variance accounts through to disposition. The Report of the Board on *Electricity Distributors' Deferral and Variance Account Review Report* ("EDDVAR"), released July 2009, provides that under the Price

Cap IR, the distributor's Group 1 audited account balances will be reviewed and disposed if the pre-set disposition threshold is met. In the letter Update to EDDVAR Report dated July 25, 2014, distributors may seek to dispose Group 1 balances that do not exceed the threshold. Hydro One will comply with this policy during the period up until the point when CPUC is included in the rebasing with Hydro One's distribution customers and will propose disposition of the former CPUC Group 1 balances, to be recovered or refunded to CPUC customers only.

The OEB in its Decision and Order in EB-2023-0144, directed Hydro One to record all revenues collected from customers within the service area of CPUC and the costs of operation and maintenance of the CPUC system in a deferral account under the Uniform System of Accounts.[13] Hydro One will continue tracking costs incurred by Hydro One to manage CPUC's operations until the transaction closes. As CPUC's billing system is still in use to generate customer billing, CPUC's revenues and costs continue to be recorded in CPUC's general ledger accounts. In the event, that CPUC is unable to reimburse Hydro One for costs incurred, Hydro One will seek recovery for any balance in the account, in the future. All other CPUC rate riders will continue as per their existing rate schedules until expiry.

2.3 PROMOTES ECONOMIC EFFICIENCY AND COST EFFECTIVENESS AND FACILITATES THE MAINTENANCE OF A FINANCIALLY VIABLE ELECTRICITY INDUSTRY

By integrating CPUC's operations within Hydro One's distribution network, sustained efficiencies can be realized in distribution operations by eliminating redundant activities that prior to consolidation would be individually imposed on each organization. For example, costs associated with functions such as, but not limited to, legal, regulatory applications, Board of Directors, tax and audit, customer service functions, Information Technology, and Cyber Security, can all be rationalized.

[13] EB-2023-0144, OEB Decision and Order issued May 23, 2023, Pg. 4 item 1 part c.

Hydro One is well-positioned and resourced to dedicate appropriate levels of resources to policy advocacy on behalf of its customers, ensuring that regulatory and government policy changes are informed by its customers' views. This will give CPUC customers faster access to recent emerging needs such as EV charging networks, broadband internet, DER's and other emerging technologies. Hydro One will champion this on behalf of all its customers, including CPUC customers. Similarly, CPUC customers will also benefit from the size and strength of Hydro One's supply chain pipeline that provides Hydro One with strong purchasing power.

As CPUC customers will be integrated into Hydro One's existing rate classes, Hydro One will not be tracking costs specific to serving CPUC customers. CPUC's operating and capital costs will form part of Hydro One's overall costs to serve all customers. At the time of Hydro One Distribution's next rebasing application, the OEB-approved cost allocation and rate design model will be used to determine Hydro One's customer rates which will include fully integrated CPUC customers.

Provided that CPUC customers will transition to Hydro One existing rates, there will be no separate Distribution System Plan required for CPUC and distribution plans for CPUC's existing service territory will be encompassed within future Hydro One Distribution System Plans.

2.3.1 STAFF INTEGRATION

The current staffing of CPUC consists of two linesmen and one office-based staff member. Hydro One's intention is to integrate CPUC's field staff into Hydro One's local operations and they will become part of the area's pool of resources working within the larger Hydro One service area, which encompasses CPUC's current service territory. Hydro One will enter into a 5-year lease of CPUC's existing Service Centre to have a local presence in the community. Hydro One will absorb the office position that is solely focused on CPUC's territory within Hydro One's vacancies and will employ CPUC's linesmen allowing Hydro One to leverage their local knowledge to address immediate customer service quality and/or reliability needs in the overall area.

2.3.2 FINANCIAL REPORTING – ACCOUNTING STANDARDS

CPUC's financial results will be incorporated into Hydro One Distribution's results using United States Generally Accepted Accounting Principles, which is the OEB-approved[14] framework for rate-setting, regulatory accounting and regulatory reporting for Hydro One.

2.3.3 COMPLIANCE MATTERS

As part of this Application, Hydro One requests certain distribution licence exemptions under Section 74 of the Act, for two years from the date that CPUC's electricity distribution business is integrated into Hydro One's operations (anticipated to be in September 2024). These requests focus on certain requirements for the provision of CPUC customer-specific information (that is, historical data and information for the years prior to the date of integration, which may be requested up to September 2026). The context, with details of this request are provided below.

As stated in the Observation Report, CPUC currently uses an obsolete billing system with its operation and programming changes entirely dependent on one individual external to CPUC. Hydro One will acquire CPUC's system in the form of an offline database, containing customer rates and other information prior to the date of integration. However, the database's functionality to support timely responses to requests for historical information is not assured. Accordingly, CPUC customers will be integrated into Hydro One's system as 'new' customers without prior billing history.

Hydro One requests exemptions to the following requirements in respect of maintaining and providing upon request, two years (or more) of historical consumer-specific data and information for the acquired CPUC customers for two years after the date of integration.

[14] Decision with Reasons in EB-2011-0399 (issued on March 23, 2012).

The Standard Supply Service Code

3.5.11 A distributor shall keep the following records for two years, and make them available to the Board upon request:

a) copies of all notices of election received under section 3.5.1, including recordings of calls where the notice of election was completed by telephone;
b) copies of notifications sent to consumers under sections 3.5.3 and 3.5.5; including recordings of calls where the notification was done by telephone; and
c) a record of all other communications with individual consumers about electing to be charged prices under section 3.3, 3.4 or 3.4A.

Retail Settlement Code

2.6 Provide Access to Historical Consumer-Specific Information

A distributor shall maintain and be able to provide historical consumer-specific information to a consumer, or to any party designated by the consumer, regardless of whether the consumer is served under SSS or by a competitive retailer. Information that must be maintained and provided as directed by a consumer is delineated in section 11.3 and includes information on electricity use, regulated rates under which a consumer is served, meter characteristics and payment information.

10.6.3 Processing a Request for Historical Consumer Information

Consumers have the right upon request to have historical usage information, information about their meter configuration and payment information sent to their service address or to any designated retailer or third party. […]

A request to release consumer information […]

All consumer-specific information must be provided to the designated party by a distributor in a common format to be developed in accordance with the EBT System.

Requests to transfer consumer-specific information via the EBT System shall be completed by the distributor within five business days of receiving the request. Prior to the implementation of the EBT System, a distributor shall complete such requests in an expeditious manner. The distributor shall complete all other information requests within ten business days of receiving the request.

Provision of consumer-specific information […]

Hydro One's Interim Approach

Given the unknown issues which might arise should Hydro One attempt to import CPUC customers' historical information from CPUC's obsolete billing system into its own, Hydro One will set up CPUC's customers as 'new' Hydro One customers. Their history with Hydro One will begin on the date of integration.

That said, Hydro One acknowledges the occasional need of the Board, customers and/or designated third parties for certain customer-specific historical information that may pre-date Hydro One's acquisition of the utility. For this reason, Hydro One will maintain CPUC's billing database and will undertake to satisfy such requests for records or information pre-dating the integration date, on a best-efforts basis. In so doing, Hydro One advises that it cannot guarantee the availability or quality of the information. Furthermore, the need to manually extract and format this information may result in reporting to the Board beyond the required timeline. Similarly, compliance with RSC s.10.6.3 may exceed the 5-business day timeline.

Accordingly, while Hydro One will attempt to fulfill its obligations on a best-efforts basis, it believes that the requested exemptions from those obligations for a two-year period following the integration date is prudent and reasonable under the presented circumstances.

Finally, Hydro One notes that:

- the Board approved Hydro One's request for an extension of the November 1, 2023 date to implement the Green Button Initiative for CPUC area customers, for similar reasons to those provided above[15]; and
- in response to Hydro One's requested exemption from the obligation to provide the ULO price plan to the CPUC service area by November 1, 2023, Board Staff stated that it may consider doing so, later, if needed. Until then, no compliance action to enforce the deadline would be taken, again in acknowledgment of operational or other issues such as those described above.[16]

Hydro One confirms that it is substantially compliant with its regulatory requirements, subject to any approved regulatory exemptions. CPUC has experienced difficulties with continued compliance with regulatory and government agencies due to staffing shortages. Under the management recently instated in the OEB Decision and Order, Hydro One has taken steps to rectify various non-compliance issues. To the best of existing management's knowledge, CPUC is in compliance with all relevant licence and code requirements per its Electricity Distribution Licence. Should any non-compliance be discovered, Hydro One will undertake to advise the OEB immediately and seek all necessary exemptions, accordingly.

It is expected that following the approval and completion of the transaction and after integration of CPUC's distribution business activities into those of Hydro One, Hydro One will continue to be materially compliant with all applicable statutes, regulations, Market Rules, other Licence conditions, and OEB Codes, subject to any exemption sought as part of this Application.

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[15] EB-2023-0323, Response from Mr. Brian Hewson, October 31, 2023, to Hydro One's October 6, 2023, request for an exemption for CPUC from the requirement to make the ultra-low overnight (ULO) price plan available to eligible customers by November 1, 2023
[16] EB-2023-0314, Order and Decision, November 1, 2023, in respect of Hydro One's October 6, 2023, request for an extension of the Green Button implementation timeline from November 1, 2023, to September 30, 2024 for the Chapleau distribution service area.

2.3.4 FINANCIAL VIABILITY / PREMIUM / FINANCING

As contemplated in the Agreement, Hydro One will pay $2.3 million for the acquisition of CPUC's assets. The purchase price represents the commercial value of the underlying assets established through negotiations with an arms' length third party.

Hydro One will initially finance the proposed transaction through cash or its commercial paper program. Long-term financing will be through its Medium-Term Note program.

The premium paid over the assets' book value will not have a material impact on Hydro One's financial viability. This transaction price accounts for less than 0.1% of Hydro One Distribution's net fixed assets. In addition, the premium paid will not be included in Hydro One's revenue requirement and thus will not be funded by ratepayers.

SUMMARY

Consolidation of small utilities, such as CPUC, can help achieve the OEB's and Ontario Government's objectives of promoting economic efficiency in the electricity industry. Considering the challenging and rapidly changing electricity environment, many local distribution companies are expected to struggle with the resourcing demands and the dynamically innovative requirements placed on them by government policy, the regulator and energy consumers in the immediate, medium and long-term. Hydro One is resourced and well-positioned geographically and financially to consolidate and serve distribution customers through this period of time.

Consolidation will also reduce costs within the Ontario energy industry. For example, the costs to regulate and administer the sector may be reduced. The IESO, the OEB, and Ministry of Energy can expect to see efficiencies through reduced regulatory burden and industry oversight. Enhanced regional planning efficiencies may also be achieved by having fewer distribution companies planning for the same geographical area/system. Additionally, as has been discussed, local area operating and capital savings will result in a more efficient distribution system due to the elimination of an artificial electrical boundary, thereby realizing benefits from contiguity.

Hydro One's acquisition of CPUC will result in no harm to CPUC customers or Hydro One customers. The acquisition will provide CPUC customers with enduring benefits including infrastructure necessitated by the rapid installation of distributed energy resources, electric vehicle demand, and numerous resiliency projects that CPUC will find challenging to provide if it were to continue to operate as it does today. Moreover, the consolidation embodies the current regulatory policies and principles of the Board in pursuing the objectives established by section 1 of the Act, in conjunction with maintaining alignment with government expectations regarding sector consolidation and electrification.

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APPENDIX A

1.0 INTRODUCTION

Hydro One is applying to the OEB for an Accounting Order authorizing Hydro One to establish two new regulatory accounts.

The first Accounting Order is for authorization for Hydro One to establish a new regulatory deferral account referred to as the **Chapleau Historical Land Rights Deferral Account**, for the purpose of recording costs to acquire land rights required by Hydro One to operate CPUC's existing distribution system assets. The Chapleau Historical Land Rights Deferral Account will apply where, post-transaction close, Hydro One incurs costs to acquire land rights within the prior CPUC service territory that have not been furnished by CPUC prior to transaction close.

The second Accounting Order is for authorization for Hydro One to establish a new regulatory deferral account referred to as the **Bill Impact Mitigation Deferral Account**, for the purpose of recording expenses relating to the provision of any bill impact mitigation required for CPUC customers from the time of integration into Hydro One's rates until the expiry of Hydro One's current Custom IR period, December 31, 2027.

2.0 BACKGROUND

Chapleau Historical Land Rights Account

CPUC currently has assets situated on properties where, land rights could not be located or documented at the time of execution of the Agreement of Purchase and Sale, may have expired, or were never obtained. While CPUC is obligated to obtain these land rights, prior to the close of Hydro One's acquisition of CPUC's electricity distribution assets, the acquisition of all such rights is not expected to be attained in this short period of time.

Absent rights available to an electricity transmitter and distributor pursuant to s.41 of the *Electricity Act*, *1998,* a transmitter or distributor must obtain all necessary land rights required prior to constructing assets on lands it does not own. If these rights have not been obtained, to avoid further trespass and to enable future work, we must obtain such rights and the landowner has the right to be compensated for them. As the outstanding land rights contemplated to be recorded in the Chapleau Historical Land Rights Deferral

Account are for lands where existing CPUC-situated assets are located, Hydro One is proposing that the customers of CPUC will be responsible for recovery of any balance in the regulatory account.

Bill Impact Mitigation Deferral Account

Upon integration of CPUC customers into Hydro One's rate classes, Hydro One has provided the expected impacts on CPUC's typical residential and general service customers' total bill in the absence of any bill impact mitigation. These impacts, sans mitigation, are shown in Table 4 of **Exhibit A, Tab 2, Schedule 1**. Hydro One is seeking the Bill Impact Mitigation Deferral Account for the purpose of recording expenses relating to the provision of any bill impact mitigation required to CPUC customers.

3.0 TEST FOR ESTABLISHMENT OF A REGULATORY ACCOUNT

To establish a regulatory account, the Board's *Filing Requirements for Electricity Transmission Applications* (dated February 11, 2016) ("Filing Requirements"), outline that the eligibility criteria of causation, materiality and prudence must be met. In addition, the Applicant must provide a Draft Accounting Order.

3.1 Causation, Materiality and Prudence

To establish a new deferral and variance account, the OEB requires that the following eligibility criteria be met:

1. Causation - The Board's Filing Requirements define Causation as "the forecasted expense must be clearly outside of the base upon which revenue requirement(s) were derived." [1]

2. Materiality - The annual forecast amounts to be recorded in the proposed account must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed or capitalized in the normal course and addressed through organizational productivity improvements. Per the OEB's Chapter 2 filing requirements, distributors with fewer than 30,000 customers, as is the case for CPUC, the materiality threshold for establishing a deferral and variance account is $50,000.

[1] Chapter 2 Filing Requirements for Electricity Transmission Applications, February 11, 2016, p. 35

Hydro One believes that the amounts that will be recorded in the proposed accounts will exceed the materiality threshold.

3. Prudence - The nature of the amounts and forecast quantum to be recorded in the proposed accounts must be based on a plan that sets how the amounts will be reasonably incurred, although the final determination of prudence will be made at the time of disposition. For any costs incurred, in terms of the quantum, this means that the distributor must provide evidence demonstrating why the option selected represents the cost-effective option (not necessarily least initial cost) for ratepayers.

Chapleau Historical Land Rights Derral Account

CPUC and Hydro One are legally required to attain appropriate land rights from owners where assets are situated. Hydro One, once aware of non-existent land rights, will negotiate with the landowner using market rates in the area. These costs are expected to be material (i.e., exceed $50,000) given the intention of the disposition of the account is to customers of the former CPUC service territory and the costs expected to be incurred are outside the base of which CPUC's revenue requirement was set. The final determination of prudency will be made at the time that Hydro One applies for disposition of all or part of the account at a future rate hearing. Hydro One is not seeking approval in this application for recovery of costs recorded in this deferral account. The request for this account meets the Board's regulatory account eligibility criteria, as outlined above.

Hydro One understands there are properties for which CPUC does not have land rights. Given that the costs to be incurred are non-discretionary and material, this account should be established.

Bill Impact Mitigation Deferral Account

When Hydro One integrates CPUC customers into its established customer classes, and where those customers' total bill impacts are above 10% (a threshold established by the Board in the Handbook for Utility Rate Applications[2]), Hydro One proposes to provide rate mitigation to those customers and record those costs in a new account called Bill Impact

[2] Dated October 13, 2016, Rate Mitigation Pg. v.

Mitigation Deferral Account. The mitigation costs expected to be incurred are outside the base of which revenue requirement was set.

> The proposed use of this account, to track mitigation costs, is consistent with bill impact mitigation variance accounts, proposed and approved by the Board in proceedings EB-2007-0681, EB-2009-0096, and EB-2013-0416.
>
> The request for this account meets the Board's regulatory account eligibility criteria outlined above.

4.0 ACCOUNTING AND REPORTING PROCESS FOR ESTABLISHMENT OF A DEFERRAL ACCOUNT

Chapleau Historical Land Rights Deferral Account

The Chapleau Historical Land Rights Deferral Account described above will be managed in the same manner as existing Hydro One variance and deferral accounts. It will be updated monthly, and interest applied (where appropriate) consistent with the OEB-approved rate. The balance will be reported to the OEB as part of the annual reporting process. Any outstanding balance will be submitted for approval to the OEB as part of a future rate filing and will be collected from customers in the CPUC legacy service territory.

Draft accounting entries for all transactions related to this account are submitted in the Draft Accounting Order at Appendix B, below, as prescribed by the OEB's filing requirements.

Hydro One requests this account be effective on the date of the closing of the Agreement.

Bill Impact Mitigation Deferral Account

The Bill Impact Mitigation Deferral Account described above will be managed in the same manner as existing Hydro One variance and deferral accounts. It will be updated monthly, and interest applied (where appropriate) consistent with the OEB-approved rate. The balance will be reported to the OEB as part of the annual reporting process. Any outstanding balance will be submitted for approval to the OEB as part of a future rate filing and will be collected from Hydro One customers. This Account is similar to the Bill Impact

Mitigation Variance Account approved by the OEB for use by Hydro One, whereby the Board determined that those rate classes which experienced a bill impact in excess of 10% would qualify for rate mitigation[3].

Draft accounting entries for all transactions related to this account are submitted in the Draft Accounting Order at Appendix C, below, as prescribed by the OEB's filing requirements.

Hydro One requests this account be effective on the date of customer integration.

[3] EB-2013-0416 The account was EB-2017-0049.

APPENDIX B

Hydro One Distribution Draft Accounting Order - Accounting Entries

Chapleau Historical Land Rights Deferral Account

Hydro One proposes the establishment of a the “Chapleau Historical Land Rights Deferral Account” to track costs incurred by Hydro One to acquire any outstanding CPUC historical land rights required to operate CPUC’s existing distribution assets, where at the time of the close of Hydro One’s acquisition of the CPUC electricity distribution assets, such land rights could not be located or documented, may have expired, or were never obtained.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account “Chapleau Historical Land Rights Deferral Account” effective the date of the closing of the Agreement.

Hydro One will record interest on any balance in the sub-account using the interest rates set by the Board. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

USofA #	Account Description
Dr 1806	Land Rights
Cr 2205	Accounts Payable

To record the preliminary recognition of Hydro One’s costs incurred regarding the acquisition of any CPUC historical land rights.

USofA #	Account Description
Dr 1508	Other Regulatory Assets – Sub account “Chapleau Historical Land Rights Deferral Account”
Cr 1806	Land Rights.

To transfer Hydro One’s costs incurred for the acquisition of any CPUC historical land rights, to the deferral account for future disposition.

USofA #	Account Description
Dr: 1508	Other Regulatory Assets – Sub account “Chapleau Historical Land Rights Deferral Account - Interest Improvement”
Cr: 6035	Other Interest Expense

To record interest improvement on the principal balance of the Chapleau Historical Land Rights Deferral Account at the OEB’s published prescribed interest rate[4].

[4] Prescribed interest rates | Ontario Energy Board (oeb.ca)

APPENDIX C

Hydro One Distribution Draft Accounting Order - Accounting Entries

Bill Impact Mitigation Deferral Account

Hydro One proposes the establishment of a new "Bill Impact Mitigation Deferral Account" to track mitigation costs resulting from integrating customers from CPUC into Hydro One's existing rate classes.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account "Bill Impact Mitigation Deferral Account" effective the date of CPUC customer integration.

Hydro One will record interest on any balance in the sub-account using the interest rates set by the Board. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

The following outlines the proposed accounting entries for this regulatory account.

	USofA #	Account Description
DR	1508	Other Regulatory Assets – Sub-Account "Bill Impact Mitigation Deferral Account"
CR	1100	Customer Accounts Receivable

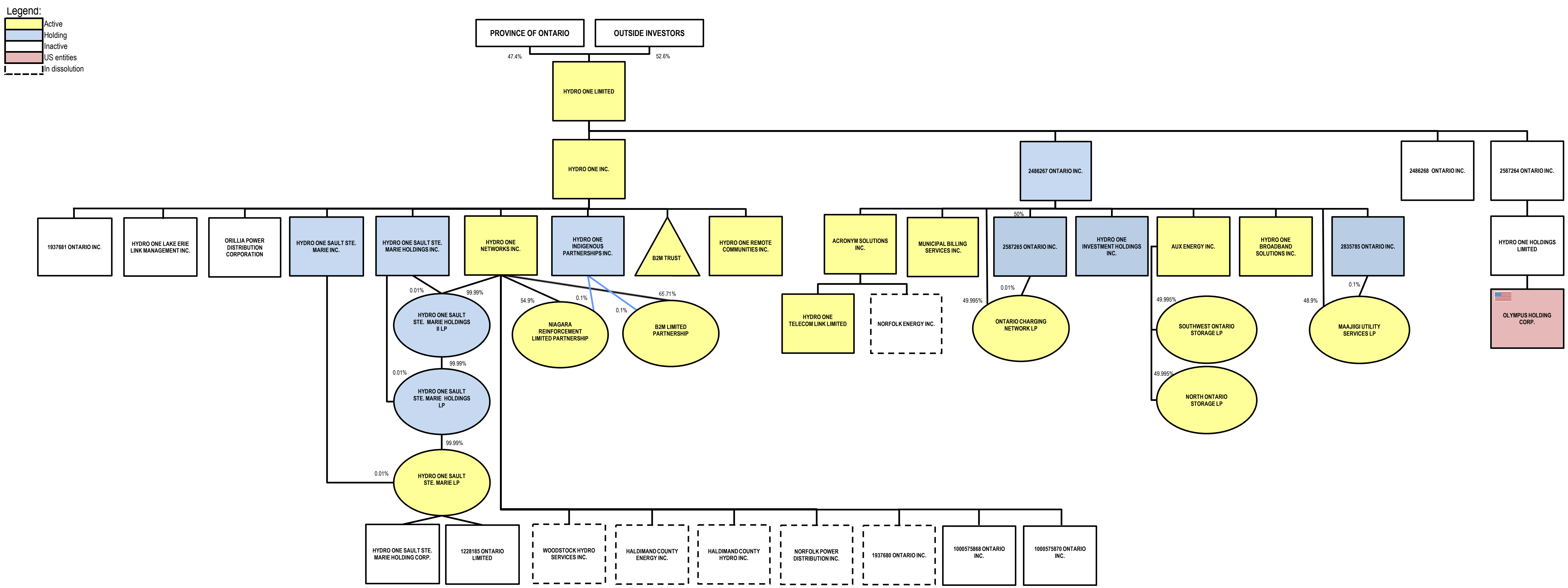
To record the bill impact mitigation costs for former CPUC customers having been moved to appropriate Hydro One rate classes at integration.

DR	1508	Other Regulatory Assets – Sub-Account "Bill Impact Mitigation Deferral Account"
CR	6035	Other Interest Expense

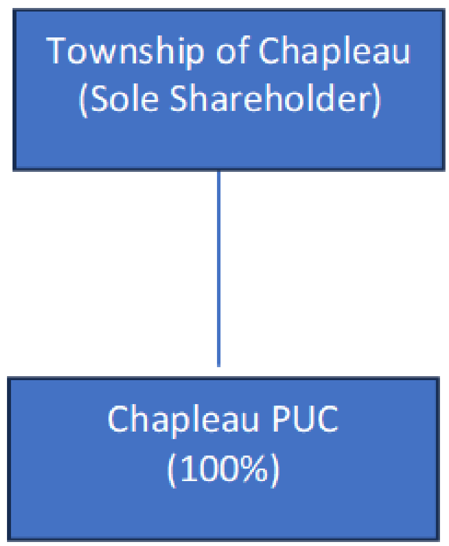
To record interest improvement on the debit principal balance of the Bill Impact Mitigation Deferral Account at the OEB's published prescribed interest rate[5].

[5] Prescribed interest rates | Ontario Energy Board (oeb.ca)

HYDRO ONE
ORGANIZATIONAL CHART AS AT 2023-09-30



Township of Chapleau - Organisation Chart



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

DECISION AND ORDER

EB-2023-0144

HYDRO ONE NETWORKS INC.

An order granting Hydro One Networks Inc. an interim distribution licence to operate the electricity distribution system in the Township of Chapleau.

CHAPLEAU PUBLIC UTILITIES CORPORATION

An order requiring Chapleau Public Utilities Corporation to surrender possession and control of the electricity distribution system in the Township of Chapleau to Hydro One Networks Inc.

BEFORE: Emad Elsayed
Presiding Commissioner

May 23, 2023

DECISION AND ORDER

Chapleau Public Utilities Corporation (CPUC) owns and operates the electricity distribution system in the Township of Chapleau, Ontario. CPUC holds Ontario Energy Board (OEB) electricity distribution licence ED-2002-0528, and serves approximately 1,200 customers. The Township of Chapleau (Township) is the sole shareholder of CPUC.

On May 9, 2023, CPUC filed a letter with the OEB stating that CPUC is experiencing difficulty managing day-to-day operations of the utility and would not be able to continue providing reliable electricity distribution service due to financial and staffing issues. CPUC explained in the letter that in recent years, it

> has experienced difficulty attracting and retaining qualified staff to oversee the general and financial management of the utility. As of May 1, 2023, the only two management staff have departed/retired and the Chair of the CPUC Board has assumed the General Manager role on an interim basis. Given this situation, and with the increasing regulatory oversight and capital upgrade requirements, the Township and the CPUC have been looking at all options to ensure electricity ratepayers within the Township continue to receive excellent electricity distribution services.

Beyond its immediate staffing and succession planning challenges, CPUC states that ongoing changes in the electricity sector that increase responsibilities of the electricity distributors beyond simply delivering power to consumers will require adoption and management of distributed energy resources, battery storage, and other technologies, and this will require “skillsets and resources beyond the capacity of our small utility”. Aging infrastructure and growing electricity loads associated with the onset of electric vehicles and transitioning heating loads to electricity will trigger the need for large capital investments to rejuvenate and grow CPUC’s electricity distribution system, and those investment requirements will “quickly outpace the financial capabilities of CPUC and the Township”. Therefore, the Township and CPUC are considering a potential sale of the CPUC’s distribution assets to a larger utility and hope to enter into a sale agreement in 2023, although CPUC acknowledges that any such transaction will take time, as it will involve due diligence, and the Township has objectives that include retention of local jobs and ensuring electricity ratepayers within the Township and neighbouring areas, including First Nations communities, will continue to receive safe and reliable electricity service and access to emerging technologies.

In the interim, CPUC and the Township want Hydro One Networks Inc. (HONI) to assume management of the day-to-day operations CPUC’s business. As stated in the letter, CPUC believes that HONI is well positioned to fulfill this role as it is already has a local presence in the area – CPUC's service territory is embedded within HONI's service territory, and HONI already serves Indigenous communities and businesses on the outskirts of the Township of Chapleau. CPUC also submits that HONI is an established and dependable Ontario electricity distributor that is supportive of the request (HONI signed the May 9, 2023 letter) and willing to assist CPUC. The letter was signed by the Chair of the CPUC Board; HONI; and the Mayor of the Township of Chapleau.

Under sections 59(1) and 59(2) of the *Ontario Energy Board Act, 1998* (OEB Act), the OEB may issue an interim licence authorizing a person to operate a distribution system if the OEB considers it necessary to do so to ensure the reliable supply of electricity to consumers. If the OEB determines that a licensed distributor is likely to fail to sell electricity to its customers in accordance with its obligations under section 29 of the *Electricity Act, 1998*, then the OEB has the authority to appoint an interim licensee to take possession and control of the distributor's business. Based on the letter from CPUC, the OEB has determined that CPUC is likely to fail to meet its obligations relating to the supply of electricity to consumers in the Township of Chapleau.

The OEB has determined that it will appoint HONI as interim licensee for the CPUC service area. The OEB agrees that HONI is well-positioned to provide safe and reliable service to the Township of Chapleau, for the reasons identified by CPUC, and particularly because HONI is the host distributor for CPUC and therefore has experience in dealing with CPUC. The OEB, therefore, is appointing HONI as interim licensee for a period of six months, as permitted under the OEB Act, subject to the OEB's authority to extend that term.

During the term of the interim licence, HONI will be responsible for providing all distribution services within the Township of Chapleau, including the connection of new customers, and the reliable supply and distribution of electricity to the customers of CPUC in accordance with good utility practice; and customers of CPUC will continue to be billed based on the same rates and charges as have been applicable with CPUC.

As discussed above, CPUC and the Township are considering a sale of the utility. It does not appear that the Township has made a determination in that regard, or that it has progressed to the point of soliciting offers to purchase the shares or assets of CPUC, whether from HONI or any other potential purchaser. The OEB reminds CPUC, HONI and the Township that section 59 of the OEB Act clearly states that despite the powers given to HONI by this Order and the interim licence, and subject to HONI's power to dispose of such assets as are ordinarily disposed of in the normal course of carrying on CPUC's business, CPUC retains ownership of any assets of the business that the it owned before this Order was issued, subject to any encumbrances.

The OEB expects that HONI, and any HONI employee assigned to the management and operation of the CPUC distribution system, will cooperate with the Township and provide information about CPUC as directed by the Township should the Township determine that it wishes to pursue the sale of the utility. The OEB considers this analogous to situations addressed in the OEB's *Affiliate Relationships Code for Electricity Distributors and Transmitters* (ARC), in which the OEB attempts to ensure a level playing field between a competitive affiliate of a distributor and non-affiliated third parties. For example, the ARC provides that a utility may provide system planning information to an affiliate that is an energy service provider (as that term is defined in the ARC) if (among other factors) the system planning information is made available to non-affiliated third parties at the same time, or has previously been made available to non-affiliated third parties, on a non-confidential basis in substantially the same form and on the same terms and conditions as it is made available to the affiliate; or if the system planning information is, at the time of provision to the affiliate, publicly available in substantially the same form as it is made available to the affiliate.

The OEB is issuing this Order without notice and without a hearing in accordance with section 59(5) of the OEB Act.

IT IS ORDERED THAT:

1. Hydro One Networks Inc. shall:

   a. Comply with the interim distribution licence shown in Appendix A, which authorizes Hydro One Networks Inc. to take possession and control of the electricity distribution system owned and operated by Chapleau Public Utilities Corporation as soon as possible and, in any event, no later than June 13, 2023.

   b. Collect revenue from customers within the service area of Chapleau Public Utilities Corporation based on the rates and charges set out in the most current Schedule of Rates and Charges applicable to Chapleau Public Utilities Corporation.

   c. Record revenues collected from customers within the service area of Chapleau Public Utilities Corporation and the costs of operation and maintenance of the system in a deferral account under the Uniform System of Accounts.

   d. In the period leading up to the transfer of possession and control of the Chapleau Public Utilities Corporation distribution system, provide, on a best efforts basis and in accordance with good utility practice, any resources necessary to deal with required maintenance as requested by Chapleau Public Utilities Corporation.

   e. Inform the OEB immediately upon taking possession and control of the business of Chapleau Public Utilities Corporation.

2. Chapleau Public Utilities Corporation shall:

   a. Surrender possession and control of its distribution assets to Hydro One Networks Inc.

   b. Not be entitled to any compensation from the Crown, the OEB or any person for being required to surrender possession and control of its distribution assets and business.

   c. Provide full cooperation and assistance to Hydro One Networks Inc. to affect the transfer.

d. Continue to be responsible for meeting all requirements under its current licence until the transfer is complete.

3. In terms of the transfer of possession and control of the Chapleau Public Utilities Corporation distribution system to Hydro One Networks Inc., both Hydro One Networks Inc. and Chapleau Public Utilities Corporation will ensure public, system and employee safety.

4. The term of the interim electricity distribution licence is for a period of six months to November 23, 2023, subject to the OEB's authority to extend that term.

DATED at Toronto May 23, 2023

ONTARIO ENERGY BOARD

Nancy Marconi

Digitally signed by Nancy Marconi
Date: 2023.05.23 12:00:45 -04'00'

Nancy Marconi
Registrar

Appendix "A"

Interim Distribution Licence

ED-2023-0144

Effective May 23, 2023

THIS AGREEMENT OF PURCHASE AND SALE made in duplicate this 6th day of November, 2023,

BETWEEN:

CHAPLEAU PUBLIC UTILITIES CORPORATION

(the "**Seller**")

OF THE FIRST PART,

- and -

HYDRO ONE NETWORKS INC., a corporation duly incorporated pursuant to the laws of the Province of Ontario

(the "**Buyer**")

OF THE SECOND PART.

(each a "**Party**" and together the "**Parties**")

WHEREAS the Seller currently owns, manages and operates certain plant used for the distribution of electricity (the "**Distribution Facilities**") within or around the boundaries of the Township of Chapleau (the "**Municipality**");

AND WHEREAS the Seller has agreed to sell to the Buyer and the Buyer has agreed to purchase from the Seller the Distribution Facilities and certain land rights and other assets, all of which are related to or used in connection with the business of distributing electricity to consumers and businesses within the Municipality, for the consideration and on the terms and conditions provided in this Agreement (hereinafter referred to as the "**Sale**") and to use such Distribution Facilities, land rights and assets to distribute electricity to the consumers and businesses which are currently being served by the Seller (collectively, the "**Customers**").

NOW THEREFORE in consideration of the respective covenants and agreements contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which is hereby irrevocably acknowledged, the Parties agree as follows:

1.0 DEFINITIONS AND INTERPRETATION

1.1 *Defined Terms*. As used in this Agreement, including the recitals and the Schedules hereto, in addition to terms defined elsewhere in this Agreement, unless the subject matter or context is inconsistent therewith, the following terms shall have the following meanings:

(a) "**Agreement**" means this Agreement of Purchase and Sale, any schedules attached hereto and all instruments supplemental to it or in amendment or confirmation of it.

(b) "**Assigned Contracts**" has the meaning ascribed to this term in Section 2.2 below.

(c) "**Assumed Liabilities**" means, to the extent incurred in the ordinary course of the routine daily affairs of the Business and existing as of the Closing Date and which are disclosed in the Closing Financial Statements, only the liabilities identified in Schedule "C" attached hereto.

For greater certainty, Assumed Liabilities do not include: (A) any long-term debt of the Seller, (B) any premiums or assessments to be paid by the Seller for any insurance policy, including without limitation, the MEARIE insurance policy, of or to which the Seller is a member or party, (C) any obligations owing by the Seller under the Employee Plans or OMERS Plan, or (D) any liabilities or obligations related to the Excluded Assets, including without limitation, liabilities or obligations accrued or otherwise and that are owing or may become owing to, or that are to be paid or may become payable to, the Customers in connection with the Excluded Assets.

(d) "**Books and Records**" means all books, records, files and papers of the Seller including title documentation, computer programs (including source codes and software programs), computer manuals, regulatory filings and correspondence with governmental authorities, computer data, financial working papers, financial books and records, business, environmental and operational reports and forecasts, business plans and projections, sales and advertising materials, sales and purchases records and correspondence, trade association files, research and development records, lists of present and former Customers and suppliers, personnel and employment records, minute and share certificate books, all other documents and data (technical or otherwise) relating to the Seller or the Business, and all copies and recordings of the foregoing.

(e) "**Business**" means the business owned by the Seller of distributing electricity to the Customers.

(f) "**Business Day**" means a day other than a Saturday, Sunday, or statutory holiday in the Province of Ontario.

(g) "**Closing**" means the completion of the sale to and purchase by the Buyer of the Purchased Assets under this Agreement which shall take place at the offices of the Buyer's solicitors at 483 Bay St., South Tower, 8th Floor, Toronto, Ontario.

(h) "**Closing Date**" means the date which is the first Business Day of the first month which is at least ninety (90) days following the last date on which the Required Approvals have been obtained, which ninety (90) day period may be adjusted either up or down by up to thirty-one (31) days by the Buyer at its sole discretion, unless the Parties agree in writing to another Closing Date.

(i) "**Closing Date Regulatory Accounts Balance**" means the value of the Net Regulatory Accounts transferred on the Closing Date.

(j) "**Closing Financial Statements**" means the audited and consolidated financial statements of the Business for the fiscal period ended on the Closing Date, prepared in accordance with IFRS consistently applied, consisting of balance sheet as at such date, and statements of earnings and retained earnings and of changes in financial position for such period, together with notes thereto as at such date of the Seller's auditors thereon addressed to the Seller.

(k) "**Closing Time**" means 2:30 p.m. (EST) on the Closing Date, or an earlier or later time as the Parties may agree as the time at which the Closing shall take place.

(l) "**Collective Agreement**" means the collective agreement between the Seller and the Union expiring December 31, 2023.

(m) "**Customers**" has the meaning given to it in the recitals of this Agreement.

(n) "**Data Room**" means the virtual data site located at https://hydroone.sharepoint.com/teams/STC-X-DPT-CDOps-23.

(o) "**Distribution Facilities**" has the meaning given to it in the recitals of this Agreement.

(p) "***Electricity Act***" means the *Electricity Act, 1998,* S.O. 1998, c. 15, Sched. A as amended and as in effect on the date hereof.

(q) "**Employee**" means an individual employed by the Seller in the Business.

(r) "**Employee Plans**" means all employee benefit, health, welfare, disability, pension, retirement, hospitalization, medical, prescription drug, dental, vision, retiree benefits and bonus plans, sponsored, maintained or contributed to by the Seller for the benefit of Employees, former employees, and any independent contractors, other than the OMERS Plan and plans required by statute.

(s) "**Environmental Laws**" means all applicable federal, provincial and local laws, by-laws, rules, provincial regulations, regulations published in the Canada Gazette, guidelines, codes and judgments relating to the protection of the environment and public health and safety and without restricting the generality of the foregoing, includes without limitation those Environmental Laws relating to the storage, transportation, treatment and disposal of Hazardous Substances, employee and product safety and the emission, discharge, release or threatened release of Hazardous Substances into the air, surface water, ground water, land surface, subsurface strata or any building or structure and, in each such case, as such Environmental Laws may be amended or supplemented from time to time.

(t) "**ETA**" means the *Excise Tax Act* (R.S.C., 1985, c. E-15) as amended and as in effect on the date hereof.

(u) "**Excluded Assets**" means only the property and assets of the Business identified as Excluded Assets in Schedule "B" attached hereto.

(v) "**Financial Statements**" means the audited financial statements of the Seller with respect to the Business for the fiscal year ended as at December 31, 2022, a copy of which is attached hereto as Schedule "F".

(w) "**HST**" means the federal Harmonized Sales Tax chargeable in accordance with Part IX of the ETA, in respect of supplies made in the province of Ontario.

(x) "**Hazardous Substance(s)**" means any contaminant, pollutant or hazardous substance that is likely to cause immediately, or at some future time harm or degradation to the environment or risk to human health or safety, and without restricting the generality of the foregoing, includes without limitation any pollutant, contaminant, waste, hazardous waste, polychlorinated biphenyls (PCB), toxic substance or dangerous goods which is defined or identified in any federal or provincial statute, codes or regulations or which is present in the environment in such quantity or state that it contravenes any Environmental Laws.

(y) "**IFRS**" means the International Financial Reporting Standards.

(z) "***Income Tax Act***" means the *Income Tax Act* (R.S.C., 1985, c. 1 (5th Supp.)) as amended and as in effect on the date hereof.

(aa) "**Initial Regulatory Accounts Balance**" means the Net Regulatory Accounts value shown in the Financial Statements.

(bb) "**Interim Period**" means the period from the date of execution of this Agreement to the Closing Date.

(cc) "**Land Rights**" has the meaning ascribed to it in Subsection 2.1(c) of this Agreement.

(dd) "**Minister of Finance**" means the Minister of Finance, as that title may be amended, for the Province of Ontario.

(ee) "**Municipality**" has the meaning given to it in the recitals of this Agreement.

(ff) "**Net Regulatory Accounts Balance**" means the aggregate value of the regulatory asset account balances and the regulatory liability account balances of the Seller.

(gg) "**O. Reg. 124/99**" means *O. Reg. 124/99: Transfer Tax on Municipal Electricity Property,* as amended, enacted under the *Electricity Act*.

(hh) "**OEB**" means the Ontario Energy Board.

(ii) "***OEB Act***" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B as amended and as in effect on the date hereof.

(jj) "**OEB Approval**" means collectively the approval of the OEB to the Sale contemplated herein pursuant to the *OEB Act* and the approval of the OEB to the establishment of a deferral and variance account by the Buyer as contemplated in Section 4.17 below.

(kk) "**OMERS Plan**" means the Ontario Municipal Employees Retirement System Primary Pension Plan and retirement compensation arrangement established pursuant to the *Ontario Municipal Employees Retirement System Act, 2006*, S.O. 2006, c.2.

(ll) "**PILs**" means payment in lieu of corporate taxes required to be made under Part VI of the *Electricity Act*.

(mm) "**Purchase Price**" means the amount of $2,295,000 (TWO MILLION, TWO HUNDRED AND NINETY-FIVE THOUSAND DOLLARS) of lawful money of Canada, as set out in Section 2.3 in this Agreement.

(nn) "**Purchased Assets**" has the meaning ascribed thereto in Section 2.1(a).

(oo) "***Registry Act***" means the *Registry Act,* R.S.O. 1990, c. R.20 as amended and as in effect on the date hereof.

(pp) "**Required Approvals**" means the OEB Approval and filing by the Seller to the Ministry of Finance under Subsection 4(1) of O. Reg 124/99 of the *Electricity Act* of notice of the proposed transfer of the Purchased Assets from the Seller to the Buyer.

(qq) "***Retail Sales Tax Act***" means the *Retail Sales Tax Act,* R.S.O. 1990, c. R.31 as amended and as in effect on the date hereof.

(rr) "**Sale**" has the meaning given to it in the recitals of this Agreement.

(ss) "**Schedules**" means the schedules attached hereto and listed in Section 1.8 below.

(tt) "**Shareholder**" means the Corporation of the Township of Chapleau.

(uu) "**Tax**" or "**Taxes**" means the PILs payable pursuant to Section 93 of the *Electricity Act* and all domestic and foreign federal, provincial, municipal, territorial or other taxes, imposts, rates, levies, assessments and government fees, charges or dues lawfully levied, assessed or imposed against the Seller including, without limitation, all income, capital gains, sales, excise, use, property, capital, goods and services, business transfer and value added taxes, all customs and import duties, workers' compensation premiums, Canada Pension Plan premiums, Employment Insurance premiums, and special payments pursuant to Part VI of the *Electricity Act* together with all interest, fines and penalties with respect thereto.

(vv) "**Union**" means the Power Workers' Union – CUPE Local 1000.

(ww) "**Working Capital Level**" means a value equal to those Purchased Assets that are current assets minus those Assumed Liabilities that are current liabilities. For greater certainty, Customer deposits shall be included as an Assumed Liability that is a current liability for the purpose of calculating the Working Capital Level.

1.2 *Construction.* This Agreement has been negotiated by each Party with the benefit of legal representation, and any rule of construction to the effect that any ambiguities are to be resolved against the drafting Party does not apply to the construction or interpretation of this Agreement.

1.3 *Certain Rules of Interpretation.* In this Agreement, unless specified otherwise or the context otherwise requires:

(a) the division into Articles and Sections and the insertion of headings and the Table of Contents are for convenience of reference only and do not affect the construction or interpretation of this Agreement;

(b) the expressions "hereof", "herein", "hereto", "hereunder", "hereby" and similar expressions refer to this Agreement and not to any particular portion of this Agreement;

(c) references to any Article, Section or Schedule are references to the Article or Section of, or Schedule to, this Agreement;

(d) "including" or "includes" means "including (or includes) but is not limited to" and is not to be construed to limit any general statement preceding it to the specific or similar items or matters immediately following it;

(e) "the aggregate of", "the total of", "the sum of", or a phrase of similar meaning means "the aggregate (or total or sum), without duplication, of";

(f) references to Contracts are deemed to include all present amendments, supplements, restatements and replacements to those Contracts as of the date of this Agreement;

(g) references to any legislation, statutory instrument or regulation or a section thereof are references to the legislation, statutory instrument, regulation or section as of the date of this Agreement; and

(h) words in the singular include the plural and vice versa and words in one gender include all genders.

1.4 *Computation of Time.* In this Agreement, unless specified otherwise or the context otherwise requires:

(a) a reference to a period of days is deemed to begin on the first day after the event that started the period and to end at 5:00 p.m. on the last day of the period, but if the last day of the period does not fall on a Business Day, the period ends at 5:00 p.m. on the next succeeding Business Day;

(b) all references to specific dates mean 11:59 p.m. on the dates; and

(c) all references to specific times are references to Toronto time; and with respect to the calculation of any period of time, references to "from" mean "from and excluding" and references to "to" or "until" mean "to and including".

1.5 *Performance on Business Days.* Subject to any express provision to the contrary, if any action is required to be taken pursuant to this Agreement on or by a specified date that is not a Business Day, the action is valid if taken on or by the next succeeding Business Day.

1.6 *Calculation of Interest.* In calculating interest payable under this Agreement for any period of time, the first day of the period is included and the last day is excluded.

1.7 *Currency and Payment.* In this Agreement, unless specified otherwise:

(a) references to dollar amounts or "$" are to Canadian dollars; and

(b) any payment is to be made by an official bank draft drawn on a Canadian chartered bank, wire transfer or any other method (other than cash payment) that provides immediately available funds;

1.8 *Schedules.* The Schedules listed below, which are attached to this Agreement, are incorporated into this Agreement by reference and are deemed to be part hereof:

Schedule "A" – Illustrative Example of Working Capital Level Adjustment
Schedule "B" – Excluded Assets
Schedule "C" – Assumed Liabilities
Schedule "D" – Land Rights
Schedule "E" – Seller's Board and Shareholder Approval of the Sale
Schedule "F" – Seller's Financial Statements
Schedule "G" – Insurance

2.0 PURCHASE AND SALE

2.1

(a) Subject to the terms and conditions herein, and in reliance on the representations, warranties and conditions set forth in this Agreement, the Seller agrees to sell, assign, transfer and deliver to the Buyer and the Buyer agrees to purchase from the Seller on the Closing Date, all right, title and interest in all of the property and assets used in the Business (other than the Excluded Assets), of every kind and description and wherever situated (collectively, the "**Purchased Assets**"), including the following:

(i) all plant, equipment, materials and supplies, including without limitation, single phase line and three phase line together with all associated secondary distribution circuits, poles, supports, conductors, crossarms, anchors and guys, pins, racks, brackets, insulators, clevises, transformers and devices, substations, switches, arrestors, cut-outs, meters and devices, water heaters, meters and other miscellaneous hardware and accessories and administrative and retail assets heretofore owned by the Seller within the Municipality, all of which constitute the Distribution Facilities;

(ii) all unbilled revenue;

(iii) all accounts receivables, bills receivable, book debts and other debts due or accruing due to the Seller and the benefit of all security (including cash deposits), guarantees and other collateral held by the Seller in respect thereof;

(iv) all prepaid expenses and deposits in connection with the Purchased Assets excluding any prepaid insurance premiums or assessments;

(v) all machinery, equipment, tools, supplies, furnishings, automobiles, trucks, handling equipment and accessories of all kinds, together with the benefit of all manufacturers' warranties which relate thereto;

(vi) all the goodwill of the Business;

(vii) the Net Regulatory Accounts Balance as of Closing;

(viii) all Books and Records relating to the Business, stored on any type of media including, without limitation, all inventory and Customer records and lists (containing addresses and phone numbers of such Customers), except that where the Seller is required by law to retain a particular Books and Records, the Seller shall deliver to the Buyer a copy thereof;

(ix) the Assigned Contracts identified in Section 2.2 below; and

(x) the Land Rights.

The Parties agree that the Excluded Assets shall be specifically excluded from the Purchased Assets whether or not they form part of the property and assets of the Business.

(b) Subject to the terms and conditions herein, the Buyer agrees to assume and become liable for the Assumed Liabilities at Closing.

(c) Subject to the terms and conditions herein, the Seller agrees to absolutely sell, assign, transfer and deliver to the Buyer and, in reliance on the representations, warranties and conditions set forth in this Agreement, the Buyer agrees to purchase from the Seller on the Closing Date all rights, interests and privileges in land, including, without limitation, all easements and rights of way and all leases, licences, freehold interests and other rights or interests in land specifically identified in Schedule "D" attached hereto, whether registered or not registered, held and/or enjoyed by the Seller for or in connection with the construction, maintenance, operation, access to or from, or use of the Distribution Facilities and for the operation of the Business (collectively, the "**Land Rights**")The Land Rights are, for the purposes of this Agreement, part of the Purchased Assets.

2.2 Subject to the terms and conditions herein, the Seller agrees to transfer, convey, assign and set over unto the Buyer on the Closing Date the following contracts ("**Assigned Contracts**") and all benefit and advantage to be derived therefrom, and the Buyer may perform, enforce and enjoy the said contracts from and after the Closing Date as fully as the Seller itself could have done but for this Agreement:

(a) all existing contracts for the sale of power to the Customers;

(b) Advanced Metering Infrastructure Sale and Services Agreement between the Seller and Sensus Metering Systems Canada Inc. (assigned from Sensus Metering Systems Inc. effective on or around August 30, 2009), dated July 10, 2009;

(c) Master Services Agreement between the Seller and Workbench Corp., dated May 1, 2023; and

(d) Subscription Services Agreement (Amended and Restated) between the Seller and N. Harris Computer Corporation, dated November 4, 2022.

The Seller shall obtain consents of all requisite parties to the assignment of the Assigned Contracts. For greater certainty, no other contracts and engagements (whether or not there are any contracts in writing in respect thereto) of the Business shall be transferred to or assumed by the Buyer and such other contracts and engagement constitute part of the Excluded Assets. The Buyer may perform, enforce and enjoy the Assigned Contracts from and after Closing as fully as the Seller itself could have done but for this Agreement.

2.3 Subject to this Section 2.3 and Sections 2.4 and 2.6 below, the Purchase Price for the Purchased Assets shall be the sum of $2,295,000 (TWO MILLION, TWO HUNDRED AND NINETY-FIVE THOUSAND DOLLARS) of lawful money of Canada. The Buyer shall pay and satisfy the Purchase Price as follows:

(a) by deposit of the sum of $229,500.00 (TWO HUNDRED AND TWENTY-NINE THOUSAND AND FIVE HUNDRED DOLLARS) by wire transfer to the Shareholder to be transferred contemporaneously with the execution and delivery of this Agreement; the Seller shall cause the Shareholder to hold such deposit in an interest-bearing bank account and to release the deposit and any interest accrued thereon in accordance with the terms and conditions of this Agreement; and

(b) by delivery on Closing by wire transfer the sum of $2,065,500 (TWO MILLION, SIXTY-FIVE THOUSAND AND FIVE HUNDRED DOLLARS), of which an amount equal to $370,000 shall be held by the Seller's solicitors in escrow (the "**Holdback Funds**") in an interest-bearing account and shall be paid pursuant to an escrow agreement to be mutually agreed upon by the Seller, the Seller's solicitors and the Buyer and dated as of the Closing Date. The Parties agree that the Purchase Price has been established based on the Working Capital Level as reflected on the Seller's Financial Statements.

(c) The Seller shall cause its auditors to prepare audited Closing Financial Statements and deliver signed copies to the Buyer within sixty (60) days after Closing. The Parties agree that:

(i) if the Working Capital Level as reflected in the Financial Statements is less than the Working Capital Level as reflected in the Closing Financial Statements, the difference shall be paid by the Buyer to the Seller within thirty (30) days after receipt of the Closing Financial Statements and if the Working Capital Level as reflected in the Financial Statements is greater than the Working Capital Level as reflected in the Closing Financial Statements, the difference shall be paid by the Seller to the Buyer within thirty (30) days after delivery of the Closing Financial Statements to the

Buyer; an illustrative example of the foregoing calculation is included as Schedule "A" attached hereto; in the event of a conflict between the provisions of this Subsection 2.3(c)(i) and the example in Schedule "A" attached hereto, the provisions of this Subsection 2.3(c)(i) shall prevail; and

(ii) if the Initial Regulatory Accounts Balance as reflected in the Financial Statements are less than the Closing Date Regulatory Accounts Balance as reflected in the Closing Financial Statements, the difference shall be paid by the Buyer to the Seller within thirty (30) days after receipt of the Closing Financial Statements and if the Initial Regulatory Accounts Balance as reflected in the Financial Statements are greater than the Closing Date Regulatory Accounts Balance as reflected in the Closing Financial Statements, the difference shall be paid by the Seller to the Buyer within thirty (30) days after delivery of the Closing Financial Statements to the Buyer.

(d) The Parties acknowledge and agree that one or both of the Seller's transformers that form part of the Distribution Facilities with serial numbers C-01297-5-1 and E-690953 located at Chapleau Transmission Station may have to be replaced during the Interim Period. If during the Interim Period the Seller determines that the said transformers need to be replaced with new transformers and to the extent that either (i) the Seller pays a portion of the costs of any such new transformers during the Interim Period or (ii) the costs of any such new transformers are unable to be paid for by the Seller due to lack of available funds and are recorded by the Buyer in a deferral and variance account as permitted and/or required by the OEB, the Buyer shall reimburse the Seller for that portion of the said costs that is recoverable by the Buyer as ordered or approved by the OEB either through the Buyer's rate base or otherwise provided that the Seller provides the Buyer with evidence satisfactory to the Buyer of the purchase of the new transformers and of the costs of the new transformers.

2.4 The Purchase Price shall be allocated among the Purchased Assets on the fair market value basis which approximates the net book value as of Closing of the Purchased Assets listed in Sections 2.1(a)(i) to (viii) inclusive and Section 2.1(a)(x) with the residual difference to be allocated to the goodwill of the Business. The Buyer shall provide the Seller with its HST number.

2.5 The Seller and the Buyer shall jointly execute, and the Buyer shall file following the Closing Date, an election under Section 22 of the *Income Tax Act* (Canada) with respect to the accounts receivables included in the Purchased Assets. Such election shall designate the portion of the Purchase Price allocated to the accounts receivables pursuant to Section 2.4 above as the consideration paid therefor by the Buyer.

2.6 The Buyer and the Seller acknowledge and agree that the Purchase Price does not include any tax imposed under the ETA. The Buyer and the Seller acknowledge and agree that the Buyer is acquiring ownership, possession and use of substantially all of the assets reasonably necessary for the Buyer to carry on the Business and that the sale and purchase of the Purchased Assets shall be completed on the basis that no HST imposed pursuant to the ETA will be payable by the Buyer in respect of the sale and purchase of the Purchased Assets. The Buyer and the Seller shall jointly elect under Subsection 167(1) of the ETA that no tax shall be payable. The Buyer shall prepare the form(s) for such election for review and comment (if any) by the Seller in advance of the Closing. The Buyer agrees to file such election form(s) within the time limits specified under the ETA and as appropriate the Parties shall subsequently amend and re-file the forms to reflect settlement of the adjustments to the Purchase Price as provided in Section 2.3(c) and to provide confirmation of such filing to the Seller on a timely basis. The Seller will do and cause to be done such things as are reasonably requested by the Buyer to enable the Buyer to comply with such obligation in a timely manner. In the event that any HST is imposed on the Seller pursuant to the ETA in respect of the purchase of the Purchased Assets by the Buyer, the Buyer agrees to pay to the Seller, immediately upon demand, such amounts and the Seller agrees to remit on a timely basis such payment to the Canada Revenue Agency, and in such case, the Seller agrees to deliver to the Buyer written evidence of such remittance. The Buyer agrees to be responsible and pay for any applicable interest or penalties payable as a result of any late payment of such HST that is not the result of any unreasonable delay of the Seller in facilitating the joint election contemplated in this Section 2.6.

2.7 The Buyer shall self-assess directly to the Canada Revenue Agency all applicable HST in respect of the sale of the Land Rights pursuant to Subsections 221(2) and 228(4) of the ETA. The Buyer shall be responsible for and pay any and all land transfer taxes imposed pursuant to the *Land Transfer Tax Act*, RSO 1990, c. L.6 payable on the transfer of the Land Rights, all registration fees payable in respect of registration by it of any documents on Closing, but excluding any income taxes payable, if any, by the Seller upon or in connection with the Sale.

2.8 On Closing, the deposit referred to in Section 2.3(a) above, shall be applied on account of the Purchase Price and any and all interest accrued thereon shall be retained by the Seller. If the transactions contemplated in this Agreement do not close due to default by the Seller of any of its obligations, or due to the non-fulfilment or non-performance of any of the conditions set forth in Subsections 5.1(a) to (k) inclusive, the Seller shall cause the Shareholder to refund to the Buyer the deposit referred to in Subsection 2.3(a), together with interest accrued thereon. If the transactions contemplated in this Agreement do not close due to the non-fulfilment or non-performance of any of the conditions set forth in Subsections 5.2(a) and (b), the Seller shall be entitled to retain the deposit referred to in Section 2.3(a) above, together with interest accrued thereon.

3.0 <u>REPRESENTATIONS AND WARRANTIES</u>

3.1 The Seller represents and warrants to the Buyer that:

(a) the Seller has the necessary power, authority and capacity to enter into this Agreement and, in particular to sell the Purchased Assets and to comply with the terms and conditions and perform its obligations herein and a copy of the relevant approval by the Seller's board of directors and the Seller's Shareholder (which Shareholder is the beneficial and registered owner of all of issued and outstanding shares of the Seller) is attached hereto as Schedule "E";

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

(c) the Seller is registered for purposes of Part IX of the ETA and its HST number is 891493322 and such registration is in good standing and has not been revoked;

(d) the Seller is the absolute beneficial and legal owner of the Purchased Assets and every part thereof and presently has good, clear and marketable title thereto, free and clear of any liens, charges, encumbrances or rights of others and is exclusively entitled to and authorized to sell, assign, transfer, and deliver the Purchased Assets unto the Buyer in accordance with the terms and conditions herein;

(e) the Sale of the Purchased Assets is a sale of the Business and in particular the sale of a distribution system in its entirety as referenced in Subsection 86(1) of the *OEB Act*;

(f) no person has any agreement, option, understanding or commitment, or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement, option or commitment, for the purchase or other acquisition from the Seller of the Purchased Assets or any part thereof, or any rights or interest therein;

(g) the Distribution Facilities are in good working order, condition and repair, have been properly and regularly maintained and are free of any structural defect and free from any defect in material and workmanship, are of merchantable quality and fit for the purposes of the Buyer and are in compliance with all applicable laws, statutes and regulations of Ontario and of Canada;

(h) this Agreement constitutes a valid and binding obligation of the Seller enforceable against it in accordance with its terms and conditions, and the Seller is not a party to, bound or affected by or otherwise subject to any indenture, mortgage, lease, charter or by-law provision, agreement or other instrument, or any statute, rule, regulation, judgment or other order which would be violated, contravened or breached by, or under which default would occur as a result of the execution of this Agreement or the compliance with and performance of any of the terms, conditions and covenants contemplated herein;

(i) other than the Required Approvals, no consent, authorization or approval of, or exemption by, any governmental or public body or authority, or by any person, pursuant to statute, contract or otherwise, is required in connection with the execution and performance of this Agreement by the Seller, or any of the covenants or transactions herein referred to, or the taking of any action contemplated herein;

(j) there are no outstanding work orders, non-compliance orders, deficiency notices or other such notices relative to the Purchased Assets or any part thereof which have been received from any regulatory authority, police or fire department, sanitation, environment, labour, health or other governmental authorities or agencies; there are no matters under discussion with any such department or authority relating to work orders, non-compliance orders, deficiency notices or other such notices; and the Purchased Assets are not being operated in a manner which is in contravention of any statute, regulation, rule, code, standard or policy;

(k) there is no suit, action or other legal proceeding or investigation in progress or pending or threatened against, relating to or affecting the Seller in connection with the Purchased Assets or the Business;

(l) the Seller is in compliance with all Environmental Laws, and the Purchased Assets have been operated in compliance with all Environmental Laws;

(m) the property over which the Distribution Facilities are located is not contaminated with any Hazardous Substances and, except for PCBs contained in the electrical transformers which are in service and which form an integral part of and are necessary for the operation of the Distribution Facilities, the Distribution Facilities do not contain any Hazardous Substances;

(n) no properties adjacent to the property over which the Distribution Facilities are located are contaminated with any Hazardous Substances as a result of the Seller's operation of the Business on the property over which the Distribution Facilities are located;

(o) the Seller is the sole owner without encumbrance of all Land Rights, which Land Rights exist in perpetuity for the Distribution Facilities (including administrative and retail assets), are registered and capable of transfer without requirement for consent of any third party and concerning which valid notices of claim have been registered for each instrument under the *Registry Act* and for which the notice period(s) have expired;

(p) *Labour and Employment*. All Employees have been disclosed to the Buyer. All Employees are covered by the Collective Agreement. Except for the Collective Agreement, the Seller is not a party to, nor is it bound by or subject to any agreement with any labour union or employee association and has not made any commitment to or conducted any negotiation or discussion with any labour union or employee association. There is no strike or lockout occurring or affecting, or to the Seller's knowledge threatened against, the Seller. The Seller is in compliance with all applicable laws respecting labour and employment practices and standards, occupational health and safety, human rights, labour relations, pay equity and workers' compensation, and is in compliance with its Collective Agreement obligations. Any grievance(s) filed by the Union pursuant to the Collective Agreement on or prior to Closing will be disclosed to the Buyer however it will be the responsibility of the Seller to resolve said grievance(s), and the Seller shall be solely responsible for any settlement monies owing, or other liabilities incurred in connection therewith;

(q) *Employee Benefits*. All Employee Plans have been disclosed in the Data Room. All contributions and other obligations of the Seller due prior to Closing under the Employee Plans, OMERS Plan and statutory plans have been or will be satisfied in all material respects. All individuals (including Employees, former employees of the Business and their spouses and beneficiaries) who have entitlements to any current or future benefits under the Employee Plans (including any retiree health and welfare benefits) have been disclosed to the Buyer;

(r) Except with the prior written consent of the Buyer during the Interim Period:

    (i) the Business will have been carried on in the normal course of the business, consistent with previous fiscal periods in accordance with Section 4.9 hereof;

(ii) except for the purchase of electrical power and energy from the Independent Electricity System Operator, no expenditures in excess of $10,000 have or will have been made or authorized by the Business except with the consent of the Buyer;

(iii) no payment or other distributions shall have been made or authorized by the Business to the Seller;

(iv) the Seller shall not dismiss any Employee or hire any new employees; and

(v) the Seller shall not negotiate any changes to the Collective Agreement with the Union, or otherwise increase or decrease the compensation, including wages and benefits of any kind, of existing Employees;

(s) The Financial Statements fairly and accurately reflect the financial position, the assets and liabilities of the Business as they existed on December 31, 2022, and the results of the operations of the Business for the twelve-month period ended on the date of the Financial Statements and have been prepared in accordance with IFRS and practices in Canada applied on a basis consistent with the preceding fiscal years;

(t) The Closing Financial Statements will be prepared in accordance with IFRS, applied on a consistent basis with regard to the financial statements of the Seller for its prior fiscal periods and in accordance with this Agreement; and will present fairly the financial position, the assets and liabilities of the Business as at the Closing Date;

(u) Since the date of the balance sheet contained in the Financial Statements, there has not been any material change in the financial position, results of operations, assets, liabilities, and in particular the Purchased Assets and Assumed Liabilities, the business or prospects of the Business or the Seller in relation to the Business other than changes in the ordinary and normal course of business, none of which has been materially adverse;

(v) The Business is not now and at Closing will not be in arrears or in default in respect of the filing of any required federal, provincial or municipal tax or other return; and at each such times (i) all Taxes, filing fees and other assessments due and payable or collectible from the Business shall have been paid or collected, (ii) no claim for additional Taxes, filing fees or other amounts and assessments has been made which has not been paid, and (iii) to the best of the Seller's knowledge, no such return shall have contained any misstatement or concealed any statement that should have been included therein. The Business has withheld and will withhold up to Closing from each payment made to any Employee the amount of all Taxes (including but not limited to income tax) and other deductions required to be withheld therefrom (for Employee Plans, the OMERS Plan, statutory plans or otherwise) and have paid or will pay such amounts to the proper tax, plan administrator or other receiving authority;

(w) The Business is not now and at Closing will not be in default of any contract by which it is bound or under which it is entitled to the benefits of and advantages thereof;

(x) There are currently no monies owing and/or payable and there will be no monies owing and/or payable including, without limitation, any premiums or assessments, to any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, or other legal personal representative or Governmental Agency with respect to any and all contracts and policies for insurance including, without limitation, the MEARIE insurance policy;

(y) *Contracts and Commitments.* The Seller covenants that it has supplied to the Buyer through the Data Room, by posting therein prior to September 28, 2023, as of the Effective Date, true and complete copies of each of the Assigned Contracts, and warrants that (i) the Assigned Contracts which are not expressly listed in Section 2.2 above were entered into in the ordinary of course of the Business; and (ii) the Assigned Contracts are presently and will be on Closing, in good standing and unamended, unless terminated by the Seller as directed by the Buyer;

(z) *Insurance.* The Data Room sets forth all insurance policies of the Business maintained by or for the benefit of the Seller on its Property or personnel, including former personnel (specifying the insurer, the amount of the coverage, the type of insurance, the policy number, the premium allocated to the Seller and the basis of such allocation, and any pending claims thereunder related to the Business);

(aa) *Joint Use.* The Seller has existing joint use agreements for the joint use of its Distribution Facilities with Bell Canada, its Shareholder, Vianet Inc. ("**Vianet**") and O.N. Tel Inc. ("**Ontera**") (collectively, Bell Canada, the Shareholder, Vianet and Ontera hereinafter collectively referred to as the "**Joint Use Partners**") and the Seller has no other joint use agreements with third parties (except it does have a joint use agreement with the Buyer). All existing attachments belonging to the Joint Use Partners and affixed to the Distribution Facilities have been approved by the Seller in accordance with the Seller's requirements as specified in the relevant joint use agreement and any potential future attachments belonging to the Joint Use Partners for which the Joint Use Partners may apply to the Seller during the Interim Period to affix to the Distribution Facilities will only be approved by the Seller if they meet the Seller's requirements as specified in the relevant joint use agreement;

(bb) The Seller is a "municipal electricity utility" as this term is defined in Part VI of the *Electricity Act*; and

(cc) no representation or warranty contained in this Section 3.1 and no statement contained in any certificate or other disclosure document provided or to be provided to the Buyer pursuant hereto, or in connection with the transactions contemplated hereby, contains or will contain any untrue statement of a material fact, or omits or will omit to state any material fact which is necessary in order to make the statements contained therein not misleading.

3.2 The Buyer represents and warrants to the Seller that:

(a) the Buyer is a corporation duly incorporated pursuant to the laws of the Province of Ontario;

(b) the Buyer has all necessary corporate power, authority and capacity to enter into this Agreement and to perform its obligations herein;

(c) this Agreement constitutes a valid and binding obligation of the Buyer enforceable against it in accordance with its terms and conditions, and the Buyer is not a party to, bound or affected by or otherwise subject to any indenture, mortgage, lease, charter or by-law provision, agreement or other instrument, or any statute, rule, regulation, judgment or other order which would be violated, contravened or breached by, or under which default would occur as a result of the execution of this Agreement or the compliance with and performance of any of the terms, conditions and covenants contemplated herein; and

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

3.3 All representations, warranties, covenants and agreements contained in this Agreement on the part of each of the Parties shall survive the Closing, and the execution and delivery of any instruments of conveyance, assignments or other instruments of transfer of title to the Purchased Assets and the payment of the consideration therefor; provided, however, that all representations and warranties contained in Sections 3.1 and 3.2 of this Agreement shall survive only for a period of three (3) years, except the representation and warranty set out in Subsections 3.1 (l), (m), (n) and (x), after which time, if no claims shall, prior to the expiry of that period, have been made by a Party with respect to any incorrectness in or breach of any representation or warranty made by the other Party, such other Party shall have no further liability with respect to that representation or warranty. The representation and warranty set out in Subsection 3.1(x) shall survive forever.

4.0 <u>COVENANTS AND AGREEMENTS</u>

4.1 The Seller covenants and agrees with the Buyer that it has done no act to encumber or charge the Purchased Assets in favour of any person other than the Buyer and the Seller shall on or prior to Closing deliver to the Buyer certificates from all of its secured creditors and effective as at the Closing Date stating that their security interests do not attach to the Purchased Assets.

4.2 The Seller covenants and agrees that from and including the date of this Agreement to and including the Closing Date, the Seller shall:

(a) take all actions within its control to ensure that the representations and warranties in Section 3.1 hereof remain true and correct at the Closing Time, with the same force and effect as if such representations and warranties were made at and as of the Closing Time;

(b) promptly advise the Buyer of any facts that come to its attention which would cause any of the Seller's representations and warranties herein contained to be untrue in any respect; and

(c) not create, incur or assume any mortgage, charge, pledge, security interest, lien, action, claim, demand and equity of any nature whatsoever or howsoever arising and any rights or privileges capable of becoming any of the foregoing, upon the Purchased Assets or any part thereof.

4.3 At the Closing Time, the Seller will deliver to the Buyer good and marketable title to and exclusive possession of the Purchased Assets free and clear of any and all liens, charges and encumbrances or rights of third parties and will execute and deliver to the Buyer a Bill of Sale. In addition, at the Closing Time, the Seller shall deliver to the Buyer all documents (or copies thereof) and other data, technical or otherwise, regardless of format, which are owned by the Seller at the Closing Date, which relate directly to the Business and which are necessary or convenient for the conduct of the Business after the Closing Date.

4.4 The Seller shall, from time to time and at all times hereafter upon the reasonable request of the Buyer, promptly execute and deliver all further and other documents and do or cause to be done all acts and things whatsoever as may be required:

(a) for the better and more perfect conveying and assigning any and everything hereby conveyed or assigned and for the purpose of this Agreement; and

(b) to obtain the Required Approvals.

4.5 Promptly after the date hereof, the Seller shall furnish to the Buyer all information and evidence in its possession relating to the Business, and the Purchased Assets and Assumed Liabilities hereby transferred, conveyed, assigned and set over to the Buyer and shall deliver to the Buyer all documents and data concerned therewith including without limitation in respect of the Employees such as employee performance records. The Seller shall assist the Buyer in every reasonable way to make the said Sale effective so that the Buyer can maintain and operate the Purchased Assets and use same as fully as the Seller itself could have done but for this Agreement.

4.6 The Seller shall read the meters of all Customers as close to the Closing Date as possible and shall bill all such customers for power supplied and any other rents or charges accrued due up to the Closing Date. As of the Closing Date, all these accounts receivables shall be assigned to the Buyer and all payments made by customers to the Seller in respect to the said bills shall be paid to the Buyer bi-monthly after receipt of the said payments. The Seller hereby authorizes Hydro One Inc. or the Buyer to endorse and deposit all cheques and other payment instruments payable to the Seller for any accounts receivable or accounts payable, as the case may be, transferred to the Buyer pursuant to this Agreement and the Seller shall authorize and direct its bank to accept and deposit such cheques and payment instruments in such manner and at such bank as may be directed by Hydro One Inc. or the Buyer.

4.7 As of the Closing Date, but subject to the Buyer's direction to the Seller that the Seller refund certain or all Customer deposits prior to Closing, which direction the Seller shall comply with, the Seller shall transfer and assign to the Buyer, and the Buyer shall acquire and assume from the Seller, all Customer deposits.

4.8 *Labour and Employment Matters.*

(a) Effective as of the Closing, the Buyer shall employ the Employees. The Parties agree that on and after Closing, the Seller shall ensure that the Shareholder shall satisfy the obligation to provide retiree benefits to individuals who are not Employees. Prior to Closing, the Seller shall procure the Shareholder's agreement (which agreement shall be in the form to be provided by the Buyer to the Seller) to provide retiree benefits to individuals entitled to retiree benefits under the Employee Plans who are not Employees, and the Seller shall provide a copy of said agreement to the Buyer on or before Closing. The Buyer shall not have any obligation to offer employment to any Employee not covered by the Collective Agreement and shall not be obligated to engage any independent contractor currently engaged by the Seller.

(b) The Seller shall settle all salaries, commissions, bonuses and other amounts, including without limitation, vacation pay, which may become payable to or receivable by the Employees in respect of service with the Seller prior to the Closing Date.

(c) Prior to Closing, the Buyer and the Seller shall use best efforts to work together to negotiate a letter of understanding (or similar document) with the Union providing that Employees shall participate in the Hydro One Pension Plan from and after Closing in accordance with its terms and conditions applicable to employees represented by the Union and cease to participate in the OMERS Plan. Subject to the Collective Agreement and negotiations with the Union, the Employees shall cease to accrue any further benefits under any of the Employee Plans and the OMERS Plan as of the Closing Time. The Seller shall remain liable for all obligations for benefit claims under the Employee Plans in respect of the Employees incurred prior to the Closing Time.

(d) For purposes of determining the Buyer's obligation to pay amounts under the *Canada Pension Plan* and *Employment Insurance Act, SC 1996, c 23,* the Seller and Buyer confirm that the Buyer is acquiring all or part of the Seller's business, and that it is intended to be a "successor employer" for these purposes.

(e) The Seller shall not engage in any discussions, and shall ensure that its affiliates, including its Shareholder, shall not engage in any discussions, with a view of such affiliates making offers of employment to the Employees, during the Interim Period and for twenty-four (24) months after Closing.

4.9 During the Interim Period, the Seller and the Buyer shall consult about and jointly approve all material acts and decisions in respect of the Business. Subject thereto, the Seller shall cause the Business to be carried on in the normal course of business during the Interim Period. The Seller shall up to Closing maintain in force all insurance presently in force on the Purchased Assets or in respect of the Business, as described in Schedule "G" hereto. Any proceeds of insurance payable in respect of any event which occurs on or prior to the Closing Date shall be received in trust for the Buyer and shall promptly be paid to the Buyer at Closing if the Buyer shall complete the purchase of the Purchased Assets, failing which the Seller shall be absolutely entitled to such proceeds.

4.10 Until the Closing Date and for the purpose of investigating the business and affairs of the Business, the Buyer and its solicitors, accountants, appraisers and other advisers shall, during business hours, have full and complete access to the Business' premises, the Purchased Assets, and the employees and the Seller shall forthwith make available to the Buyer and its authorized employees, agents and advisors in the Data Room copies of all Books and Records relating to the Business. In addition, in order to assist the Buyer with its review of the Closing Financial Statements to determine and verify any adjustment to the Purchase Price in accordance with Subsection 2.3(c), the Seller shall cause its auditors to provide the Buyer with access to the auditor's working papers prepared in connection with the Closing Financial Statements and to the auditor's personnel for purposes of responding to the Buyer's questions, if any. The Buyer agrees that, unless and until the transactions contemplated hereby have been completed, it will hold in strict confidence all information so obtained and if it shall not complete the purchase of the Business on the Closing Date it will forthwith return to the Seller all written information and documents obtained from the Business or the Seller and in its possession.

4.11 Following execution of this Agreement, the Seller shall, at the request of the Buyer, promptly execute consents and cooperate as reasonably necessary to permit the Buyer to conduct its due diligence, including in connection with Books and Records in the control of third parties.

4.12 The Seller covenants not to directly or indirectly carry on the business of an electricity generator, distributor, marketer or aggregator within the Municipality for a period of ten (10) years following Closing.

4.13 The Seller agrees to deliver to the Buyer on the Closing Date a clearance certificate under Section 6 of the *Retail Sales Tax Act*.

4.14 The Seller covenants and agrees to pay pursuant to Section 94 of the *Electricity Act,* prior to Closing, all transfer tax (if applicable) owing in connection with the transfers herein contemplated, and to provide evidence of same to Buyer on Closing.

4.15 The Seller shall assist the Buyer by providing and paying for whatever outside services are needed by the Buyer, including without limitation the retainer, if necessary, of former employees of the Business, in order to assist the Seller's auditors, to deal with final billings and to generally assist the Buyer with the transition period after Closing, for a period of up to forty-five (45) days commencing on Closing. The reasonable costs of said services shall be reflected as an increase in the Purchase Price and shall be paid by the Buyer to the Seller within thirty (30) days after the Buyer's receipt of the Closing Financial Statements.

4.16 The Seller shall as promptly as possible after the execution of this Agreement (but in no event later than sixty (60) days prior to the Closing Date) file or cause to be filed with the Minister of Finance the notice required under Section 4 of O. Reg. 124/99 (or a successor provision thereto). Such notification shall also state that the Purchase Price may be subject to post-Closing adjustments pursuant to Subsection 2.3(c) above. In addition, the Seller shall, where applicable and as promptly as possible after Closing (but in no event later than thirty (30) days after Closing) file or cause to be filed with the Minister of Finance the notice required under Section 7 of O. Reg. 124/99 (or a successor provision thereto).

4.17 *OEB Approval.* Each of the Buyer and the Seller shall as promptly as practicable after the execution of this Agreement (but in no event later than ninety (90) days after the execution of this Agreement), file or cause to be filed with the OEB an application required to be made under Subsection 86(1) of the *OEB Act* in respect of the OEB Approval as it relates to the Sale and OEB approval pursuant to an application made under Section 78 of the *OEB Act* for the establishment of a deferral and variance account by the Buyer to record all costs incurred by the Buyer in obtaining any land rights in respect of the Distribution Facilities from and after Closing that should have been obtained prior to Closing. Each of the Buyer and the Seller shall use their best efforts to cooperate and assist the other, so that the OEB Approval can be obtained as soon as reasonably possible. All the costs and expenses incurred by the Parties in connection with the application for the OEB Approval shall be borne equally by each Party.

4.18 The Seller shall, prior to the Closing Date, test all oil-filled equipment that is part of the Distribution Facilities for PCB content and replace and dispose of any equipment whose PCB content exceeds limits permissible by applicable laws in accordance with all applicable regulations and shall provide evidence of same to the Buyer. If, during the Interim Period, the Seller replaces and disposes of transformers whose PCB content exceeds limits permissible by applicable laws (the "**PCBs-exceeded Transformers**") and installs new transformers to replace the PCBs-exceeded Transformers, then to the extent that the Seller pays for the costs of any such new transformers during the Interim Period and such costs for all such new transformers exceed $100,000 in the aggregate, the Buyer shall reimburse the Seller solely for that portion of the said costs that is recoverable by the Buyer as ordered or approved by the OEB either through the Buyer's rate base or otherwise provided that the Seller provides the Buyer with evidence satisfactory to the Buyer of the purchase, installation and costs of the new transformers.

4.19 The Buyer acknowledges that some Distribution Facilities are located on private property for which there are no valid land rights. Prior to Closing, the Seller shall obtain valid registered easements for said Distribution Facilities which the Buyer, in its sole discretion, deems necessary and in the form of the Buyer's standard easement and the Seller shall provide evidence of same to the Buyer.

4.20 *Joint Use.*

(a) For purposes of existing and future municipal attachments on the Distribution Facilities, the Seller shall, on or before Closing, cause the Shareholder to execute the Buyer's then current form of Agreement for Licensed Occupancy of Power Utility Distribution Poles for municipal attachments to be effective on Closing. The Seller shall provide the Buyer with an inventory of the Shareholder's attachments on the Distribution Facilities, on Closing.

(b) For purposes of existing telecommunications attachments on the Distribution Facilities, the Seller shall, on Closing, provide the Buyer with an inventory of Bell Canada's, Vianet's and Ontera's respective attachments on the Distribution Facilities and with Bell Canada's, Vianet's and Ontera's agreement to document their respective inventory under their respective joint use agreements with the Buyer.

4.21 The Parties agree to comply with the confidentiality terms and conditions contained in the Non-Disclosure Agreement between Hydro One Inc. and the Seller dated April 18, 2023 ("**NDA**") as if the Buyer was an original party to the NDA in the place and stead of Hydro One Inc.

5.0 <u>CONDITIONS PRECEDENT TO CLOSING</u>

5.1 *Conditions Precedent to Buyer's Obligations.*

The obligation of the Buyer to complete the Sale shall be subject to the satisfaction of and/or compliance with, at or before the Closing Time, each of the following conditions precedent and compliance with the covenants in the Agreement:

(a) *Truth and accuracy of representations at Closing Time.* All of the written representations and warranties of the Seller as set forth in Section 3.1 shall be true and correct in all material respects as at the Closing Time and with the same effect as if made at and as of the Closing Time and the Buyer shall have received a certificate from an authorized senior representative of the Seller confirming, to the best of his/her knowledge, information and belief after due inquiries, the truth and correctness in all material respects of the representations and warranties of the Seller;

(b) *Performance of obligations.* The Seller shall have performed and/or complied with, in all respects, all of its obligations, covenants and agreements under this Agreement;

(c) *Receipt of Closing documentation.* All instruments of conveyance (including, without limitation, a general bill of sale conveying the Purchased Assets to the Buyer) and other documentation relating to the Sale reasonably requested by the Buyer, including, without limitation, assignments, deeds, general conveyance documents, consents, certificates (including, without limitation, a certificate of the Seller, dated as of the Closing Date and signed by a senior officer thereof to the effect that during the Interim Period, there has been no material adverse change in the financial condition, results of operations, assets, liabilities, business or prospects of the Business and, in particular, the Purchased Assets and Assumed Liabilities and certificates evidencing successful obtainment of required permits and approvals (whether electrical or otherwise) for the operation of the Distribution Facilities and every part thereof and with respect to the Land Rights and every part thereof), documentation relating to the due authorization and completion of sale and purchase, and all actions and proceedings taken on or prior to the Closing in connection with the performance of the Seller of its obligations under this Agreement, shall be satisfactory to the Buyer and the Buyer's counsel and the Buyer shall have received copies of all documentation or other evidence as it may reasonably request in order to establish the consummation of the transactions contemplated and the taking of all corporate proceedings in connection therewith in compliance with these conditions;

(d) *Consents, authorizations and registrations.* All consents, approvals, orders and authorizations of any persons or governmental authorities in Canada or elsewhere, and all registrations, declarations, filings or records with any authorities, as may be required in connection with the transfer of ownership to the Buyer of the Purchased Assets (including but not limited to any filings or notices to be submitted to the Minister of Finance) and all clearance certificates shall have been obtained or made, as the case may be, by the Seller pursuant to and within the time periods specified in applicable by-laws, statutes and Regulations made thereunder and shall have been received by the Buyer on or before the Closing Time;

(e) *Leave of the OEB.* The Seller has obtained leave of the OEB to sell the Purchased Assets in accordance with Subsection 86(1)(a) of the *OEB Act* and the Buyer has obtained leave of the OEB to establish a deferral and variance account pursuant to Section 78 of the *OEB Act* to record all costs incurred by the Buyer in obtaining any land rights in respect of the Distribution Facilities from and after Closing that should have been obtained prior to Closing;

(f) *Seller Approvals.* The Sale shall have been duly authorized and approved by the board of directors (or equivalent) of the Seller and the Shareholder and a certified copy of the resolutions (or equivalent approval) in respect thereof shall have been provided by the Seller to the Buyer;

(g) *No casualty.* During the Interim Period, no material damage or impairment in value to the Purchased Assets shall have occurred;

(h) *Land Rights.* The Buyer shall have obtained from the Seller, on terms and conditions acceptable to it, Land Rights for the Distribution Facilities located thereon;

(i) *Operations.* During the Interim Period there shall have occurred no material adverse change in the financial condition, results of operations, assets, liabilities, business or prospects of the Business and, in particular, the Purchased Assets and Assumed Liabilities;

(j) *Due Diligence.* The Buyer shall be satisfied in all material respects with the results of its due diligence examination with respect to the Seller, the Purchased Assets, the Assumed Liabilities, the contracts to be transferred to the Buyer and the Business, or the Parties shall have agreed on an adjustment to the Purchase Price as a result of the said examination; and

(k) *Escrow Agreement.* The Parties and the Seller's solicitors shall have executed a mutually agreeable tripartite escrow agreement which shall, at a minimum, include the Buyer's right to have recourse to the Holdback Funds if and to the extent (i) the Seller fails to adjust as provided in section 2.3(c) above, (ii) the Seller fails to register valid easements for the Distribution Facilities in the form of the Buyer's standard easement as required in Section 4.19 above, or (iii) the Buyer's searches as of the Closing Date reveal encumbrances on any of the Purchased Assets.

5.2 *Conditions Precedent to Seller's Obligations.*

The obligation of the Seller to complete the Sale shall be subject to the satisfaction of or compliance with, at or before the Closing Time, each of the following conditions precedent:

(a) *Truth and accuracy of representations at Closing Time.* All of the written representations and warranties of the Buyer as set forth in Section 3.2 shall be true and correct in all material respects as at the Closing Time and with the same effect as if made at and as of the Closing Time; and

(b) *Performance of obligations.* The Buyer shall have performed or complied with, in all respects, all of its obligations, covenants and agreements under this Agreement other than its obligations in Subsection 2.3(d) and Section 4.18.

5.3 *Non-fulfilment of conditions precedent.* In the event that the Seller or the Buyer fails to comply with any condition precedent set out in Section 5.1 and Section 5.2 respectively, required to be complied with or satisfied at or before the Closing and the Buyer or Seller, as the case may be, does not waive that condition or extend the date to which the condition must be met in its sole and absolute discretion, then except for this Section and Section 2.8, this Agreement shall be null and void as at the Closing Time and no Party shall be obligated to perform any of its obligations herein and no Party shall be liable for any penalty or damages as a result thereof. In the event that the OEB refuses to grant approval for the Sale and/or refuses to grant approval for the establishment of a deferral and variance account by the Buyer as contemplated in Section 4.17 above, the Parties acknowledge and agree that, except for this Section and Section 2.8, this Agreement shall be terminated immediately upon the later of the date of the OEB's decision or order denying approval of the Sale and the date of OEB's decision or order denying approval of the deferral and variance account referenced in Section 4.17 above (or in the case of one decision or order denying approval for both or one of the Sale and the deferral and variance account, the date of the said decision or order) and no Party shall be obligated to perform any of its obligations herein and no Party shall be liable for any penalty or damages as a result thereof.

6.0 LIABILITY / INDEMNITY

6.1 The Seller agrees to indemnify and save harmless the Buyer and its successors and assigns, its directors, officers, employees, agents, representatives and subcontractors from and against any claims, demands, actions, causes of action, damage, loss, deficiency, costs, liability and expense which may be made or brought against the Buyer and/or its successors and assigns, its directors, officers, employees, agents, representatives and subcontractors or which the Buyer and/or its successors and assigns, its directors, officers, employees, agents, representatives and subcontractors may suffer or incur as a result of, in respect of or arising out of:

(a) any non-performance or non-fulfilment of any covenant or agreement on the part of the Seller contained in this Agreement or any document given in order to carry out the transactions contemplated hereby; and

(b) any misrepresentation, inaccuracy, incorrectness or breach of any representation or warranty made by the Seller contained in this Agreement or in any document or certificate given in order to carry out the transactions contemplated hereby.

6.2 The obligations of indemnification by the Seller pursuant to the preceding Section 6.1 will be subject to the limitations referred to in Section 3 hereof with respect to the survival of the representations and warranties by the Seller.

6.3 It is understood and agreed between the Parties that, except for the Assumed Liabilities, the Buyer is not assuming and shall not be liable or responsible for and shall not assume any of the liabilities, debts or obligations of the Seller or the Business, whether direct or indirect, absolute or contingent or otherwise (including those existing or accruing at or arising before the Closing Date), whether or not related to the Purchased Assets and/or the Business, including but not limited to (i) all obligations to or in respect of Employees and former employees of the Business, including those on temporary lay-off, existing or accruing on or before the Closing Date or arising as a result of, attributable to or based upon this Sale, including but not limited to statutory obligations, severance packages, transfer, pension, employment or redeployment obligations or vacation pay, all of which are to be paid and satisfied by the Business; (ii) all liabilities in respect of income and other Taxes and governmental charges and assessments, including business transfer tax, together with all interest, fines and penalties with respect thereto; (iii) any and all termination/severance obligations and liabilities; (iv) all obligations and liabilities with respect to the provision of retiree benefits for any former employees of the Business (or their spouses and beneficiaries); (v) obligations and liabilities relating to an Excluded Asset including without limitation, obligations and liabilities accrued or otherwise and that are owing or may become owing to, or that are to be paid or may become payable to, the Customers relating to or in connection with an Excluded Asset, and (vi) all liabilities in respect of which there is outstanding litigation. In addition, the Seller shall pay any and all amounts that may become payable by the Buyer as a result of payments received or to be received by the Seller and/or the Buyer in respect of the de-mutualisation of any of the Seller's insurers. The Seller shall pay, satisfy, assume, discharge, observe, perform, fulfill, release, and indemnify and save harmless the Buyer, its successors and assigns, its directors, officers, employees, representatives and agents from and against any such liabilities, debts and obligations and all costs, expenses, debts, demands, proceedings, suits, actions, losses, or claims in connection therewith.

6.4 Subject to the terms and conditions herein, the Buyer shall indemnify the Seller from and against the Assumed Liabilities.

6.5 It is agreed that the Buyer shall not require the Seller to comply, or to assist the Buyer to comply, with the requirements of the applicable provincial bulk sales legislation as may be applicable to the purchase and sale under this Agreement. Notwithstanding the foregoing, the Seller agrees to indemnify and save harmless the Buyer from and against any claims, demands, actions, causes of action, damage, loss, costs, liability or expense which the Buyer may suffer or be exposed to by virtue of non-compliance provided the Buyer has satisfied the Assumed Liabilities.

7.0 GENERAL

7.1 *Time.* Time shall be of the essence. The Closing shall take place at the Closing Time on the Closing Date at the offices of the Buyer's solicitors located in Toronto, Ontario.

7.2 *Notice.* Any notice or other writing required or permitted to be given under this Agreement or for the purposes of it, to any Party, shall be valid only if delivered in writing in accordance with this Section. The addresses for delivery are:

(a) To the Buyer:

HYDRO ONE NETWORKS INC.
483 Bay Street
South Tower, 8th Floor
Toronto, ON M5G 2P5
Attention: Cassidy McFarlane
General Counsel
Telephone: 416-219-8741
Email: clm@hydroone.com

(b) To the Seller:

CHAPLEAU PUBLIC UTILITIES CORPORATION
110 Lorne Street South
Chapleau, ON P0M 1K0
Attention: Alan Morin
President
Telephone: 705-864-1437
Email: Alan.morin18@gmail.com

Notice sent accordingly shall be deemed to have been delivered and received:

(a) If delivered by hand, upon receipt;

(b) If delivered by email transmission, twenty-four (24) hours after the time of transmission, excluding from the calculation weekends and public holidays;

(c) If delivered by registered mail, six (6) days after the mailing thereof, provided that if there is a postal strike such notice shall be delivered by hand.

The Parties may change their respective addresses and addressees for delivery by delivering notices of such changes as provided above.

7.3 *Non-Assignment.* Neither this Agreement nor any rights, remedies, liabilities or obligations arising under it or by reason of it shall be assignable by either Party without the prior written consent of the other. Subject thereto, this Agreement shall extend to, be binding upon and enure to the benefit of the Parties hereto and their respective successors and permitted assigns.

7.4 *Gender.* Wherever the singular and masculine are used throughout this Agreement, they shall be construed as if the plural or the feminine or the neuter had been used, where the context or the Party or Parties hereto so require, and the rest of the sentence shall be construed as if the grammatical and terminological changes thereby rendered necessary had been made.

7.5 *Non-Merger.* The Parties agree that all provisions of this Agreement other than the conditions in Section 5.0 shall forever survive the execution of and the delivery of this Agreement and any and all documents delivered in connection herewith as well as the Closing.

7.6 *Entire Agreement.* This Agreement, together with the confidentiality terms and conditions referred to in Section 4.21 above, constitutes the entire agreement between the Seller and the Buyer with respect to the matter herein and supersedes all prior oral or written representations and agreements.

7.7 *Amendments.* No amendment, modification or supplement to this Agreement shall be valid or binding unless set out in writing and executed by the Parties with the same degree of formality as the execution of this Agreement.

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

7.9 *Schedules.* The Schedules attached hereto are to be read with and form part of this Agreement.

7.10 *Non-Waiver.* The failure or delay of either Party to exercise any right or require performance of any obligation under this Agreement shall in no way affect the Party's right to exercise or enforce same. No waiver by either Party of any condition, or the breach of any term, provision, warranty, representation, agreement or covenants contained in this Agreement shall be deemed or construed as a further or continuing waiver, or a waiver of any other condition or breach, except an instrument in writing signed by a duly authorized officer of the Party which expressly waives the said condition or breach.

7.11 *Applicable Law.* This Agreement shall be construed and enforced in accordance with, and the rights of the Parties shall be governed by, the laws of the Province of Ontario and the laws of Canada applicable therein.

7.12 *Severability.* If any provision of this Agreement is found by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such provision shall be deemed severed and shall not affect the validity, legality or enforceability of the remaining provisions of this Agreement, unless such invalidity or unenforceability renders the operation of this Agreement impossible.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by the signatures of their proper officers duly authorized in that behalf.

CHAPLEAU PUBLIC UTILITIES CORPORATION

____

Name: Alan Morin
Title: President
I have the authority to bind the corporation.

HYDRO ONE NETWORKS INC.

____

Name: Chris Lopez
Title: EVP, Chief Financial and Regulatory Officer
I have authority to bind the corporation.

any other condition or breach, except an instrument in writing signed by a duly authorized officer of the Party which expressly waives the said condition or breach.

7.11 *Applicable Law.* This Agreement shall be construed and enforced in accordance with, and the rights of the Parties shall be governed by, the laws of the Province of Ontario and the laws of Canada applicable therein.

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IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by the signatures of their proper officers duly authorized in that behalf.

CHAPLEAU PUBLIC UTILITIES CORPORATION

____

Name: Alan Morin
Title: President
I have the authority to bind the corporation.

HYDRO ONE NETWORKS INC.

____

Name: Chris Lopez
Title: EVP, Chief Financial and Regulatory Officer
I have authority to bind the corporation.

Schedule "A"
Illustrative Example of Working Capital Level Adjustment

Illustrative Working
Capital for APA_Final.:

Working Capital Calculation - APA Definition

	Chapleau 2022A FS 31-Dec-22	Illustrative Closing Date Transfer Values	Illustrative Purchase Price Adjustment
Current Assets			
Cash and cash equivalents	n/a	n/a	
Accounts receivable	244,520	175,000	
Unbilled revenue	412,579	260,000	
Short-term investments	n/a	n/a	
Plant materials and supplies	188,985	200,000	
	846,084	**635,000**	
Current Liabilities			
Accounts payable and accrued liabilities	443,316	226,000	
Due to related parties	n/a	n/a	
Payment in lieu of taxes	n/a	n/a	
Customer deposits	13,130	13,130	
	456,446	**239,130**	
Working Capital	**389,638**	**395,870**	6,232

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Financial Position

As at December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 919,815	$ 976,074
Accounts receivable (note 5)	244,520	221,870
Unbilled revenue	412,579	395,346
Short-term investments (note 6)	82,526	100,069
Plant materials and supplies	188,985	106,661
Total current assets	1,848,425	1,800,020
Non-current assets:		
Long-term investments (note 6)	33,664	66,582
Property, plant and equipment (note 7)	1,574,349	1,610,209
Total non-current assets	1,608,013	1,676,791
Total assets	3,456,438	3,476,811
Regulatory deferral account debit balances (note 10)	449,190	381,507
Total assets and regulatory deferral account debit balances	$ 3,905,628	$ 3,858,318

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Financial Position (continued)

As at December 31, 2022, with comparative information for 2021

	2022	2021
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 443,316	$ 551,903
Due to related parties (note 18)	35,582	45,492
Payment in lieu of taxes (note 9)	14,800	8,500
Customer deposits (note 11)	13,130	12,880
Total current liabilities	506,828	618,775
Non-current liabilities:		
Deferred payment in lieu of taxes (note 9)	9,000	6,800
Total non-current liabilities	9,000	6,800
Total liabilities	515,828	625,575
Shareholder's equity:		
Share capital (note 12)	2,884,884	2,884,884
Retained earnings	199,186	66,877
Total shareholder's equity	3,084,070	2,951,761
Total liabilities and shareholder's equity	3,599,898	3,577,336
Regulatory deferral account credit balances (note 10)	305,730	280,982
Commitments and contingencies (note 13)		
Total equity, liabilities and regulatory deferral account credit balances	$ 3,905,628	$ 3,858,318

See accompanying notes to financial statements.

Schedule "B"
Excluded Assets

Cash and Cash equivalent

Short-term investments

Due to related parties

Payment in lieu of taxes

Deferred payment in lieu of taxes

Long-term investments

Land (included in Property, plant and equipment on the Financial Statements) other than Land Rights

Buildings (included in Property, plant and equipment on the Financial Statements)

Employee Plans

All contracts and engagements (whether written or otherwise) to which the Seller is a party other than the Assigned Contracts.

`28

Schedule "C"
Assumed Liabilities

Accounts payable and accrued liabilities
Regulatory deferral account debit and credit balances
Customer deposits

Schedule "D"
Land Rights

i. PIN 730950770
LT 45 RCP 80S CHAPLEAU PT 1, 53R5424; S/T S69542E; CHAPLEAU
Last transferred 11/2/2000 see Instr. S115996

All registered easements acquired by the Seller on or before Closing pursuant to section 4.19 of the Agreement.

Schedule "E"
Seller's Board and Shareholder Approval of the Sale

[Resolutions follow in next 2 pages]

THE CORPORATION OF THE TOWNSHIP OF CHAPLEAU

RESOLUTION 2023-C02

Resolution to Approve the sale by Chapleau Public Utilities Corporation (the "**Corporation**") of substantially all of the Corporation's assets used in the business of distribution to Hydro One Networks Inc. (the "**Transaction**") and approve the execution of the relevant Agreement of Purchase and Sale and all related actions to close the Transaction

WHEREAS the Council of the Corporation of the Township of Chapleau (the "**Township**") is the sole shareholder of Corporation;

AND WHEREAS the Council of the Township received and reviewed the proposed Agreement of Purchase and Sale draft dated November 2, 2023 for the Transaction and wishes to approve the Transaction and the entering into, execution and delivery of the Agreement of Purchase and Sale by the Corporation with Hydro One Networks Inc. ("**Hydro One**") and all agreements and actions necessary to effectuate and close the Transaction;

AND WHEREAS the Transaction is subject to approval by the Ontario Energy Board (the "**OEB**") pursuant to section 86(1) of the *Ontario Energy Board Act, 1998* as amended, and the OEB's requirements for Mergers, Amalgamations, Acquisitions, and Divestitures in the Ontario Electricity Transmission and Distribution Section ("**MAADs**") necessitating an application to the OEB (the "**MAADs Application**").

RESOLVED THAT:

1. Council does hereby approve the Transaction and the entering into, execution and delivery of the proposed Agreement of Purchase and Sale by the Corporation with Hydro One and all agreements and actions necessary to effectuate and close the Transaction, including the preparation and submission of the MAADs Application to the OEB.

Carried

Resolution: 2023-C02
Recorded Vote:

C. Ansara	Yes
L. Bernier	Yes
P. Bernier	Yes
A. Lambruschini	Yes
R. Bignucolo	Yes

CERTIFIED TO BE A TRUE COPY

CLERK

CHAPLEAU PUBLIC UTILITIES CORPORATION (THE "CORPORATION")

RESOLUTION OF THE BOARD OF DIRECTORS

Resolution 2023-66

Resolution to Approve the sale by the Corporation of substantially all of the Corporation's assets used in the business of distributing electricity to consumers within the Township of Chapleau to Hydro One Networks Inc. and approve the execution of the relevant Agreement of Purchase and Sale and all related agreements, instruments, documents and actions to close the Transaction

WHEREAS the Corporation wishes to sell substantially all of the Corporation's assets used in the business of distributing electricity to consumers within the Township of Chapleau (the "**Transaction**");

AND WHEREAS the Board of the Corporation received and reviewed the proposed Agreement of Purchase and Sale draft dated October 30, 2023 for the Transaction and wishes to approve the Transaction and the entering into, execution and delivery of the Agreement of Purchase and Sale by the Corporation with Hydro One Networks Inc. ("**Hydro One**") and all agreements, instruments, documents and actions related to the Transaction (including the lease of the Corporation's service centre post-closing) and/or necessary or desirable to effectuate and close the Transaction;

AND WHEREAS the Transaction is subject to approval by the Ontario Energy Board (the "**OEB**") pursuant to section 86(1) of the *Ontario Energy Board Act, 1998* as amended, and the OEB's requirements for Mergers, Amalgamations, Acquisitions, and Divestitures in the Ontario Electricity Transmission and Distribution Section ("**MAADs**") necessitating an application to the OEB (the "**MAADs Application**").

RESOLVED THAT:

1. The Board does hereby approve the Transaction and the entering into, execution and delivery of the proposed Agreement of Purchase and Sale in substantially the form of the draft dated October 30, 2023 by the Corporation with Hydro One and all agreements, instruments, and documents related to the transaction (including the lease of the Corporation's service centre post-closing) and/or actions necessary or desirable to effectuate and close the Transaction, including the preparation and submission of the MAADs Application to the OEB.
2. The President of the Corporation is hereby authorized and directed to execute the proposed Agreement of Purchase and Sale in substantially the form of the draft dated October 30, 2023, and to do all things, and execute all agreements, instruments and documents related to the Transaction (including the lease of the Corporation's service centre post-closing) and/or necessary or desirable to effectuate and close the Transaction, including without limitation. the MAAD's Application to the OEB.

Carried

Resolution: #
Recorded Vote:

A. Morin	_X__
P. Bernier	_X__
L. Bernier	_X__
Robert Jean	_X__
Jason Rioux	_X__

APPROVED
BY THE BOARD

RESOLUTION # 2023-66
DATED: November 6, 2023
BOARD CHAIR: [signature]

Township of Chapleau
20 Pine Street W. P.O. Box 129
Chapleau, ON P0M 1K0

Tel. (705) 864-1330
Fax (705) 864-1824
www chapleau.ca

Chapleau

November 6, 2023

Hydro One Networks Inc.

Re: Resolution 2023-C02
The Corporation of the Township of Chapleau

Please be advised that this letter acknowledges the following changes to be included in Resolution 2023-C02 for the Corporation of the Township of Chapleau.

1. The words "in the business of distribution" in the first paragraph at the top of the Township Council Resolution #2023-C02 (the "Resolution") before the first recital was an error and should have read "in the business of distributing electricity to consumers within the Township of Chapleau";

2. The reference to the draft of the Agreement of Purchase and Sale dated November 2, 2023 in the second recital of the Resolution was an error and should have read "October 30, 2023", as the draft of the Agreement of Purchase and Sale which the Township council received from Hydro One and reviewed and approved was that dated October 30, 2023;

3. We are of the opinion that Council does not need to pass a new resolution despite the recent changes to the proposed October 30, 2023 draft of the Agreement of Purchase and Sale (which changes we received evening of November 5, 2023 - namely, removing the form of escrow agreement as a schedule thereto and adding the execution of the escrow agreement prior to closing as a condition to closing in favour of Hydro One and the requirement of the Township (rather than the seller's solicitors) to place the deposit in an interest-bearing bank account) as these changes are not substantive.

Yours truly,
TOWNSHIP OF CHAPLEAU

Ryan Bignucolo
Mayor

Judith M. Meyntz, AOMC
Chief Administrative Officer

/jm

Schedule "F"
Seller's Financial Statements

2022-12-31
Chapleau Public Utiliti

Financial Statements of

CHAPLEAU PUBLIC UTILITIES CORPORATION

And Independent Auditor's Report thereon

Year ended December 31, 2022

KPMG LLP
Times Square
1760 Regent Street, Unit 4
Sudbury ON P3E 3Z8
Canada
Tel 705-675-8500
Fax 705-675-7586

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Chapleau Public Utilities Corporation

Opinion

We have audited the financial statements of Chapleau Public Utilities Corporation (the Entity), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of income and comprehensive income for the year then ended
- the statement of changes in 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 results of operations and its cash flows 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 ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's 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 these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's 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 auditor's 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.

KPMG

- 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 auditor's 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 auditor's report. However, future events or conditions may cause the Entity's 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sudbury, Canada

June 13, 2023

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Financial Position

As at December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 919,815	$ 976,074
Accounts receivable (note 5)	244,520	221,870
Unbilled revenue	412,579	395,346
Short-term investments (note 6)	82,526	100,069
Plant materials and supplies	188,985	106,661
Total current assets	1,848,425	1,800,020
Non-current assets:		
Long-term investments (note 6)	33,664	66,582
Property, plant and equipment (note 7)	1,574,349	1,610,209
Total non-current assets	1,608,013	1,676,791
Total assets	3,456,438	3,476,811
Regulatory deferral account debit balances (note 10)	449,190	381,507
Total assets and regulatory deferral account debit balances	$ 3,905,628	$ 3,858,318

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Financial Position (continued)

As at December 31, 2022, with comparative information for 2021

		2022		2021
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	443,316	$	551,903
Due to related parties (note 18)		35,582		45,492
Payment in lieu of taxes (note 9)		14,800		8,500
Customer deposits (note 11)		13,130		12,880
Total current liabilities		506,828		618,775
Non-current liabilities:				
Deferred payment in lieu of taxes (note 9)		9,000		6,800
Total non-current liabilities		9,000		6,800
Total liabilities		515,828		625,575
Shareholder's equity:				
Share capital (note 12)		2,884,884		2,884,884
Retained earnings		199,186		66,877
Total shareholder's equity		3,084,070		2,951,761
Total liabilities and shareholder's equity		3,599,898		3,577,336
Regulatory deferral account credit balances (note 10)		305,730		280,982
Commitments and contingences (note 13)				
Total equity, liabilities and regulatory deferral account credit balances	$	3,905,628	$	3,858,318

See accompanying notes to financial statements.

Approved by the Board:

_______________________________ Director

_______________________________ Director

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Income and Comprehensive Income

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Energy sales (note 14)	$ 2,861,904	$ 2,824,542
Distribution services (note 14)	1,015,427	983,210
	3,877,331	3,807,752
Other operating revenue (notes 14 and 15)	37,998	107,681
Net operating revenue (note 14)	3,915,329	3,915,433
Expenses:		
Energy purchases	2,923,975	2,845,322
Operations and maintenance	183,487	160,938
General and administrative	449,270	449,339
Billing and collection	121,952	122,192
Depreciation and amortization	130,607	127,225
	3,809,291	3,705,016
Income from operating activities	106,038	210,417
Finance income (expense):		
Finance income	12,160	12,698
Finance charges	(11,149)	(10,570)
Other income and deductions	3,786	(29,889)
Unrealized gain (loss) on investments	(22,261)	8,419
Net finance loss	(17,464)	(19,342)
Income for the year before taxes and regulatory items	88,574	191,075
Payment in lieu of taxes (note 9)		
Current income tax	16,000	7,500
Deferred payment in lieu of taxes	2,200	18,800
	18,200	26,300
Net income	70,374	164,775
Net movement in regulatory deferral account balances, net of tax	62,235	20,616
Net income and comprehensive income for the year	$ 132,609	$ 185,391

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Changes in Equity

Year ended December 31, 2022, with comparative information for 2021

		Share Capital		Retained earnings (deficit)		Total
Balance, January 1, 2021	$	2,884,884	$	(118,514)	$	2,766,370
Net income and comprehensive income		-		185,391		185,391
Balance, December 31, 2021		2,884,884		66,877		2,951,761
Net income and comprehensive income		-		132,609		132,609
Refundable taxes paid		-		(300)		(300)
Balance, December 31, 2022	$	2,884,884	$	199,186	$	3,084,070

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Cash Flows

Year ended December 31, 2022, with comparative information for 2021

		2022		2021
Cash flows from operating activities:				
Net income and comprehensive income	$	132,609	$	185,391
Items not involving cash:				
Depreciation and amortization		130,607		127,225
Unrealized loss (gain) on investments		22,261		(8,419)
Deferred payment in lieu of taxes		2,200		18,800
		287,677		322,997
Changes in non-cash working capital:				
Decrease (increase) in accounts receivables		(22,650)		204,237
Decrease (increase) in plant materials and supplies		(82,324)		1,714
Decrease (increase) in unbilled revenue		(17,233)		30,059
Increase (decrease) in accounts payable and accrued liabilities		(108,587)		419
Increase in payment in lieu of taxes		6,300		8,500
Decrease (increase) in regulatory deferral account balances		(42,935)		25,468
Decrease in deferred revenue		-		(83,776)
Increase (decrease) in customer deposits		250		(2,350)
Net cash from operating activities		20,498		507,268
Cash flows from financing activities:				
Decrease in advances from related company		(9,910)		(3,780)
Refundable taxes paid		(300)		-
Net cash from financing activities		(10,210)		(3,780)
Cash flows from investing activities:				
Purchase of investments		(48,800)		(99,900)
Proceeds on sale of investments		77,000		82,688
Purchase of property, plant and equipment		(94,747)		(150,306)
		(66,547)		(167,518)
Increase (decrease) in cash		(56,259)		335,970
Cash, beginning of year		976,074		640,104
Cash, end of year	$	919,815	$	976,074

See accompanying notes to financial statements.

1. Reporting entity:

Chapleau Public Utilities Corporation (the "Corporation") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the Township of Chapleau. The address of the Corporation's registered office is 110 Lorne Street, Chapleau, Ontario.

The Corporation delivers electricity and related energy services to residential and commercial customers in the Township of Chapleau. The Corporation is wholly owned by the Corporation of the Township of Chapleau.

The financial statements are for the Corporation as at and for the year ended December 31, 2022.

2. Basis of presentation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on June 13, 2023.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for the following:

(i) Where held, financial instruments designated to be measured at fair value through profit or loss, including those held for trading, are measured at fair value.

(ii) Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 19.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars.

2. Basis of presentation (continued):

(d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

(i) Note 7 - Property, plant and equipment
(ii) Note 13 - Commitments and contingencies

(e) Rate regulation:

The Corporation is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Corporation, which may include, amongst other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

Rate setting:

i) COVID-19 pandemic considerations:

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. The COVID-19 pandemic has had, and as at the date of the Consolidated Financial Statements continues to have, a significant impact on the Corporation.

On January 7, 2022, the Ontario Government announced further targeted relief measures setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.2 cents per kWh, 24 hours a day, seven days a week, effective January 18, 2022 until February 7, 2022.

There was no impact to the net income to the Corporation as a result of these changes.

2. Basis of presentation (continued):

(e) Rate regulation (continued):

Rate setting (continued):

ii) Distribution revenue:

For the distribution revenue included in electricity sales, the Corporation typically files a Cost of Service (COS) rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenses, debt and shareholder's equity required to support the Corporation's business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and the intervenors and rates are approved based upon this review, including any revisions resulting from that review. In the intervening years an Incentive Rate Mechanism application (IRM) is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand (GDP IPI-FDD) net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

The Corporation filed an IRM application in 2021 for distribution rates effective as of May 1, 2022. The OEB approved the application on March 24, 2022.

iii) Electricity rates:

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up. This rate setting pattern differed in the current and prior periods as a result of the COVID-19 pandemic as discussed in note 2 (e) i).

3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

(a) Financial instruments:

Financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured in a manner consistent with their classification less any impairment as described in note 3(h).

The Corporation does not enter into derivative contracts.

Hedge accounting has not been used in the preparation of these financial statements.

i) Classification:

On initial recognition, a financial asset is classified and measured at: amortized cost, FVTPL or FVOCI.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

On initial recognition of an equity investment that is not held for trading, the Corporation may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified and measured at FVTPL.

In addition, on initial recognition, the Corporation may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3. Significant accounting policies:

(a) Financial instruments (continued):

i) Classification (continued):

Business model assessment

The Corporation makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Corporation's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Corporation's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Corporation considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Corporation considers:

3. Significant accounting policies:

(a) Financial instruments (continued):

i) Classification (continued):

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Corporation's claim to cash flows from specified assets (e.g. nonrecourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Corporation changes its business model for managing financial assets. There were no changes to any of the Corporation's business models related to previously designated assets for the years ended December 31, 2022 and December 31, 2021.

The classifications effective January 1, 2022 are noted below:

Financial asset/liability	Classification
Cash	Amortized cost
Accounts receivable and unbilled revenue	Amortized cost
Investments	FVTPL
Accounts payable and accrued liabilities	Amortized cost

ii) Derecognition of financial instruments:

Financial assets

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Corporation neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognized in profit or loss.

Financial liabilities

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

3. Significant accounting policies (continued):

(b) Revenue recognition:

Electricity sales:

Electricity sales are recognized as the electricity is delivered to customers and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution, and any other regulatory charges. Electricity revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation.

Rendering of services:

Revenue earned from the provision of services is recognized as the service is rendered.

Conservation programs:

Incentive payments to which the Corporation is entitled from the Independent Electricity Systems Operation ("IESO") are recognized as revenue in the period when they are determined by the IESO and the amount is communicated to the Corporation.

(c) Dividends:

Dividends are recognized as revenue when the Corporation has a right to receive the dividend and are included within finance income.

(d) Inventory:

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

(e) Investments:

Short-term investments include securities and other investments with maturities of three months or less. Long-term investments include debentures and other investments with maturities greater than three months.

(f) Property, plant and equipment:

All items of property, plant and equipment are measured at cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation.

3. Significant accounting policies (continued):

(f) Property, plant and equipment (continued):

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

When 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.

Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of property, plant and equipment and, other income and are recognized within the statement of income and comprehensive income.

Major spare parts and standby equipment are recognized as items of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of property, plant and equipment is written off, and the related gain or loss is included in other income. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is calculated over the depreciable amount and is recognized in income on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. The depreciable amount is cost. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	25 years
Transmission and distribution systems	40 – 50 years
Meters	14 years
Transportation equipment	14 years
Equipment	5 years

Depreciation is taken at 50% of the above rates in the year of acquisition.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

3. Significant accounting policies (continued):

(g) Intangible assets:

(i) Computer software:

Computer software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses

(ii) Amortization:

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives are:

Computer software	55%

Amortization is taken at 50% of the above rates in the year of acquisition.

Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate.

(h) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its current carrying amount (using prevailing interest rates), and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

3. Significant accounting policies (continued):

(h) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are 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 if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. For assets other than goodwill, impairment recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3. Significant accounting policies (continued):

(j) Regulatory balances:

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. The Corporation adopted IFRS 14 in 2015.

The Corporation has determined that certain asset and liability balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electricity Distributors. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory asset and liability balances on the Corporation's balance sheets, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB.

Regulatory deferral account asset balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account liability balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account asset balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The asset balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

Regulatory deferral account liability balances are recognized if it is probable that future billings in an amount at least equal to the liability balance will be reduced as a result of rate-making activities. The offsetting amount is recognized in profit and loss. The liability balance is reduced by the amounts returned to customers as electricity is delivered to the customer at rates approved by the OEB for the return of the regulatory account liability balance.

3. Significant accounting policies (continued):

(j) Regulatory balances (continued):

The probability of recovery or repayment of the regulatory account balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover or repay the balance. Any resulting impairment loss is recognized in profit and loss in the year incurred.

Regulatory deferral accounts attract interest at OEB prescribed rates. In 2022, the interest rate was 0.57% for the first quarter, 1.02% for the second quarter, 2.20% for the third quarter and 3.87% for the fourth quarter. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, the balances are recorded in the Corporation's statement of income and comprehensive income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the statement of financial position as regulatory deferral account debit/credit balances and on the statement of income and comprehensive income as net movements in regulatory balances, net of tax. The netting of regulatory debit and credit balances is not permitted.

The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

(k) Employee future benefits:

Pension plan:

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

3. Significant accounting policies (continued):

(l) Finance income and finance costs:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and short-term investments and on regulatory assets and dividend payments.

Finance charges comprise interest expense on borrowings and regulatory liabilities. Finance costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

(m) Payment in lieu of taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income or equity, in which case, it is recognized in other comprehensive income or equity, respectively.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

3. Significant accounting policies (continued):

(n) Leased assets:

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

i) The contract involves the use of an identified asset;

ii) The Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

iii) The Corporation has the right to direct the use of the asset. The Corporation has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Corporation has the right to direct the use of the asset if either:

a) The Corporation has the right to operate the asset; or

b) The Corporation designed the asset in a way that predetermines how and for what purposes it will be used.

Short-term leases and low value assets

The Corporation has elected not to recognize right-of-use assets and related lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(o) Future changes in accounting policy:

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2023 and earlier application is permitted; however, the Corporation has not early adopted them in preparing these financial statements. The following amended standards are not expected to have a significant impact on the Corporations financial statements:

- Deferred tax related to assets and liabilities arising from a single transaction
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 1)

4. Cash and cash equivalents:

Cash consists of overnight deposits at a Canadian chartered bank and high interest savings accounts that are redeemable the next day.

5. Accounts receivable:

	2022	2021
Trade receivables	$ 243,191	$ 233,109
IESO receivables	16,188	7,005
Billable work	2,424	3,470
	261,803	243,584
Less: allowance for doubtful accounts	(17,283)	(21,714)
	$ 244,520	$ 221,870

6. Investments:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Equity securities	$ 101,700	$ 82,526	$ 99,900	$ 100,069
Provincial government debentures	34,781	33,664	64,569	66,582
	136,481	116,190	164,469	166,651
Less: short-term	(101,700)	(82,526)	(99,900)	(100,069)
Long-term investments	$ 34,781	$ 33,664	$ 64,559	$ 66,582

7. Property, plant and equipment:

Cost:

	Land	Transmission and distribution systems	Meters	Buildings	Equipment	Transportation equipment	Total
Balance, January 1, 2021	$ 30,141	$ 1,131,500	$ 343,985	$ 135,085	$ 81,485	$ 556,141	$ 2,278,337
Additions	-	133,628	4,250	4,380	2,628	5,420	150,306
Balance, December 31, 2021	30,141	1,265,128	348,235	139,465	84,113	561,561	2,428,643
Additions	-	66,181	1,362	12,794	14,410	-	94,747
Balance, December 31, 2022	$ 30,141	$ 1,331,309	$ 349,597	$ 152,259	$ 98,523	$ 561,561	$ 2,523,390

Accumulated depreciation:

	Land	Transmission and distribution systems	Meters	Buildings	Equipment	Transportation equipment	Total
Balance, January 1, 2021	$ -	$ 166,179	$ 153,166	$ 96,512	$ 74,029	$ 201,323	$ 691,209
Depreciation charges	-	54,691	31,438	5,491	3,476	32,129	127,225
Balance, December 31, 2021	-	220,870	184,604	102,003	77,505	233,452	818,434
Depreciation charges	-	56,861	31,634	5,838	3,956	32,318	130,607
Balance, December 31, 2022	$ -	$ 277,731	$ 216,238	$ 107,841	$ 81,461	$ 265,770	$ 949,041

Carrying amounts:

	Land	Transmission and distribution systems	Meters	Buildings	Equipment	Transportation equipment	Total
At December 31, 2021	$ 30,141	$ 1,044,258	$ 163,631	$ 37,462	$ 6,608	$ 328,109	$ 1,610,209
At December 31, 2022	30,141	1,053,578	133,359	44,418	17,062	295,791	1,574,349

8. Intangible assets:

(a) Cost:

	Computer software
Balance at January 1, 2021	$ 188,462
Additions	–
Balance at December 31, 2021 and December 31, 2022	$ 188,462

(b) Accumulated amortization:

	Computer software
Balance at January 1, 2021	$ 188,462
Additions	–
Balance at December 31, 2021 and December 31, 2022	$ 188,462

(c) Carrying amounts:

	Computer software
At December 31, 2021 and December 31, 2022	$ –

9. Payment in lieu of income taxes (PILS):

PIL's varies the amounts which would be computed applying the Corporation's combined statutory tax rate. The following is a reconciliation of the effective tax rate:

	2022	2021
Net income excluding payments in lieu for the period	$ 150,809	$ 211,691
Income tax using the Corporation's statutory tax rate	18,000	26,000
Other	200	300
	$ 18,200	$ 26,300

All deferred tax liabilities are expected to be settled after 12 months. The tax effect of temporary differences that give rise to deferred tax liabilities are as follows:

	Plant and equipment	Regulatory adjustment	Total
Balance, January 1, 2022	$ 5,500	$ (12,300)	$ (6,800)
Change in deferred tax balance	3,000	(5,200)	(2,200)
Balance, December 31, 2022	$ 8,500	$ (17,500)	$ (9,000)

10. Regulatory deferral account balances:

The following is a reconciliation of the carrying amount for each class of regulatory deferral account balances:

	January 1, 2022	Balances arising in the period	Recovery/ reversal	December 31, 2022
Regulatory deferral account debit balances				
Retail settlement variances	$ 81,763	$ 61,954	$ (36,024)	$ 107,693
Regulatory variances disposition	212,073	41,082	671	253,826
Other regulatory accounts	87,671	–	–	87,671
Total amount related to regulatory deferral account debit balances	$ 381,507	$ 103,036	$ (35,353)	$ 449,190

10. Regulatory deferral account balances (continued):

	January 1, 2022	Balances arising in the period	Recovery/ reversal	December 31, 2022
Regulatory deferral account credit balances				
Retail settlement variances	$ 26,851	$ 4,944	$ (1,227)	$ 30,568
Regulatory variances disposition	204,330	–	21,031	225,361
Other regulatory accounts	49,801	–	–	49,801
Total amount related to regulatory deferral account debit balances	$ 280,982	$ 4,944	$ 19,804	$ 305,730

	January 1, 2021	Balances arising in the period	Recovery/ reversal	December 31, 2021
Regulatory deferral account debit balances				
Retail settlement variances	$ 69,241	$ –	$ 12,522	$ 81,763
Regulatory variances disposition	202,159	–	9,914	212,073
Other regulatory accounts	87,671	–	–	87,671
Total amount related to regulatory deferral account debit balances	$ 359,071	$ –	$ 22,436	$ 381,507

	January 1, 2021	Balances arising in the period	Recovery/ reversal	December 31, 2021
Regulatory deferral account credit balances				
Retail settlement variances	$ 35,611	$ 1,182	$ (9,942)	$ 26,851
Regulatory variances disposition	147,666	–	56,664	204,330
Other regulatory accounts	49,801	–	–	49,801
Total amount related to regulatory deferral account debit balances	$ 233,078	$ 1,182	$ 46,722	$ 280,982

For certain regulatory asset and liabilities identified above, the expected recovery or settlement period, or likelihood of recovery or settlement is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. The Corporation continually assesses the likelihood of recovery of each of its regulatory assets and refunds of each of its regulatory liabilities and continues to believe that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the Corporation determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

11. Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers and retailers.

Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

12. Share capital:

	2022	2021
Authorized:		
Unlimited number of common shares		
Unlimited number of Class B special shares		
Issued:		
1,121,529 common shares	$ 1,442,442	$ 1,442,442
1,121,529 Class B special shares	1,442,442	1,442,442
	$ 2,884,884	$ 2,884,884

13. Commitments and contingencies:

General:

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2022, no assessments have been made.

14. Revenues:

The following table disaggregates revenues by type of customer:

		2022		2021
Revenue from contracts with customers:				
Energy sales:				
Residential service	$	1,545,013	$	1,460,094
General service		719,268		846,053
Other		597,623		518,395
		2,861,904		2,824,542
Distribution revenue:				
Residential service		578,319		569,482
General service		126,490		113,748
Other		310,618		299,980
		1,015,427		983,210
Revenue from other sources:				
Other charges		37,998		107,681
	$	3,915,329	$	3,915,433

15. Other operating revenue:

Other operating revenue comprises:

		2022		2021
Rendering of services	$	32,813	$	102,515
Late payment charges		5,185		5,166
Total other operating revenue	$	37,998	$	107,681

16. Pension agreement:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2022, the Corporation made employer contributions of $33,563 to OMERS (2021 - $25,211).

17. Salaries and employee benefits:

		2022		2021
Salaries, wages and benefits	$	389,583	$	357,478
CPP and EI remittances		22,024		19,375
Contributions to OMERS		33,563		25,211
	$	445,170	$	402,064

18. Related party transactions:

(a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is the Corporation of the Township of Chapleau ("Township"). Chapleau Public Utilities Corporation is a wholly-owned subsidiary of the Township. The Township produces financial statements that are available for public use.

(b) Key management personnel:

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members, and is summarized below:

		2022		2021
Directors' fees	$	21,808	$	14,200
Salaries and other short-term benefits		103,588		157,103
	$	125,396	$	171,303

(c) Transactions with the Township of Chapleau:

The Corporation delivers electricity to the Township throughout the year for the electricity needs of the Township and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB.

The Corporation billed the Township $305,148 (2021 - $346,331) for power purchased. Included accounts receivable and unbilled revenue is $41,118 (2021 - $37,872) relative to power purchased as of December 31, 2022.

The Corporation provided labour services to the Township amounting to $4,424 (2021 - $11,504).

Due to related parties represents a non-interest-bearing amount due to the Township with no specified terms of repayment. The balance due to the Township is $35,582 (2021 - $45,492).

19. Financial instruments and risk management:

Fair value disclosure

Cash and short-term investments are measured at fair value. The carrying values of receivables, and accounts payable and accrued charges approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

Financial risks

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the Township of Chapleau. No single customer accounts for a balance in excess of 4% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously provisioned are credited to net income. The balance of the allowance for impairment at December 31, 2022 is $17,283 (2021 - $21,714). An impairment loss of $Nil (2021 - $Nil) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2022, approximately $15,081 (2021 - $11,917) is considered 60 days past due. The Corporation has over 1,233 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2022, the Corporation holds security deposits in the amount of $13,130 (2021 - $12,880).

(b) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk.

19. Financial instruments and risk management (continued):

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

The Corporation is required to provide security to the IESO to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by default notice issued by the IESO. At December 31, 2022, no amounts have been drawn on this letter of credit in the amount of $209,813 (2021 - $209,813).

The majority of accounts payable, as reported on the statement of financial position, are due within 30 days.

(d) Capital disclosures:

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity. As at December 31, 2022, shareholder's equity amounts to $3,084,070 (2021 - $2,951,761).

20. Comparative information:

Certain 2021 comparative information has been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

<u>Schedule "G"</u>
<u>Insurance</u>

CPUC Insurance.zip

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HYDRO ONE NETWORKS INC.

DISTRIBUTION BUSINESS

FINANCIAL STATEMENTS

DECEMBER 31, 2021

To the Directors of Hydro One Networks Inc.

Opinion

We have audited the carve-out financial statements of the Distribution Business (a business of Hydro One Networks Inc.) (the "Entity"), which comprise:

- the carve out balance sheet as at December 31, 2021
- the carve out statement of operations and comprehensive income for the year then ended
- the carve out statement of cash flows for the year then ended
- and notes to the carve-out financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements as at and for the year ended December 31, 2021 of the Entity are prepared, in all material respects, in accordance with the financial reporting framework described in Note 2 of these financial statements.

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.

Emphasis of Matter - Basis of Accounting and Basis of Preparation

We draw attention to Note 2 in the financial statements which describes the basis of accounting and basis of preparation used in these financial statements and the purpose of the financial statements.

As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation of the financial statements in accordance with the financial reporting framework described in Note 2 in the financial statements; this includes determining that the applicable financial reporting framework is an acceptable basis for the preparation of the financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
April 14, 2022

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2021 and 2020

Year ended December 31 *(millions of Canadian dollars)*	**2021**	**2020**
Revenues		
Energy sales	4,946	5,109
Rural rate protection *(Note 25)*	245	242
Other	49	35
	5,240	5,386
Costs		
Purchased power (includes $2,208 related party costs; 2020 - $2,461) *(Note 25)*	3,531	3,796
Operation, maintenance and administration *(Note 25)*	595	571
Depreciation, amortization and asset removal costs *(Note 5)*	426	417
	4,552	4,784
Income before financing charges and income tax expense	**688**	**602**
Financing charges *(Notes 6, 25)*	184	188
Income before income tax expense	**504**	**414**
Income tax expense (recovery) *(Note 7)*	91	(1)
Net income	**413**	**415**
Other comprehensive gain (loss) *(Note 19)*	1	(6)
Comprehensive income	**414**	**409**

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
BALANCE SHEETS
At December 31, 2021 and 2020

As at December 31 *(millions of Canadian dollars)*	**2021**	**2020**
Assets		
Current assets:		
Inter-company demand facility *(Note 25)*	—	107
Accounts receivable *(Note 8)*	630	604
Due from related parties *(Note 25)*	121	183
Other current assets *(Note 9)*	99	46
	850	940
Property, plant and equipment *(Note 10)*	8,571	8,092
Other long-term assets:		
Regulatory assets *(Note 12)*	932	922
Intangible assets *(Note 11)*	380	342
Goodwill *(Note 4)*	217	168
Other assets *(Note 13)*	29	34
	1,558	1,466
Total assets	**10,979**	**10,498**
Liabilities		
Current liabilities:		
Inter-company demand facility *(Note 25)*	70	—
Long-term debt payable within one year *(Notes 16, 17, 25)*	261	250
Accounts payable and other current liabilities *(Note 14)*	731	736
Due to related parties *(Note 25)*	266	321
	1,328	1,307
Long-term liabilities:		
Long-term debt *(Notes 16, 17, 25)*	4,716	4,500
Deferred income tax liabilities *(Note 7)*	736	668
Regulatory liabilities *(Note 12)*	226	169
Other long-term liabilities *(Note 15)*	1,080	1,084
	6,758	6,421
Total liabilities	**8,086**	**7,728**
Contingencies and Commitments *(Notes 27, 28)*		
Subsequent Events *(Note 29)*		
Excess of assets over liabilities *(Notes 18, 23)*	2,893	2,770
Total liabilities and excess of assets over liabilities	**10,979**	**10,498**

See accompanying notes to Financial Statements.

On behalf of the Board of Directors:

Russel Robertson
Chair, Audit Committee

Mark Poweska
Director

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2021 and 2020

Year ended December 31 *(millions of Canadian dollars)*	**2021**	**2020**
Operating activities		
Net income	413	415
Environmental expenditures	(15)	(14)
Adjustments for non-cash items:		
Depreciation and amortization *(Note 5)*	366	356
Regulatory assets and liabilities	(25)	126
Deferred income tax expense (recovery)	1	(92)
Other	(10)	27
Changes in non-cash balances related to operations *(Note 26)*	70	42
Net cash from operating activities	**800**	**860**
Financing activities		
Long-term debt issued	450	667
Long-term debt repaid	(250)	(150)
Payments to finance dividends and return on stated capital	(279)	(274)
Other	(2)	(3)
Net cash from (used in) financing activities	**(81)**	**240**
Investing activities		
Capital expenditures *(Note 26)*		
Property, plant and equipment	(673)	(614)
Intangible assets	(81)	(70)
Capital contributions paid *(Note 25)*	(14)	—
Acquisition *(Note 4)*	(128)	—
Other	—	(6)
Net cash used in investing activities	**(896)**	**(690)**
Net change in inter-company demand facility	(177)	410
Inter-company demand facility, beginning of year	107	(303)
Inter-company demand facility, end of year	**(70)**	**107**

See accompanying notes to Financial Statements.

1. DESCRIPTION OF THE BUSINESS

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 Inc. (Hydro One). The Company owns and operates regulated transmission and distribution businesses. The Company's regulated distribution business (Distribution Business) operates a low-voltage electrical distribution network that distributes electricity from the transmission system, or directly from generators, to customers within Ontario. The Distribution Business is regulated by the Ontario Energy Board (OEB).

Rate Setting

In March 2017, Hydro One Networks filed an application with the OEB for 2018-2022 distribution rates. On March 7, 2019, the OEB rendered its decision on the distribution rates application. In accordance with the OEB decision, the Company filed its draft rate order reflecting updated revenue requirements of $1,459 million for 2018, $1,498 million for 2019, $1,532 million for 2020, $1,578 million for 2021, and $1,624 million for 2022. On June 11, 2019, the OEB approved the rate order confirming these updated revenue requirements.

On March 7, 2019, the OEB issued its reconsideration decision (DTA Decision) with respect to Hydro One's rate-setting treatment of the benefits of the deferred tax asset (DTA) resulting from the transition from the payments in lieu of tax regime to tax payments under the federal and provincial tax regimes. On July 16, 2020, the Ontario Divisional Court rendered its decision (ODC Decision) on the Company's appeal of the OEB's DTA Decision. On April 8, 2021, the OEB rendered its decision and order regarding the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period (DTA Implementation Decision). See Note 12 - Regulatory Assets and Liabilities for additional details.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These Financial Statements are prepared and presented in accordance with the accounting policies summarized below and in Canadian dollars. These policies are consistent with United States (US) Generally Accepted Accounting Principles (GAAP), with the exception that business combinations of entities under common control have been accounted for as of the date of the transfer, such that (1) the Financial Statements were not prepared as though the transfer of entities under common control had occurred at the beginning of the year in which the transfer occurred and (2) the comparative year information has not been retrospectively adjusted.

The purpose of these Financial Statements is to meet Hydro One Networks' obligation to the OEB. As a result, these Financial Statements may not be suitable for another purpose. Consolidated financial statements of Hydro One for the year ended December 31, 2021 have been prepared and are publicly available.

Basis of Preparation

These Financial Statements have been prepared on a carve-out basis to provide the financial position, results of operations and cash flows of the Distribution Business. The Financial Statements are considered by management to be a reasonable representation, prepared on a rational, systematic and consistent basis, of the financial results of the Distribution Business. As a result of this basis of preparation, these Financial Statements may not necessarily be identical to the financial position and results of operations that would have resulted had the Distribution Business historically operated on a stand-alone basis.

The Financial Statements have been constructed primarily through specific identification of assets, liabilities (other than debt), revenues and expenses that relate to the Distribution Business. The Company’s long-term debt is allocated based on the respective borrowing requirements of the Company’s transmission and distribution businesses. A portion of the Company’s shared functions and services costs is allocated to the Distribution Business on a fully allocated-cost basis, consistent with OEB-approved independent studies. Income tax expense has been recorded at effective rates based on income taxes as reported in the statements of operations and comprehensive income as though the Distribution Business was a separate taxpaying entity. These Financial Statements include deferred taxes and related regulatory balances with respect to the rate-setting treatment of the benefits of the deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act, 1998* (Ontario) to tax payments under the federal and provincial tax regime which occurred when Hydro One Limited became a public company listed on the Toronto Stock Exchange. Certain other amounts presented in these Financial Statements represent allocations subject to review and approval by the OEB.

Hydro One Networks performed an evaluation of subsequent events through to April 13, 2022, 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 29 - 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, and unbilled revenues. Actual results may differ significantly from these estimates.

Since late March 2020, the impact of the COVID-19 pandemic (COVID-19 or the pandemic) has been reflected in the Financial Statements. The Company 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, 2021 and has determined that there was no material impact. Additional details regarding the impact of the pandemic on the Financial Statements are available in Note 8 - Accounts Receivable and Note 12 - Regulatory Assets and Liabilities.

As the duration of the pandemic remains uncertain, the Company continues to assess its impact to the Distribution Business' financial results and operations.

Regulatory Accounting

The OEB has the general power to include or exclude revenues, costs, gains or losses in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Distribution Business' regulatory assets represent certain amounts receivable from future electricity customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Distribution Business has recorded regulatory liabilities that generally represent amounts that are refundable to electricity customers in future rates. The Distribution Business continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will include its regulatory assets and liabilities in setting future rates. If, at some future date, the Distribution Business judges that it is no longer probable that the OEB will include a regulatory asset or liability in setting future rates, the appropriate carrying amount would be reflected in results of operations prospectively from the date the assessment is made, unless the change meets the requirements for a subsequent event adjustment.

Revenue Recognition

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. At the end of each month, electricity delivered to customers since the date of the last billed meter reading is estimated, and the corresponding unbilled revenue is recorded. 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, net of allowance for doubtful accounts. Overdue amounts related to regulated billings bear interest at OEB-approved rates. The allowance for doubtful accounts reflects the Distribution Business' current lifetime expected credit losses (CECL) for all accounts receivable balances. The Distribution Business estimates the CECL by applying internally developed loss rates to all 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, which may be further supplemented from time to time to reflect management's best estimate of the loss. Accounts receivable are written-off against the allowance when they are deemed uncollectible. The allowance for doubtful accounts is affected by changes in volume, prices and economic conditions.

Income Taxes

Income taxes are accounted for using the asset and liability method. Current tax assets and liabilities are recognized based on the taxes payable or refundable on the current and prior year’s taxable income. Current and deferred income taxes are computed based on the tax rates and tax laws enacted as at the balance sheet date. Tax benefits associated with income tax positions 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 using new information about recognition or measurement as it becomes available.

Deferred Income Taxes

Deferred income tax assets and liabilities are recognized on all temporary differences between the tax bases and carrying amounts of assets and liabilities, including the carry forward unused tax credits and tax losses to the extent that it is more-likely-than-not that these deductions, credits, and losses can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted as at the balance sheet date.

Deferred income taxes associated with its regulated operations which are considered to be more-likely-than-not to be recoverable or refunded in the future regulated rates charged to customers are recognized as deferred income tax regulatory assets and liabilities with an offset to deferred income tax expense.

Investment tax credits are recorded as a reduction of the related expenses or income tax expense in the current or future period to the extent it is more likely than not that the credits can be utilized.

Management reassesses the deferred income tax assets at each balance sheet date and reduces the amount to the extent that it is more likely than not that the deferred income tax asset will not 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.

Inter-company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries, and implicitly, by the regulated businesses of its subsidiaries. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Distribution Business to and from the pooled bank accounts. Interest is earned on positive inter-company balances based on the average of the bankers' acceptance rate at the beginning and end of the month, less 0.15%. 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, and information technology (IT). Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

Property, plant and equipment in service consists of distribution, administration and service, and other communication assets as well as land easements. Property, plant and equipment also includes future use assets, such as land, major components and spare parts, and capitalized project development costs associated with deferred capital projects.

Distribution

Distribution assets include assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

Administration and Service

Administration and service assets include administrative buildings, personal computers, transport and work equipment, tools and other minor assets.

Other

Other assets include fibre optic and microwave radio systems, optical ground wire, towers, telephone equipment and associated buildings. Other assets also include easements which include land access rights.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost, which comprises purchased software, direct labour (including employee benefits), consulting, engineering, overheads and attributable capitalized financing charges. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses. The Distribution Business' 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 financing costs are a reduction of financing charges recognized in the statements of operations and comprehensive income. Capitalized financing costs are calculated using the Distribution Business' weighted average effective cost of debt.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of 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 most recent review resulted in changes to rates effective January 1, 2015 for Distribution Business. 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
Property, plant and equipment:			
Distribution	46 years	1% - 7%	2%
Communication	8 years	1% - 15%	4%
Administration and service	23 years	1% - 20%	4%
Intangible assets	10 years	10%	8%

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.

Acquisitions and Goodwill

The Company accounts for business acquisitions using the acquisition method of accounting and, accordingly, the assets and liabilities of the acquired entities are primarily measured at their estimated fair value at the date of acquisition. Costs associated with pending acquisitions are expensed as incurred. Goodwill represents the cost of acquired 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 value, 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 quantitative goodwill impairment assessment is performed. The quantitative assessment compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the 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.

Based on the assessment performed as at September 30, 2021 and with no significant events since, the Company has concluded that goodwill was not impaired at December 31, 2021.

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 the Distribution Business' long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the 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.

Management assesses the fair value of such long-lived assets using commonly accepted techniques. Techniques used to determine fair value include, but are not limited to, the use of recent third-party comparable sales for reference and internally developed discounted cash flow analysis. Significant changes in market conditions, changes to the condition of an asset, or a change in management’s intent to utilize the asset are generally viewed by management as triggering events to reassess the cash flows related to these long-lived assets. As at December 31, 2021 and 2020, no asset impairment had been recorded.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Distribution Business defers its proportionate share of the relevant Hydro One external transaction costs related to obtaining financing and presents such amounts net of related debt on the balance sheets. Deferred issuance 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 / Loss

Comprehensive income/loss is comprised of net income/loss and other comprehensive income (OCI) or other comprehensive loss (OCL). OCI/OCL and net income are presented in a single continuous statement of operations and comprehensive income/loss.

Financial Assets and Liabilities

All financial assets and liabilities are classified into one of the following five categories: held-to-maturity; loans and receivables; held-for-trading; other liabilities; or available-for-sale. Financial assets and liabilities classified as held-for-trading are measured at fair value. All other financial assets and liabilities are measured at amortized cost. Accounts receivable and amounts due from related parties are classified as loans and receivables. The Distribution Business considers the carrying amounts of accounts receivable and amounts due from related parties to be reasonable estimates of fair value because of the short time to maturity of these instruments. The Distribution Business estimates the CECL for all accounts receivable balances, which are recognized as adjustments to the allowance for doubtful accounts. Accounts receivable are written-off against the allowance when they are deemed uncollectible. All financial instrument transactions are recorded at trade date.

The Distribution Business determines the classification of its financial assets and liabilities at the date of initial recognition. The Distribution Business designates certain of its financial assets and liabilities to be held at fair value, when it is consistent with the Distribution Business' risk management policy disclosed in Note 17 - 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 instruments to hedge these risks. Certain of these derivative instruments qualify for hedge accounting and are designated as accounting hedges, while others either do not qualify as hedges or have not been designated as hedges (hereinafter referred to as undesignated contracts) as they are part of economic hedging relationships. 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 on 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, any unrealized gain or loss, net of tax, is recorded as a component of accumulated OCI (AOCI). Amounts in AOCI are reclassified to results of operations in the same period or periods during which the hedged transaction affects results of operations and presented in the same line item as the earnings effect of the hedged item. Any gains or losses on the derivative instrument that represent hedge components excluded from the assessment of effectiveness are recognized in the same line item of the statements of operations as the hedged item. For fair value hedges, changes in fair value of both the derivative instrument and the underlying hedged exposure are recognized in the statements 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. The changes in fair value of the undesignated derivative instruments are reflected in results of operations.

Embedded derivative instruments are separated from their host contracts and are 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 that required bifurcation at December 31, 2021 or 2020.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where the Company has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. 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 Hydro One’s 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 defined benefit pension plan (Pension Plan) and its 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. Defined benefit pension, post-retirement and post-employment plans are considered to be underfunded when the projected benefit obligation (PBO) exceeds the fair value of the plan assets. Liabilities are recognized on the consolidated balance sheets for any net underfunded PBO. The net underfunded PBO 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 PBO of the plan, an asset is recognized equal to the net overfunded PBO. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets.

Hydro One recognizes its contributions to the defined contribution pension plan (DC Plan) as pension expense, with a portion being capitalized as part of labour costs included in capital expenditures. The expensed amount is included in operation, maintenance and administration (OM&A) costs in the consolidated statements of operations and comprehensive income.

Defined Benefit Pension

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.

Post-retirement and Post-employment Benefits

Hydro One has post-retirement and post-employment benefit plans covering all regular employees of Hydro One and its subsidiaries, including Hydro One Networks. The benefit obligations of these post-retirement and post-employment benefit plans are not segregated, or funded separately, for Hydro One Networks. Accordingly, for purposes of these Financial Statements, the post-retirement and post-employment benefit obligations are reflective of earnings allocations of relevant employees to the Company's Distribution Business.

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. For post-retirement benefits, past service costs from plan amendments are amortized to results of operations based on the expected average remaining service period.

For post-retirement benefits, all actuarial gains or losses are deferred using the "corridor" approach. The amount calculated above the "corridor" is amortized to results of operations on a straight-line basis over the expected average remaining service life of active employees in the plan or 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 account, 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. 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 account, to the extent of the remeasurement adjustment.

All post-retirement and post-employment benefit costs are attributed to labour costs and are either charged to results of operations (OM&A costs) or capitalized as part of the cost of property, plant and equipment and intangible assets (applies to the service cost component of benefit cost) and to regulatory assets for all other components of the benefit cost, consistent with their inclusion in OEB-approved rates.

Stock-Based Compensation

Share Grant Plans

The Company measures share grant plans based on fair value of share grants as estimated based on Hydro One Limited's grant date common 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. Costs are transferred from the regulatory asset to labour costs at the time the share grants vest and are issued, and are recovered in rates. Forfeitures are recognized as they occur.

Deferred Share Unit (DSU) Plans

The Company records the liabilities associated with its Directors' and Management DSU Plans 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 the Hydro One Limited common share closing price at the end of each reporting period.

Society Restricted Share Unit (RSU) Plan

The Company measures its Society RSU plan based on fair value of share grants as estimated based on Hydro One Limited's grant date common share price. The costs are recognized over the vesting period using the straight-line attribution method. The Company records a regulatory asset equal to the accrued costs of the Society RSU plan recognized in each period. Costs are transferred from the regulatory asset to labour costs at the time the share grants vest and are issued, and are recovered in rates. Forfeitures are recognized as they occur.

Long-term Incentive Plan (LTIP)

The Company measures the awards issued under Hydro One Limited's LTIP, at fair value based on Hydro One Limited grant date common share price. The related compensation expense is recognized over the vesting period on a straight-line basis. Forfeitures are recognized as they occur.

Loss Contingencies

Hydro One and its subsidiaries are involved in certain legal and environmental matters that arise in the normal course of business. In the preparation of the Financial Statements, management makes judgments regarding the future outcome of contingent events and records a loss for a contingency based on its best estimate when it is determined that such loss is probable and the amount of the loss can be reasonably estimated. Where the loss amount is recoverable in future rates, a regulatory asset is also recorded. When a range estimate for the probable loss exists and no amount within the range is a better estimate than any other amount, the Distribution Business records a loss at the minimum amount within the range.

Management regularly reviews current information available to determine whether recorded provisions should be adjusted and whether new provisions are required. Estimating probable losses may require analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, provincial and local courts or regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the Financial Statements may differ from the actual outcome once the contingency is resolved. Such differences could have a material impact on future results of operations, financial position and cash flows of the Distribution Business.

Provisions are based upon current estimates and are subject to greater uncertainty where the projection period is lengthy. A significant upward or downward trend in the number of claims filed, the nature of the alleged injuries, and the average cost of resolving each claim could change the estimated provision, as could any substantial adverse or favourable verdict at trial. A federal or provincial legislative outcome or structured settlement could also change the estimated liability. Legal fees are expensed as incurred.

Environmental Liabilities

Environmental liabilities are recorded in respect of past contamination when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated. The Distribution Business records a liability for the estimated future expenditures associated with contaminated land assessment and remediation (LAR) and for the phase-out and destruction of polychlorinated biphenyl (PCB)-contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. The Company determines the present value with a discount rate that produces an amount at which the environmental liabilities could be settled in an arm’s length transaction with a third party. As the Company anticipates that the future expenditures will continue to be recoverable in future rates, an offsetting regulatory asset has been recorded to reflect the future recovery of these environmental expenditures from customers. Hydro One reviews its estimates of future environmental expenditures annually, or more frequently if there are indications that circumstances have changed. Estimate changes are accounted for prospectively.

Asset Retirement Obligations

Asset retirement obligations 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 asset retirement obligations 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. This uncertainty is incorporated in the fair value measurement of the obligation.

When recording an asset retirement obligation, 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. The present value is determined with a discount rate that equates to the Company’s credit-adjusted risk-free rate. Where an asset is no longer in service when an asset retirement obligation is recorded, the asset retirement cost is recorded in results of operations.

Some of the Company’s distribution assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company’s easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Distribution Business expects to use the majority of its facilities in perpetuity, no asset retirement obligations have been recorded 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 asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time.

The Distribution Business' asset retirement obligations recorded to date relate to estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities.

Leases

At the commencement date of a lease, the minimum lease payments are discounted and recognized as a lease obligation. Discount rates used correspond to the Company's incremental borrowing rates. Renewal options are assessed for their likelihood of being exercised and are included in the measurement of the lease obligation when it is reasonably certain they will be exercised. The Company 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. ROU assets are included in other long-term assets, and corresponding lease obligations are included in other current liabilities and other long-term liabilities on the balance sheets.

Subsequent to the commencement date, the lease expense recognized at each reporting period is the total remaining lease payments over the remaining lease term. Lease obligations are measured as the present value of the remaining unpaid lease payments using the discount rate established at commencement date. The amortization of the ROU assets is calculated as the difference between the lease expense and the accretion of interest, which is calculated using the effective interest method. Lease modifications and impairments are assessed at each reporting period to assess the need for a remeasurement of the lease obligations or ROU assets.

3. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present Accounting Standard Updates (ASUs) issued by the Financial Accounting Standards Board that are applicable to Hydro One Networks:

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Distribution Business
ASU 2019-12	December 2019	The amendments simplify the accounting for income taxes by removing certain exceptions to the general principles and improving consistent application of Topic 740 by clarifying and amending existing guidance.	January 1, 2021	No impact upon adoption
ASU 2020-01	January 2020	The amendments clarify the interaction of the accounting for equity securities under Topic 321, investments under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815.	January 1, 2021	No impact upon adoption
ASU 2020-10	October 2020	The amendments are intended to improve the Codification by ensuring the guidance required for an entity to disclose information in the notes of financial statements are codified in the disclosure sections to reduce the likelihood of disclosure requirements being missed.	January 1, 2021	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated Impact on Distribution Business
ASU 2020-06	August 2020	The update addresses the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. The amendments reduce the number of accounting models for convertible debt instruments and convertible preferred stock.	January 1 2022	No impact upon adoption
ASU 2021-05	July 2021	The amendments are intended to align lease classification requirements for lessors under Topic 842 with Topic 840's practice.	January 1, 2022	No impact upon adoption
ASU 2021-08	October 2021	The amendments address how to determine whether a contract liability is recognized by the acquirer in a business combination.	January 1, 2023	Under assessment
ASU 2021-10	November 2021	The update addresses the diversity on the recognition, measurement, presentation and disclosure of government assistance received by business entities.	January 1, 2022	Under assessment

4. COMBINATIONS UNDER COMMON CONTROL

Orillia Power Transfer

On June 1, 2021, Orillia Power Corporation, a subsidiary of Hydro One, sold its net business assets at their carrying amount to Hydro One Networks in exchange for a demand promissory note.

The following table summarizes the assets and liabilities that were transferred to Hydro One Networks' Distribution Business at June 1, 2021:

(millions of dollars)	
Property, plant and equipment	33
Working capital	3
Inter-company demand facility	(23)
Regulatory liabilities	(1)
	12

Peterborough Distribution Transfer

On June 1, 2021 Hydro One sold its investment in 1937380 Ontario Inc. to Hydro One Networks and on the same day transferred its net assets to the Hydro One Network's Distribution Business.

The following table summarizes the assets and liabilities that were transferred to Hydro One Networks' Distribution Business at June 1, 2021:

(millions of dollars)	
Property, plant and equipment	66
Goodwill	33
Working capital	4
Regulatory assets	2
Inter-company demand facility	(105)
	—

5. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Depreciation of property, plant and equipment	294	290
Amortization of intangible assets	57	52
Amortization of regulatory assets	15	14
Depreciation and amortization	366	356
Asset removal costs	60	61
	426	417

6. FINANCING CHARGES

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Interest on long-term debt *(Note 25)*	188	185
Other	4	6
Interest on regulatory accounts	3	3
Interest on inter-company demand facility *(Note 25)*	1	2
Less: Interest capitalized on construction and development in progress	(8)	(8)
DTA carrying charges *(Note 12)*	(4)	—
	184	188

7. INCOME TAXES

As a rate regulated utility business, the Distribution Business recovers income taxes from its ratepayers based on estimated current income tax expense in respect of its regulated operations. The amounts of deferred income taxes related to regulated operations which are considered to be more likely-than-not to be recoverable or refunded to, ratepayers in future periods are recognized as deferred income tax regulatory assets or liabilities, with an offset to deferred income tax expense (recovery). The Distribution Business' tax expense or recovery for the period includes all current and deferred income tax expenses for the period net of the regulated accounting offset to deferred income tax expense arising from temporary differences to be recoverable or refunded in future rates charged to customers. Thus, the Distribution Business' income tax expense or recovery 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:

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Income before income tax expense	504	414
Income tax expense at statutory rate of 26.5% (2020 - 26.5%)	134	110
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(24)	(32)
Impact of tax deductions from deferred tax asset sharing[1]	(16)	(17)
Impact of tax recovery from deferred tax asset sharing[2]	17	—
Overheads capitalized for accounting but deducted for tax purposes	(9)	(9)
Environmental expenditures	(4)	(4)
Pension and post-retirement benefit contributions in excess of expense	(5)	(3)
Interest capitalized for accounting but deducted for tax purposes	(2)	(2)
Other	—	(1)
Net temporary differences attributable to regulated business	(43)	(68)
Recognition of deferred income tax regulatory asset *(Note 11)*	—	(43)
Total income tax expense (recovery)	91	(1)
Effective income tax rate	18.1 %	(0.2)%

[1] Prior to the ODC Decision, the impact represents tax deductions from deferred asset tax sharing given to ratepayers as previously mandated by the OEB. Subsequent to the ODC Decision, and pursuant to the DTA Implementation Decision, the impact represents the additional amounts shared in respect of the fiscal period that is recoverable from ratepayers. See Note 12 - Regulatory Assets and Liabilities.

[2] Pursuant to the DTA Implementation Decision, the impact represents the amounts recovered from ratepayers in respect of tax deductions previously shared with ratepayers. See Note 12 – Regulatory Assets and Liabilities

The major components of income tax expense are as follows:

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Current income tax expense	90	91
Deferred income tax expense (recovery)	1	(92)
Total income tax expense (recovery)	91	(1)

Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities reflect the future tax consequences attributable to temporary differences between the tax bases and the financial statement carrying amounts of the assets and liabilities including the carry forward amounts of tax losses and tax credits. Deferred income tax assets and liabilities attributable to the Distribution Business' regulated operations are recognized with a corresponding offset in deferred income tax regulatory assets and liabilities to reflect the anticipated recovery or repayment of these balances in the future electricity rates. At December 31, 2021 and 2020, deferred income tax assets and liabilities consisted of the following:

As at December 31 *(millions of dollars)*	2021	2020
Deferred income tax assets (liabilities)		
Capital cost allowance in excess of depreciation and amortization	(1,099)	(1,041)
Post-retirement and post-employment benefits expense in excess of cash payments	369	383
Goodwill	(19)	(11)
Environmental expenditures	15	14
Regulatory assets and liabilities	2	(7)
Non-capital losses	—	1
Other	(4)	(7)
Net deferred income tax liabilities[1]	(736)	(668)

[1] The net deferred income tax liabilities are presented on the balance sheets as long-term liabilities.

8. ACCOUNTS RECEIVABLE

As at December 31 *(millions of dollars)*	2021	2020
Accounts receivable – billed	329	309
Accounts receivable – unbilled	356	339
Accounts receivable, gross	685	648
Allowance for doubtful accounts	(55)	(44)
Accounts receivable, net	630	604

The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2021 and 2020:

Year ended December 31 *(millions of dollars)*	2021	2020
Allowance for doubtful accounts – beginning	(44)	(22)
Write-offs	15	11
Additions to allowance for doubtful accounts[1]	(26)	(33)
Allowance for doubtful accounts – ending	(55)	(44)

[1] Additions to allowance for doubtful accounts for the year ended December 31, 2020 include incremental $14 million related to the COVID-19 pandemic. There were no additional COVID-19 related amounts included in the allowance for doubtful accounts for the year ended December 31, 2021.

9. OTHER CURRENT ASSETS

As at December 31 *(millions of dollars)*	2021	2020
Regulatory assets *(Note 12)*	69	21
Prepaid expenses and other assets	24	20
Materials and supplies	6	5
	99	46

10. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2021 *(millions of dollars)*	Property, Plant and Equipment[1]	Accumulated Depreciation	Construction in Progress	Total
Distribution	11,964	4,134	90	7,920
Administration and service	1,212	656	64	620
Other	187	156	—	31
	13,363	4,946	154	8,571

[1] Includes future use assets totalling $63 million.

As at December 31, 2020 *(millions of dollars)*	Property, Plant and Equipment[1]	Accumulated Depreciation	Construction in Progress	Total
Distribution	11,376	3,920	95	7,551
Administration and service	1,089	620	55	524
Other	176	159	—	17
	12,641	4,699	150	8,092

[1] Includes future use assets totalling $61 million.

Financing charges capitalized on property, plant and equipment under construction were $6 million in 2021 (2020 - $6 million).

11. INTANGIBLE ASSETS

As at December 31, 2021 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	667	395	73	345
Other	68	33	—	35
	735	428	73	380

As at December 31, 2020 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	631	343	30	318
Other	52	28	—	24
	683	371	30	342

Financing charges capitalized to intangible assets under development were $2 million in 2021 (2020 - $2 million). The estimated annual amortization expense for intangible assets is as follows: 2022 - $58 million; 2023 - $49 million; 2024 - $39 million; 2025 - $37 million; and 2026 - $34 million.

12. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. The Distribution Business has recorded the following regulatory assets and liabilities:

As at December 31 *(millions of dollars)*	2021	2020
Regulatory assets:		
Deferred income tax regulatory asset	759	697
Post-retirement and post-employment benefits non-service cost	88	68
Deferred tax asset sharing	72	70
Environmental	41	39
Stock-based compensation	20	21
Post-retirement and post-employment benefits	—	32
Other	21	16
Total regulatory assets	1,001	943
Less: current portion	(69)	(21)
	932	922
Regulatory liabilities:		
Tax rule changes variance	65	48
Retail settlement variance account	58	92
Earnings sharing mechanism deferral	42	37
Pension cost differential	24	24
Post-retirement and post-employment benefits	17	—
Green energy expenditure variance	13	22
Other	15	10
Total regulatory liabilities	234	233
Less: current portion	(8)	(64)
	226	169

Deferred Income Tax Regulatory Asset

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 income. The Distribution Business has recognized regulatory assets that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Distribution Business' income tax expense 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 2021 income tax expense would have been higher by approximately $44 million (2020 - higher by $69 million). The $44 million (2020 - $69 million) impact is offset against deferred income tax regulatory asset, deferred tax asset sharing, and post-retirement and post-employment benefits - non-service cost.

On July 16, 2020, the Ontario Divisional Court rendered its decision on the Company's appeal of the OEB's DTA Decision, which was initially issued on September 28, 2017.

In connection with the ODC Decision, the Distribution Business recorded a reversal of the previously recognized impairment charge of the deferred income tax regulatory asset in its financial statements for the year ended December 31, 2020. The reversal of the previously recognized impairment charge included the regulatory asset relating to the cumulative deferred tax asset amounts shared with ratepayers (deferred tax asset sharing) up to and including June 30, 2020 by the Distribution Business of $58 million. The Distribution Business recognized deferred income tax regulatory assets of $504 million and associated deferred income tax liability of $462 million. The Distribution Business also recorded an increase in net income of $43 million as deferred income tax recovery during the year ended December 31, 2020.

Post-Retirement and Post-Employment Benefits - Non-Service Cost

Hydro One Networks has recorded a regulatory asset relating to the future recovery of its post-retirement and post-employment benefits other than service costs. The regulatory asset includes the applicable tax impact to reflect taxes payable. Prior to adoption of ASU 2017-07 in 2018, these amounts were capitalized to property, plant and equipment and intangible assets. As part of Hydro One Networks' 2020-2022 Transmission Decision, the OEB concluded that the non-service cost component of Hydro One's OPEB costs shall be recognized as OM&A for both its transmission and distribution businesses. The Distribution Business will continue to record the non-service cost component of OPEBs in this account until the end of 2022.

Deferred Tax Asset Sharing

On October 2, 2020, the OEB issued a procedural order to implement the direction of the Ontario Divisional Court which required Hydro One to submit its proposal for the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period. On April 8, 2021, the OEB rendered the DTA Implementation Decision, in which the OEB approved recovery of the DTA amounts allocated to ratepayers for the 2017 to 2021 period, plus carrying charges over a two-year period, commencing on July 1, 2021. In addition, the Distribution Business was approved to adjust base distribution rates beginning January 1, 2022 to eliminate any further amounts of future tax savings flowing to customers. As at December 31, 2021, the Distribution business has a regulatory asset of $72 million for the cumulative DTA amounts shared with ratepayers since 2017 to date, net of the amount recovered from ratepayers pursuant to the DTA Implementation Decision. As a result of the OEB's procedural order, the $72 million regulatory asset relating to the cumulative DTA amounts allocated to ratepayers since 2017 has been separately presented from the deferred income tax regulatory asset. The balance of this regulatory account will continue to decrease as amounts are recovered over the next 18 months.

Environmental

The Distribution Business records a liability for the estimated future expenditures required to remediate environmental contamination. A regulatory asset is recognized because management considers it to be probable environmental expenditures will be recovered in the future through the rate-setting process. The Distribution Business has recorded an equivalent amount as a regulatory asset. In 2021, the revaluation adjustment increased the environmental regulatory asset by $17 million (2020 - $7 million) to reflect related changes in the Distribution Business' PCB and LAR environmental liabilities. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudency and the timing of recovery of all of the Distribution Business' actual environmental expenditures. In the absence of rate-regulated accounting, with respect to the revaluation adjustment, 2021 OM&A expenses would have been higher by $17 million (2020 - $7 million). In addition, 2021 amortization expense would have been lower by $15 million (2020 - $14 million), and 2021 financing charges would have remained unchanged (2020 - higher by $1 million).

Stock-based Compensation

The Distribution Business recognizes costs associated with share grant plans and Society RSUs in a regulatory asset as management considers it probable that share grant plans' and Society RSU costs will be recovered in the future through the rate-setting process. In the absence of rate-regulated accounting, there would be no material impact to OM&A expenses in 2021 and 2020. Share grant and Society RSU costs are transferred to labour costs at the time they vest and are issued, and are recovered in rates in accordance with recovery of these labour costs.

Tax Rule Changes Variance

The 2019 federal and Ontario budgets (Budgets) provided certain time-limited investment incentives permitting the Distribution Business to deduct accelerated capital cost allowance of up to three times the first-year rate for capital investments acquired after November 20, 2018 and placed in-service before January 1, 2028 (Accelerated Depreciation). Following the enactment of the Budget measures in the second quarter of 2019, the OEB directed all Ontario regulated utilities including Hydro One to track the full revenue impact of the tax benefits related to the Accelerated Depreciation rules to ratepayers. The tax benefit to be returned to ratepayers in the future gave rise to a regulatory liability and resulted in a decrease in revenues as current rates do not include the benefit of the Accelerated Depreciation; therefore, the revenue subject to refund cannot be recognized.

Retail Settlement Variance Account (RSVA)

The Distribution business has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. The RSVA account tracks the difference between the cost of power purchased from the Independent Electricity System Operator (IESO) and the cost of power recovered from ratepayers. In December 2020, the balance as at December 31, 2019, including accrued interest, was approved by the OEB for disposition over a one year period ending December 31, 2021 as part of Hydro One Networks distribution 2021 annual update rate application.

Earnings Sharing Mechanism Deferral

In March 2019, the OEB approved the establishment of an earnings sharing mechanism deferral account for the Distribution Business to record over-earnings including tax impacts, if any, realized for any year from 2018 to 2022. Under this mechanism, Hydro One shares 50% of regulated earnings that exceed the OEB-approved regulatory return-on-equity by more than 100 basis points with distribution ratepayers. This account is asymmetrical to the benefit of ratepayers. In December 2020, the balance as at December 31, 2019, including accrued interest, was approved by the OEB for disposition on an interim basis over a one year period ending December 31, 2021 as part of Hydro One Networks distribution 2021 annual update rate application.

Pension Cost Differential

Variances between the pension cost recognized and the cost embedded in rates as part of the rate-setting process for the Distribution Business are recognized as a regulatory asset or regulatory liability, as the case may be. In March 2019, the OEB approved the disposition of the balance as at December 31, 2016, including accrued interest, and the balance was recovered from ratepayers by the end of 2020. In the absence of rate-regulated accounting, 2021 revenue would have been higher by $1 million (2020 - $1 million).

Post-Retirement and Post-Employment Benefits

In accordance with OEB rate orders, post-retirement and post-employment benefits costs are recovered on an accrual basis. The Distribution Business recognizes the net unfunded status of post-retirement and post-employment obligations on the consolidated balance sheets with an incremental offset to the associated regulatory asset or regulatory liability, as the case may be. A regulatory asset or liability is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered or returned in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to the present value of the actuarially determined benefit obligation at each year end based on an annual actuarial report, with an offset to the associated regulatory asset or liability as the case may be, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2021 OCL would have been lower by $50 million (2020 - $25 million).

Green Energy Expenditure Variance

In April 2010, the OEB requested the establishment of deferral accounts (collectively Green Energy Expenditure Variance Account) which capture the difference between the funds received for, and the revenue requirement associated with, incurred Green Energy Plan expenditures. The smart grid variance sub-account balance as at December 31, 2016, including accrued interest, was approved for disposition by the OEB in March 2019, and the balance was returned to ratepayers by the end of 2020.

COVID-19 Emergency Deferral

On June 17, 2021, the OEB issued its Report: Regulatory Treatment of Impact Arising from the COVID-19 Emergency which outlines the OEB’s final guidance on the rules and operation of the deferral account established for utilities to track the impacts arising from the COVID-19 pandemic. The OEB has determined that eligibility for recovery of most balances recorded in the account will be subject to a means test based on a utility’s achieved regulatory return on equity (ROE). Based on management's assessment of the OEB’s final guidance, no amounts related to the COVID-19 pandemic have been recognized as regulatory assets.

13. OTHER LONG-TERM ASSETS

As at December 31 *(millions of dollars)*	**2021**	**2020**
Right-of-Use assets *(Note 22)*	28	34
Other long-term assets	1	—
	29	34

14. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

As at December 31 *(millions of dollars)*	**2021**	**2020**
Accrued liabilities	567	527
Accounts payable	87	81
Accrued interest *(Note 25)*	49	45
Environmental liabilities *(Note 20)*	14	14
Regulatory liabilities *(Note 12)*	8	64
Lease obligations *(Note 22)*	6	5
	731	736

15. OTHER LONG-TERM LIABILITIES

As at December 31 *(millions of dollars)*	2021	2020
Post-retirement and post-employment benefit liability *(Note 19)*	1,003	1,000
Lease obligations *(Note 22)*	23	32
Environmental liabilities *(Note 20)*	27	25
Long-term inter-company payable *(Note 25)*	15	17
Long-term accounts payable and other liabilities	5	4
Asset retirement obligations *(Note 21)*	7	6
	1,080	1,084

16. DEBT

Hydro One issues notes for long-term financing under its Medium-Term Note (MTN) Program. The terms of certain issuances are mirrored down to Hydro One Networks through the issuance of inter-company debt, and are allocated between the Company's transmission and distribution businesses. The following table presents long-term debt allocated to the Distribution Business outstanding at December 31, 2021 and 2020:

As at December 31 *(millions of dollars)*	2021	2020
Long-term debt [1]	4,991	4,762
Add: Net unamortized debt premiums	5	6
Less: Deferred debt issuance costs	(19)	(18)
Less: Long-term debt payable within one year	(261)	(250)
Long-term debt	4,716	4,500

[1] Includes a $29 million non-interest bearing note issued on June 1, 2021 to Orillia Power Distribution Corporation in exchange for the assets of Orillia Power..

In 2021, Hydro One issued $900 million long-term debt under its MTN Program (2020 - $2,300 million), of which $900 million was mirrored down to Hydro One Networks, and $450 million was allocated to the Distribution Business.

In 2021, Hydro One repaid $800 million (2020 - $650 million) of maturing long-term debt under its MTN Program. On the same date, Hydro One Networks repaid inter-company debt of $800 million (2020 - $330 million) to Hydro One, of which $250 million (2020 - $150 million) was allocated to the Distribution Business.

Principal and Interest Payments

At December 31, 2021, future principal repayments, interest payments, and related weighted-average interest rates were as follows:

	Long-Term Debt Principal Repayments *(millions of dollars)*	Interest Payments *(millions of dollars)*	Weighted-Average Interest Rate *(%)*
Year 1	261	193	3.2
Year 2	228	187	1.0
Year 3	287	182	2.8
Year 4	208	175	2.8
Year 5	245	169	3.0
	1,229	906	2.6
Years 6-10	801	789	3.3
Thereafter	2,932	1,607	4.7
	4,962	3,302	4.0

17. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The Distribution Business 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 occur with sufficient frequency and volume to provide ongoing pricing information.

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

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

Non-Derivative Financial Assets and Liabilities

At December 31, 2021 and 2020, the carrying amounts of accounts receivable, due from related parties, inter-company demand facility, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Distribution Business' long-term debt at December 31, 2021 and 2020 are as follows:

As at December 31 *(millions of dollars)*	2021 Carrying Value	2021 Fair Value	2020 Carrying Value	2020 Fair Value
Other notes and debentures	4,977	5,683	4,750	5,861
Long-term debt, including current portion	4,977	5,683	4,750	5,861

Fair Value Measurements of Derivative Instruments

Hydro One enters into interest-rate swaps agreements with respect to its long-term debt. The terms of certain of these interest-rate swap agreements are mirrored down to Hydro One Networks, and are allocated between the Company's transmission and distribution businesses.

At December 31, 2021 and 2020, the Distribution Business' share of the Company's derivative instruments was $nil.

At December 31, 2021 and 2020, the Company had no interest-rate swaps classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at December 31, 2021 and 2020 is as follows:

As at December 31, 2021 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Long-term debt, including current portion	4,977	5,683	—	5,683	—
	4,977	5,683	—	5,683	—

As at December 31, 2020 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Long-term debt, including current portion	4,750	5,861	—	5,861	—
	4,750	5,861	—	5,861	—

The fair value of the hedged portion of the long-term debt is primarily based on the present value of future cash flows using a swap yield curve to determine the assumption for interest rates. The fair value of the unhedged portion of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

There were no transfers between any of the fair value levels during the years ended December 31, 2021 or 2020.

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 which results from changes in values, foreign exchange rates and interest rates. The Company is exposed to fluctuations in interest rates, as its regulated return on equity is derived using a formulaic approach that takes anticipated interest rates into account. The Company is not currently exposed to material commodity price risk or material foreign exchange risk.

Hydro One Networks uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. Hydro One Networks also uses derivative financial instruments to manage interest-rate risk. 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. Hydro One Networks may utilize interest-rate swaps designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt, and may also utilize interest-rate derivative instruments to lock in interest-rate levels on forecasted financing.

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Distribution Business' net income for the years ended December 31, 2021 and 2020.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument 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 years ended December 31, 2021 and 2020 were not material.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At December 31, 2021 and 2020, there were no significant concentrations of credit risk with respect to any class of financial assets. The Distribution Business' revenue is earned from a broad base of customers. As a result, the Distribution Business did not earn a material amount of revenue from any single customer. At December 31, 2021 and 2020, there was no material accounts receivable balance due from any single customer.

At December 31, 2021, the Distribution Business' allowance for doubtful accounts was $55 million (2020 - $44 million). The allowance for doubtful accounts reflects the Company's current lifetime expected credit losses for all accounts receivable balances, which are based on historical overdue balances, customer payments and write-offs. At December 31, 2021, approximately 5% (2020 - 4%) of the Distribution Business' net accounts receivable were outstanding for more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including (i) entering into transactions with highly rated counterparties, (ii) limiting total exposure levels with individual counterparties, (iii) entering into master agreements which enable net settlement and the contractual right of offset, and (iv) monitoring the financial condition of counterparties. Hydro One monitors current credit exposure to counterparties on both an individual and an aggregate basis. The Company's counterparty credit risk profile is consistent with Hydro One. The Distribution Business' credit risk for accounts receivable is limited to the carrying amounts on the balance sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The maximum credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts in an asset position at the reporting date. At December 31, 2021 and 2020, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At December 31, 2021, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, was with two financial institutions with investment grade credit ratings as counterparties.

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 operating liquidity requirements through the inter-company demand facility with Hydro One and funds from operations. The short-term liquidity available to the Company is expected to be sufficient to fund normal operating requirements. The Company's currently available liquidity is also expected to be sufficient to address any reasonably foreseeable impacts that the COVID-19 pandemic may have on the Company's cash requirements.

18. CAPITAL MANAGEMENT

The Distribution Business' 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. At December 31, 2021 and 2020, the Distribution Business' capital structure was as follows:

As at December 31 *(millions of dollars)*	2021	2020
Long-term debt payable within one year	261	250
Inter-company demand facility	70	(107)
	331	143
Long-term debt	4,716	4,500
Excess of assets over liabilities	2,893	2,770
Total capital	7,940	7,413

The following table shows the movements in the excess of assets over liabilities for the years ended December 31, 2021 and 2020:

Year ended December 31 *(millions of dollars)*	2021	2020
Excess of assets over liabilities - beginning	2,770	2,635
Comprehensive income	414	409
Payments to Hydro One to finance dividends and return of stated capital	(279)	(274)
Other[1]	(12)	—
Excess of assets over liabilities - ending	2,893	2,770

[1] The amount represents an allocation to the Other non-regulated Hydro One Networks segment as the underlying transactions do not represent the operations of the regulated Distribution Business. In line with the basis of accounting, these amounts have been excluded from the assets and liabilities of the Distribution Business, resulting in an impact to excess of assets over liabilities.

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

Hydro One has a Pension Plan, a DC Plan, a supplementary pension plan (Supplementary Plan), and post-retirement and post-employment benefit plans.

DC Plan

Hydro One established a DC Plan effective January 1, 2016. The DC Plan covers eligible management employees hired on or after January 1, 2016, as well as management employees hired before January 1, 2016 who were not eligible to join the Pension Plan as of September 30, 2015. Members of the DC Plan have an option to contribute 4%, 5% or 6% of their pensionable earnings, with matching contributions by Hydro One up to an annual contribution limit. There is also a Supplementary DC Plan that provides members of the DC Plan with employer contributions beyond the limitations imposed by the Income Tax Act (Canada) in the form of credits to a notional account. The Distribution Business contributions to the DC Plan for the year ended December 31, 2021 were $1 million (2020 - $1 million).

Pension Plan and Supplementary Plan

The Pension Plan is a defined benefit contributory plan which covers eligible regular employees of Hydro One and its subsidiaries. The Pension Plan provides benefits based on highest three-year average pensionable earnings. For management employees who commenced employment on or after January 1, 2004, and for the Society of United Professionals (Society)-represented staff hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation. Membership in the Pension Plan was closed to management employees who were not eligible or had not irrevocably elected to join the Pension Plan as of September 30, 2015. These employees are eligible to join the DC Plan.

Company and employee contributions to the Pension Plan are based on actuarial reports, including valuations performed at least every three years, and actual or projected levels of pensionable earnings, as applicable. The most recent actuarial valuation was performed effective December 31, 2018 and filed on September 30, 2019. The new valuation is expected to be filed by no later than September 30, 2022, which may result in a change to the estimated contributions for 2022 - 2027. Total annual cash Pension Plan employer contributions for 2021 allocated to the Distribution Business were $34 million (2020 - $28 million). Estimated annual Pension Plan employer contributions allocated to the Distribution Business for the years 2022, 2023, 2024, 2025, 2026 and 2027 are approximately $49 million, $59 million, $60 million, $61 million, $62 million and $64 million respectively.

The Supplementary Plan provides members of the Pension Plan with benefits that would have been earned and payable under the Pension Plan beyond the limitations imposed by the *Income Tax Act* (Canada). The Supplementary Plan obligation is included with other post-retirement and post-employment benefit obligations on the balance sheets.

At December 31, 2021, the present value of Hydro One's projected pension benefit obligation was estimated to be $9,358 million (2020 - $9,763 million). The fair value of pension plan assets available for these benefits was $8,645 million (2020 - $8,103 million).

Post-Retirement and Post-Employment Plans

During the year ended December 31, 2021, the Distribution Business charged $31 million (2020 - $30 million) of post-retirement and post-employment benefit costs to operation, maintenance and administration expenses, recorded $14 million (2020 - $17 million) in the Company's distribution post-retirement and post-employment benefits non-service cost regulatory asset, and capitalized $20 million (2020 - $19 million) as part of the cost of property, plant and equipment and intangible assets. Benefits paid in 2021 were $25 million (2020 - $24 million). In addition, the associated post-retirement and post-employment benefits regulatory asset decreased by $50 million (2020 - $25 million).

The Distribution Business presents its post-retirement and post-employment benefit liabilities on its balance sheets as follows:

As at December 31 *(millions of dollars)*	2021	2020
Accrued liabilities	33	31
Post-retirement and post-employment benefit liability	1,003	1,000
Net unfunded status	1,036	1,031

Future Transfers from Other Plans

In January 2021, Hydro One and Inergi LP (Inergi) executed a letter of understanding (LOU) for the transfer of certain Inergi employees (Transferred Employees) to Hydro One Networks over a period of time. Employees related to the Information Technology Operations, Finance and Accounting, Payroll and certain Shared Services functions transferred over a period ending January 1, 2022. The Transferred Employees who are participants in the Inergi LP Pension Plan (Inergi Plan) became participants in the Hydro One Pension Plan upon transfer to Hydro One. Subject to all necessary regulatory approvals, the assets and liabilities of the Inergi Plan will transfer to the Plan. The values of assets and liabilities of the Inergi Plan to be transferred to the Plan will be determined at the date of transfer, which is expected to occur sometime in 2023. In accordance with the LOU, Inergi and Hydro One Networks also agreed to transfer OPEB liabilities related to the Transferred Employees to Hydro One’s post-retirement and post-employment benefit plans.

On March 1, 2021, Transferred Employees associated with information technology operations (ITO Employees) transferred to Hydro One Networks, and the transfer of the OPEB liability of $27 million related to the ITO Employees was completed, of which $15 million pertained to the Distribution Business. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totaling $26 million was transferred to Hydro One Networks and recorded as an asset with an offset to OCI, of which $14 million pertained to the Distribution Business. Both, the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of the other post-retirement benefit liability are being recognized in net income over the expected average remaining service lifetime (EARSL) of the ITO Employees.

On November 1, 2021, Transferred Employees associated with source to pay operations (S2P Employees) transferred to Hydro One Networks, and the transfer of the OPEB liability of $6 million related to the S2P Employees was completed, of which $3 million pertained to the Distribution Business. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totaling $6 million was transferred to Hydro One Networks and recorded as an asset with an offset to OCI, of which $3 million pertained to the Distribution Business. Both, the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of the other post-retirement benefit liability are being recognized in net income over the EARSL of the S2P Employees.

The transfer of Finance and Accounting, Payroll and certain Shared Services functions occurred on January 1, 2022 and the transfer of the OPEB liability was recorded in the first quarter of 2022.

20. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2021 and 2020:

Year ended December 31, 2021 *(millions of dollars)*	PCB	LAR	Total
Environmental liabilities - beginning	28	11	39
Interest accretion	—	—	—
Expenditures	(11)	(4)	(15)
Revaluation adjustment	17	—	17
Environmental liabilities - ending	34	7	41
Less: current portion	(11)	(3)	(14)
	23	4	27

Year ended December 31, 2020 *(millions of dollars)*	**PCB**	**LAR**	**Total**
Environmental liabilities - beginning	33	12	45
Interest accretion	1	—	1
Expenditures	(10)	(4)	(14)
Revaluation adjustment	4	3	7
Environmental liabilities - ending	28	11	39
Less: current portion	(10)	(4)	(14)
	18	7	25

The following tables show the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized on the balance sheets after factoring in the discount rate:

As at December 31, 2021 *(millions of dollars)*	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities	35	7	42
Less: discounting environmental liabilities to present value	(1)	—	(1)
Discounted environmental liabilities	34	7	41

As at December 31, 2020 *(millions of dollars)*	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities	29	11	40
Less: discounting environmental liabilities to present value	(1)	—	(1)
Discounted environmental liabilities	28	11	39

At December 31, 2021, the estimated future environmental expenditures were as follows:

(millions of dollars)	
2022	14
2023	12
2024	12
2025	2
2026	1
Thereafter	1
	42

The Company records a liability for the estimated future expenditures for 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 Distribution Business' environmental liabilities represent management's best estimates of the present value of costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, with respect to the PCB environmental liability, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures.

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, the Distribution Business' 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.

At December 31, 2021, the Distribution Business' best estimate of the total estimated future expenditures to comply with current PCB regulations was $35 million (2020 - $29 million). These expenditures are expected to be incurred over the period from 2021 to 2025. As a result of its annual review of environmental liabilities, the Distribution Business recorded a revaluation adjustment in 2021 to increase the PCB environmental liability by $17 million (2020 - $4 million).

LAR

At December 31, 2021, the Distribution Business' best estimate of the total estimated future expenditures to complete its LAR program was $7 million (2020 - $11 million). These expenditures are expected to be incurred over the period from 2021 to 2027. As a result of its annual review of environmental liabilities, no revaluation adjustment was recorded to adjust the LAR environmental liability (2020 - increase by $3 million).

21. ASSET RETIREMENT OBLIGATIONS

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

In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.0% to 4.0%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Distribution Business' asset retirement obligations represent management's best estimates of the cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively. As a result of its annual review of asset retirement obligations, no revaluation adjustment to the asset retirement obligations related to the Distribution Business was recorded in 2021 (2020 - increase by $1 million).

At December 31, 2021, Hydro One Networks had recorded asset retirement obligations of $7 million (2020 - $6 million) related to the Distribution Business, primarily consisting of the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities.

22. LEASES

Hydro One has operating lease contracts for buildings used in administrative and service-related functions. These leases have terms between three and nine years with renewal options of additional three- to five-year terms at prevailing market rates at the time of extension. 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 by entering into these leases. Renewal options are included in the lease term when their exercise is reasonably certain. Other information related to the Distribution Business' operating leases was as follows:

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Lease expense	7	6
Lease payments made	7	5

As at December 31	**2021**	**2020**
Weighted-average remaining lease term[1] *(years)*	6	7
Weighted-average discount rate	2.3 %	2.6 %

[1] Includes renewal options that are reasonably certain to be exercised.

At December 31, 2021, future minimum operating lease payments were as follows:

(millions of dollars)	
2022	7
2023	5
2024	5
2025	4
2026	4
Thereafter	6
Total undiscounted minimum lease payments	31
Less: discounting minimum lease payments to present value	(2)
Total discounted minimum lease payments	29

At December 31, 2020, future minimum operating lease payments were as follows:

(millions of dollars)	
2021	6
2022	6
2023	5
2024	5
2025	5
Thereafter	13
Total undiscounted minimum lease payments	40
Less: discounting minimum lease payments to present value	(4)
Total discounted minimum lease payments	36

Hydro One presents its ROU assets and lease obligations on the balance sheets as follows:

As at December 31 *(millions of dollars)*	**2021**	**2020**
Other long-term assets *(Note 13)*	28	34
Accounts payable and other current liabilities *(Note 14)*	6	5
Other long-term liabilities *(Note 15)*	23	32

23. HYDRO ONE NETWORKS' SHARE CAPITAL

Hydro One Networks is authorized to issue an unlimited number of common and preferred shares. At December 31, 2021 and 2020, Hydro One Networks had 209,401,290 common shares issued and outstanding and no preferred shares issued and outstanding.

During 2021, Hydro One Networks declared common share dividends in the amount of $620 million (2020 - $1 million) and made a return of stated capital of $nil (2020 - $607 million) to Hydro One. The amount allocated to the Distribution Business to finance these dividends and return of stated capital was $279 million (2020 - $274 million).

24. 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

Hydro One Limited has two share grant plans (Share Grant Plans), one for the benefit of certain members of the Power Workers' Union (PWU) (PWU Share Grant Plan) and one for the benefit of certain members of the Society (Society Share Grant Plan). Hydro One and Hydro One Limited entered into an intercompany 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 PWU 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 began on July 3, 2015, which is the date the share grant plan was 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 Initial Public Offering (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, 2,152,519 Hydro One Limited common shares were granted under the PWU Share Grant Plan relevant to the total stock-based compensation recognized by the Distribution Business.

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 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 began 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, 743,877 Hydro One Limited common shares were granted under the Society Share Grant Plan relevant to the total stock-based compensation recognized by the Distribution Business.

The fair value of the Hydro One Limited 2015 share grants to employees of Hydro One Networks and allocated to the Distribution Business was $59 million. The fair value was 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. In 2021, 224,777 common shares of Hydro One Limited were issued under the Share Grant Plans (2020 - 218,368) to eligible employees of Hydro One Networks and allocated to the Distribution Business. Total stock-based compensation recognized by the Distribution Business during 2021 was $3 million (2020 - $4 million) and was recorded as a regulatory asset.

A summary of the Distribution Business' share grant activity under the Share Grant Plans during the years ended December 31, 2021 and 2020 is presented below:

Year ended December 31, 2021	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding - beginning	1,624,103	$20.50
Vested and issued[1]	(224,777)	—
Transfers to Hydro One Remote Communities[2]	(1,450)	$20.50
Forfeited	(40,318)	$20.50
Share grants outstanding - ending	1,357,558	$20.50

[1] In 2021, Hydro One Limited issued from treasury common shares to eligible Hydro One Networks employees in accordance with provisions of the Share Grant Plans. In accordance with the intercompany agreement between Hydro One and Hydro One Limited, Hydro One Networks made payments to Hydro One for the common shares issued.

[2] These transfers relate to share grants allocated to the Distribution Business for PWU employees transferred from Hydro One Networks to Hydro One Remote Communities during 2021. These employees have been granted Hydro One Limited shares under the PWU Share Grant Plan in 2015.

Year ended December 31, 2020	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding - beginning	2,019,966	$20.50
Vested and issued[1]	(227,462)	—
Transfers to Hydro One Remote Communities[2]	(1,518)	$20.50
Transfers to Transmission Business[3]	(126,429)	$20.50
Forfeited	(40,454)	$20.50
Share grants outstanding - ending	1,624,103	$20.50

[1] In 2020, Hydro One Limited issued from treasury common shares to eligible Hydro One Networks employees in accordance with provisions of the Share Grant Plans. In accordance with the intercompany agreement between Hydro One and Hydro One Limited, Hydro One Networks made payments to Hydro One for the common shares issued.

[2] These transfers relate to share grants allocated to the Transmission Business for PWU employees transferred from Hydro One Networks to Hydro One Remote Communities during 2020. These employees have been granted Hydro One Limited shares under the PWU Share Grant Plan in 2015.

[3] These transfers relate to share grants allocations between Hydro One Networks' Transmission and Distribution Businesses.

Directors' DSU Plan

Under the Directors' DSU Plan, directors can elect to receive credit for their annual cash retainer in a notional account of DSUs in lieu of cash. Hydro One Limited Board of Directors may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled. Each DSU represents a unit with an underlying value equivalent to the value of one common share of Hydro One Limited and is entitled to accrue Hydro One Limited common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One Limited Board of Directors.

During 2021 and 2020, Directors' DSU Plan awards granted by Hydro One Limited that related to the Distribution Business were as follows:

Year ended December 31 *(number of DSUs)*	**2021**	**2020**
DSUs outstanding - beginning	16,705	42,688
Granted	7,549	5,975
Settled	(1,921)	(31,958)
DSUs outstanding - ending	22,333	16,705

For the years ended December 31, 2021 and 2020, the expense related to the Directors' DSU Plan was less than $1 million. At December 31, 2021 and 2020, the liability related to Directors' DSUs was less than $1 million.

Management DSU Plan

Under the Management DSU Plan, eligible executive employees can elect to receive a specified proportion of their annual short-term incentive in a notional account of DSUs in lieu of cash. Each DSU represents a unit with an underlying value equivalent to the value of one common share of Hydro One Limited and is entitled to accrue common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One Limited Board of Directors.

During 2021 and 2020, Management DSU Plan awards granted by Hydro One Limited that related to Hydro One Network's Distribution Business were as follows:

Year ended December 31 *(number of DSUs)*	**2021**	**2020**
DSUs outstanding - beginning	10,744	13,485
Granted	4,835	2,354
Paid	—	(5,095)
DSUs outstanding - ending	15,579	10,744

To comply with the Accountability Act and the OEB Act, in 2019 Hydro One Limited removed all executive-related compensation from the labour costs of its regulated subsidiaries. During the year ended December 31, 2021, no executive-related stock-based compensation was allocated to the regulated businesses of Hydro One Networks.

Employee Share Ownership Plan

In 2015, Hydro One Limited established Employee Share Ownership Plans (ESOP) for certain eligible management and non-represented employees (Management ESOP) and for certain eligible Society-represented staff (Society ESOP). Under the Management ESOP, the eligible management and non-represented employees may contribute between 1% and 6% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 50% of their contributions, up to a maximum Company contribution of $25,000 per calendar year. Under the Society ESOP, the eligible Society-represented staff may contribute between 1% and 4% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 25% of their contributions, with no maximum Company contribution per calendar year. In 2021, Company contributions made under the ESOP and allocated to the Distribution Business were $1 million (2020 - $1 million).

LTIP

Effective August 31, 2015, the Board of Directors of Hydro One Limited adopted an LTIP. Under the LTIP, long-term incentives are 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 which also permit the participants to surrender a portion of their awards to satisfy related withholding taxes requirements. 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 Performance Share Units (PSUs), Restricted Share Units (RSUs), stock options, share appreciation rights, restricted shares, DSUs, and other stock-based awards. The mix of vehicles is intended to vary by role to recognize the level of executive accountability for overall business performance.

PSUs and RSUs

During 2021 and 2020, LTIP awards granted by Hydro One Limited that related to Hydro One Network's Distribution Business were as follows:

	PSUs		RSUs	
Year ended December 31 *(number of units)*	**2021**	**2020**	**2021**	**2020**
Units outstanding – beginning	29,644	41,750	32,717	36,692
Vested and issued[1]	(29,644)	(9,698)	(32,717)	(1,601)
Forfeited	—	(2,408)	—	(2,374)
Units outstanding – ending	—	29,644	—	32,717

[1] In 2021 and 2020, Hydro One Limited issued from treasury common shares to eligible Distribution Business employees in accordance with provisions of the LTIP. In accordance with the inter-company agreement between Hydro One and Hydro One Limited, Hydro One Networks made payments to Hydro One for the common shares issued.

To comply with the Accountability Act and the OEB Act, in 2019 Hydro One Limited removed all executive-related compensation from the labour costs of its regulated subsidiaries. During the year ended December 31, 2021, no executive-related stock-based compensation was allocated to the regulated businesses of Hydro One Networks.

No awards were granted in 2021 or 2020. The compensation expense related to the PSU and RSU awards recognized by the Distribution Business during 2021 and 2020 was not significant. At December 31, 2021, there was no amount payable relating to PSU and RSU awards (2020 - not significant), included in due to related parties on the balance sheets.

Society RSU Plan

As a result of the renewal of the Company's prior collective agreement with members of the Society, the Company provided equity compensation in the form of RSUs to certain eligible members. The equity compensation provides for the purchase of common shares of Hydro One Limited from the open market, effective March 1, 2021 in one equity grant vesting in equal portions over a two-year period. To be eligible, an employee must be an employee of the Company as of July 30, 2021, the date the plan was ratified by the Society; the grant date. The number of common shares issued to each eligible employee will be equal to 1.0% of such eligible employee’s salary as at April 1, 2021, divided by $30.80, being the price of the common shares of Hydro One Limited at the grant date. Each RSU is entitled to accrue common share dividend equivalents in the form of additional RSUs at the time dividends are paid, subsequent to declaration by Hydro One’s Board of Directors.

A summary of RSU awards activity under the Society RSU Plan during the years ended December 31, 2021 and 2020 is presented below:

Year ended December 31 *(number of RSUs)*	**2021**	**2020**
RSUs outstanding - beginning	—	—
Granted	35,696	—
RSUs outstanding - ending	35,696	—

25. RELATED PARTY TRANSACTIONS

The Distribution Business is a separately regulated business of Hydro One Networks which is indirectly owned by Hydro One Limited. The Province of Ontario is a shareholder of Hydro One Limited with approximately 47.2% ownership at December 31, 2021. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One Networks because they are controlled or significantly influenced by the Ministry of Energy. Acronym Solutions Inc., formerly Hydro One Telecom Inc. (Acronym Solutions) and Hydro One Broadband Solutions Inc, (HOBSI) are subsidiaries of Hydro One Limited. The following is a summary of the Distribution Business' related party transactions during the years ended December 31, 2021 and 2020:

Year ended December 31 *(millions of dollars)*

Related Party	Transaction	2021	2020
IESO	Power purchased	2,194	2,454
	Amounts related to electricity rebates	1,051	1,581
	Distribution revenues related to rural rate protection	245	242
	Funding received related to Conservation and Demand Management programs	—	24
OPG	Power purchased	13	6
	Revenues related to supply of electricity	6	6
	Costs related to the purchase of services	—	1
OEFC	Power purchased from power contracts administered by the OEFC	1	1
OEB	OEB fees	4	5
Hydro One	Payments to finance dividends and return of stated capital	279	274
	Interest expense on long-term debt	188	185
	Stock-based compensation costs	—	5
	Interest expense on inter-company demand facility	1	2
	Services received - costs expensed	1	1
Hydro One Networks' Transmission Business	Services received - costs expensed	2	2
	Capital contributions made	14	3
Hydro One Telecom	Services received - costs expensed	7	5
Hydro One Limited and its other subsidiaries	Revenues for services provided	6	7
	Services received - costs recovered	4	3
	Capital contributions accrued from HOBSI	3	—

The amounts due to and from related parties at December 31, 2021 and 2020 are as follows:

As at December 31 *(millions of dollars)*	2021	2020
Inter-company demand facility	(70)	107
Due from related parties	121	183
Due to related parties	(266)	(321)
Accrued interest	(49)	(45)
Long-term inter-company payable	(15)	(17)
Long-term debt, including current portion	(4,977)	(4,750)

26. STATEMENTS OF CASH FLOWS

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

Year ended December 31 *(millions of dollars)*	2021	2020
Accounts receivable	(4)	6
Due from related parties	65	95
Other assets	(2)	(4)
Accounts payable	(5)	9
Accrued liabilities	25	(110)
Due to related parties	(56)	19
Accrued interest	4	3
Long-term accounts payable and other liabilities	(3)	—
Post-retirement and post-employment benefit liability	45	24
	70	42

Capital Expenditures

The following tables reconcile investments in property, plant and equipment and intangible assets and the amounts presented in the statements of cash flows for the years ended December 31, 2021 and 2020. The reconciling items include net change in accruals and capitalized depreciation.

Year ended December 31, 2021 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(693)	(81)	(774)
Reconciling items	20	—	20
Cash outflow for capital expenditures	(673)	(81)	(754)

Year ended December 31, 2020 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(634)	(73)	(707)
Reconciling items	20	3	23
Cash outflow for capital expenditures	(614)	(70)	(684)

Supplementary Information

Year ended December 31 *(millions of dollars)*	2021	2020
Net interest paid	184	182
Income taxes paid	81	21

27. CONTINGENCIES

Hydro One Networks is involved in various lawsuits and claims 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 Distribution Business' financial position, results of operations or cash flows.

The Company is a wholly owned subsidiary of Hydro One. As such, the assets of the Distribution Business are available to satisfy the debts, contingent liabilities and commitments of both the Company and Hydro One.

28. COMMITMENTS

The Company and Hydro One have numerous commitments. These commitments have not been specifically allocated to the Distribution Business. However, the assets of the Distribution Business are available to satisfy the commitments of both the Company and Hydro One.

29. SUBSEQUENT EVENTS

Payments to Finance Dividends

On February 24, 2022, Hydro One Networks declared a dividend of $157 million. The amount allocated to the Distribution Business to finance this payment was $72 million.

HYDRO ONE NETWORKS INC.

DISTRIBUTION BUSINESS

FINANCIAL STATEMENTS

DECEMBER 31, 2022

To the Directors of Hydro One Networks Inc.

Opinion

We have audited the carve-out financial statements of the Distribution Business (a business of Hydro One Networks Inc.) (the "Entity"), which comprise:

- the carve out balance sheet as at December 31, 2022
- the carve out statement of operations and comprehensive income for the year then ended
- the carve out statement of cash flows for the year then ended
- and notes to the carve-out financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements as at and for the year ended December 31, 2022 of the Entity are prepared, in all material respects, in accordance with the financial reporting framework described in Note 2 of these financial statements.

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.

Emphasis of Matter - Basis of Accounting and Basis of Preparation

We draw attention to Note 2 in the financial statements which describes the basis of accounting and basis of preparation used in these financial statements and the purpose of the financial statements.

As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation of the financial statements in accordance with the financial reporting framework described in Note 2 in the financial statements; this includes determining that the applicable financial reporting framework is an acceptable basis for the preparation of the financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
April 24, 2023

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2022 and 2021

Year ended December 31 *(millions of Canadian dollars)*	**2022**	**2021**
Revenues		
Energy sales	5,258	4,946
Rural rate protection *(Note 25)*	247	245
Other	59	49
	5,564	5,240
Costs		
Purchased power (includes $2,396 related party costs; 2021 - $2,208) *(Note 25)*	3,702	3,531
Operation, maintenance and administration *(Note 25)*	679	595
Depreciation, amortization and asset removal costs *(Note 5)*	449	426
	4,830	4,552
Income before financing charges and income tax expense	**734**	**688**
Financing charges *(Notes 6, 25)*	201	184
Income before income tax expense	**533**	**504**
Income tax expense *(Note 7)*	124	91
Net income	**409**	**413**
Other comprehensive income *(Note 19)*	2	1
Comprehensive income	**411**	**414**

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
BALANCE SHEETS
At December 31, 2022 and 2021

As at December 31 *(millions of Canadian dollars)*	**2022**	**2021**
Assets		
Current assets:		
Accounts receivable *(Note 8)*	679	630
Due from related parties *(Note 25)*	102	121
Other current assets *(Note 9)*	98	99
	879	850
Property, plant and equipment *(Note 10)*	9,065	8,571
Other long-term assets:		
Regulatory assets *(Note 12)*	965	932
Intangible assets *(Note 11)*	386	380
Goodwill	217	217
Other assets *(Note 13)*	28	29
	1,596	1,558
Total assets	**11,540**	**10,979**
Liabilities		
Current liabilities:		
Inter-company demand facility *(Note 25)*	414	70
Long-term debt payable within one year *(Notes 16, 17, 25)*	228	261
Accounts payable and other current liabilities *(Note 14)*	841	731
Due to related parties *(Note 25)*	270	266
	1,753	1,328
Long-term liabilities:		
Long-term debt *(Notes 15, 16, 25)*	4,684	4,716
Deferred income tax liabilities *(Note 7)*	779	736
Regulatory liabilities *(Note 12)*	467	226
Other long-term liabilities *(Note 15)*	847	1,080
	6,777	6,758
Total liabilities	**8,530**	**8,086**
Contingencies and Commitments *(Notes 27, 28)*		
Subsequent Events *(Note 29)*		
Excess of assets over liabilities *(Notes 18, 23)*	3,010	2,893
Total liabilities and excess of assets over liabilities	**11,540**	**10,979**

See accompanying notes to Financial Statements.

On behalf of the Board of Directors:

Stacey Mowbray

Stacey Mowbray
Chair, Audit Committee

David Lebeter
Director

HYDRO ONE NETWORKS INC.
DISTRIBUTION BUSINESS
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2022 and 2021

Year ended December 31 *(millions of Canadian dollars)*	**2022**	**2021**
Operating activities		
Net income	409	413
Environmental expenditures	(17)	(15)
Adjustments for:		
Depreciation and amortization *(Note 5)*	372	366
Regulatory assets and liabilities	15	(25)
Deferred income tax expense	27	1
Other	25	(10)
Changes in non-cash balances related to operations *(Note 26)*	35	70
Net cash from operating activities	**866**	**800**
Financing activities		
Long-term debt issued	195	450
Long-term debt repaid	(261)	(250)
Payments to finance dividends	(291)	(279)
Other	(1)	(2)
Net cash used in financing activities	**(358)**	**(81)**
Investing activities		
Capital expenditures *(Note 26)*		
Property, plant and equipment	(791)	(673)
Intangible assets	(68)	(81)
Capital contributions paid	1	(14)
Acquisition *(Note 4)*	—	(128)
Other	6	—
Net cash used in investing activities	**(852)**	**(896)**
Net change in inter-company demand facility	(344)	(177)
Inter-company demand facility, beginning of year	(70)	107
Inter-company demand facility, end of year	**(414)**	**(70)**

See accompanying notes to Financial Statements.

1. DESCRIPTION OF THE BUSINESS

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 Inc. (Hydro One). The Company owns and operates regulated transmission and distribution businesses. The Company's regulated distribution business (Distribution Business) operates a low-voltage electrical distribution network that distributes electricity from the transmission system, or directly from generators, to customers within Ontario. The Distribution Business is regulated by the Ontario Energy Board (OEB).

Rate Setting

In March 2017, Hydro One Networks filed an application with the OEB for 2018-2022 distribution rates. On March 7, 2019, the OEB rendered its decision on the distribution rates application. In accordance with the OEB decision, the Company filed its draft rate order reflecting updated revenue requirements of $1,459 million for 2018, $1,498 million for 2019, $1,532 million for 2020, $1,578 million for 2021, and $1,624 million for 2022. On June 11, 2019, the OEB approved the rate order confirming these updated revenue requirements.

On March 7, 2019, the OEB issued its reconsideration decision (DTA Decision) with respect to Hydro One's rate-setting treatment of the benefits of the deferred tax asset (DTA) resulting from the transition from the payments in lieu of tax regime to tax payments under the federal and provincial tax regimes. On July 16, 2020, the Ontario Divisional Court rendered its decision (ODC Decision) on the Company's appeal of the OEB's DTA Decision. On April 8, 2021, the OEB rendered its decision and order regarding the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period (DTA Implementation Decision). See Note 12 - Regulatory Assets and Liabilities for additional details.

On August 5, 2021 Hydro One Networks filed a joint rate application (JRAP) for 2023-2027 transmission and distribution rates. On November 29, 2022, as part of the approval of the JRAP application, the OEB issued its final rate order for 2023-2027 distribution rates approving revenue requirement of $1,727 million for 2023, $1,813 million for 2024, $1,886 million for 2025, $1,985 million for 2026 and $2,071 million for 2027.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These Financial Statements are prepared and presented in accordance with the accounting policies summarized below and in Canadian dollars. These policies are consistent with United States (US) Generally Accepted Accounting Principles (GAAP), with the exception that business combinations of entities under common control have been accounted for as of the date of the transfer, such that (1) the Financial Statements were not prepared as though the transfer of entities under common control had occurred at the beginning of the year in which the transfer occurred and (2) the comparative year information has not been retrospectively adjusted.

The purpose of these Financial Statements is to meet Hydro One Networks' obligation to the OEB. As a result, these Financial Statements may not be suitable for another purpose. Consolidated financial statements of Hydro One for the year ended December 31, 2022 have been prepared and are publicly available.

Basis of Preparation

These Financial Statements have been prepared on a carve-out basis to provide the financial position, results of operations and cash flows of the Distribution Business. The Financial Statements are considered by management to be a reasonable representation, prepared on a rational, systematic and consistent basis, of the financial results of the Distribution Business. As a result of this basis of preparation, these Financial Statements may not necessarily be identical to the financial position and results of operations that would have resulted had the Distribution Business historically operated on a stand-alone basis.

The Financial Statements have been constructed primarily through specific identification of assets, liabilities (other than debt), revenues and expenses that relate to the Distribution Business. The Company’s long-term debt is allocated based on the respective borrowing requirements of the Company’s transmission and distribution businesses. A portion of the Company’s shared functions and services costs is allocated to the Distribution Business on a fully allocated-cost basis, consistent with OEB-approved independent studies. Income tax expense has been recorded at effective rates based on income taxes as reported in the statements of operations and comprehensive income as though the Distribution Business was a separate taxpaying entity. These Financial Statements include deferred taxes and related regulatory balances with respect to the rate-setting treatment of the benefits of the deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act, 1998* (Ontario) to tax payments under the federal and provincial tax regime which occurred when Hydro One Limited became a public company listed on the Toronto Stock Exchange. Certain other amounts presented in these Financial Statements represent allocations subject to review and approval by the OEB.

Hydro One Networks performed an evaluation of subsequent events through to April 24, 2023, 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 29 - 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, and unbilled revenues. Actual results may differ significantly from these estimates.

Regulatory Accounting

The OEB has the general power to include or exclude revenues, costs, gains or losses in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting in accordance with Financial Accounting Standards Board Accounting Standard Codification Topic 980, Regulated Operations within the Distribution Business, giving rise to the recognition of regulatory assets and liabilities. The Distribution Business' regulatory assets represent certain amounts receivable from future electricity customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Distribution Business has recorded regulatory liabilities that generally represent amounts that are refundable to electricity customers in future rates. The Distribution Business continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will include its regulatory assets and liabilities in setting future rates. If, at some future date, the Distribution Business judges that it is no longer probable that the OEB will include a regulatory asset or liability in setting future rates, the appropriate carrying amount would be reflected in results of operations prospectively from the date the Distribution Business assessment is made, unless the change meets the requirements for a subsequent event adjustment.

Revenue Recognition

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. At the end of each month, electricity delivered to customers since the date of the last billed meter reading is estimated, and the corresponding unbilled revenue is recorded. 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, net of allowance for doubtful accounts. Overdue amounts related to regulated billings bear interest at OEB-approved rates. The allowance for doubtful accounts reflects the Distribution Business' current lifetime expected credit losses (CECL) for all accounts receivable balances. The Distribution Business estimates the CECL by applying internally developed loss rates to all outstanding receivable balances by aging category on an undiscounted basis. Loss rates applied to the accounts receivable balances are based on historical overdue balances, customer payments and write-offs, which may be further supplemented from time to time to reflect management's best estimate of the loss. Accounts receivable are written-off against the allowance when they are deemed uncollectible. The allowance for doubtful accounts is affected by changes in volume, prices and economic conditions.

Income Taxes

Income taxes are accounted for using the asset and liability method. Current tax assets and liabilities are recognized based on the taxes payable or refundable on the current and prior year’s taxable income. Current and deferred income taxes are computed based on the tax rates and tax laws enacted as at the balance sheet date. Tax benefits associated with income tax positions 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 using new information about recognition or measurement as it becomes available.

Deferred Income Taxes

Deferred income tax assets and liabilities are recognized on all temporary differences between the tax bases and carrying amounts of assets and liabilities, including the carry forward unused tax credits and tax losses to the extent that it is more-likely-than-not that these deductions, credits, and losses can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted as at the balance sheet date.

Deferred income taxes associated with its regulated operations which are considered to be more-likely-than-not to be recoverable or refunded in the future regulated rates charged to customers are recognized as deferred income tax regulatory assets and liabilities with an offset to deferred income tax expense.

Investment tax credits are recorded as a reduction of the related expenses or income tax expense in the current or future period to the extent it is more likely than not that the credits can be utilized.

Management reassesses the deferred income tax assets at each balance sheet date and reduces the amount to the extent that it is more likely than not that the deferred income tax asset will not 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.

Inter-company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries, and implicitly, by the regulated businesses of its subsidiaries. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Distribution Business to and from the pooled bank accounts. Interest is earned on positive inter-company balances based on the average of the bankers' acceptance rate at the beginning and end of the month, less 0.15%. 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, and information technology (IT). Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

Property, plant and equipment in service consists of distribution, administration and service, and other communication assets as well as land easements. Property, plant and equipment also includes future use assets, such as land, major components and spare parts, and capitalized project development costs associated with deferred capital projects.

Distribution

Distribution assets include assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

Administration and Service

Administration and service assets include administrative buildings, personal computers, transport and work equipment, tools and other minor assets.

Other

Other assets include fibre optic and microwave radio systems, optical ground wire, towers, telephone equipment and associated buildings. Other assets also include easements which include land rights for occupation.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost, which comprises purchased software, direct labour (including employee benefits), consulting, engineering, overheads and attributable capitalized financing charges. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses. The Distribution Business' intangible assets primarily represent major 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 financing costs are a reduction of financing charges recognized in the statements of operations and comprehensive income. Capitalized financing costs are calculated using the Distribution Business' weighted average effective cost of debt.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of 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 most recent review resulted in changes to rates effective January 1, 2015 for Distribution Business. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average Service Life	Rate Range	Rate Average
Property, plant and equipment:			
Distribution	46 years	1% - 7%	2 %
Communication	8 years	1% - 15%	9 %
Administration and service	24 years	1% - 20%	3 %
Intangible assets	10 years	10 %	8 %

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.

Acquisitions and Goodwill

The Company accounts for business acquisitions using the acquisition method of accounting and, accordingly, the assets and liabilities of the acquired entities are primarily measured at their estimated fair value at the date of acquisition. Costs associated with pending acquisitions are expensed as incurred. Goodwill represents the cost of acquired 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 value, 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 quantitative goodwill impairment assessment is performed. The quantitative assessment compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the 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.

Based on the assessment performed as at September 30, 2022 and with no significant events since, the Company has concluded that goodwill was not impaired at December 31, 2022.

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 the Distribution Business' long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the 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.

Management assesses the fair value of such long-lived assets using commonly accepted techniques. Techniques used to determine fair value include, but are not limited to, the use of recent third-party comparable sales for reference and internally developed discounted cash flow analysis. Significant changes in market conditions, changes to the condition of an asset, or a change in management's intent to utilize the asset are generally viewed by management as triggering events to reassess the cash flows related to these long-lived assets. As at December 31, 2022 and 2021, no asset impairment had been recorded.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Distribution Business defers its proportionate share of the relevant Hydro One external transaction costs related to obtaining financing and presents such amounts net of related debt on the balance sheets. Deferred issuance 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. Accounts receivable and amounts due from related parties are classified as loans and receivables. The Distribution Business considers the carrying amounts of accounts receivable and amounts due from related parties to be reasonable estimates of fair value because of the short time to maturity of these instruments. The Distribution Business estimates the CECL for all accounts receivable balances, which are recognized as adjustments to the allowance for doubtful accounts. Accounts receivable are written-off against the allowance when they are deemed uncollectible. All financial instrument transactions are recorded at trade date.

The Distribution Business determines the classification of its financial assets and liabilities at the date of initial recognition. The Distribution Business designates certain of its financial assets and liabilities to be held at fair value, when it is consistent with the Distribution Business' risk management policy disclosed in Note 17 - 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 instruments to hedge these risks. Certain of these derivative instruments qualify for hedge accounting and are designated as accounting hedges, while others either do not qualify as hedges or have not been designated as hedges (hereinafter referred to as undesignated contracts) as they are part of economic hedging relationships. 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 on 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, any unrealized gain or loss, net of tax, is recorded as a component of accumulated OCI (AOCI). Amounts in AOCI are reclassified to results of operations in the same period or periods during which the hedged transaction affects results of operations and presented in the same line item as the earnings effect of the hedged item. Any gains or losses on the derivative instrument that represent hedge components excluded from the assessment of effectiveness are recognized in the same line item of the statements of operations as the hedged item. For fair value hedges, changes in fair value of both the derivative instrument and the underlying hedged exposure are recognized in the statements 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. The changes in fair value of the undesignated derivative instruments are reflected in results of operations.

Embedded derivative instruments are separated from their host contracts and are 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 that required bifurcation at December 31, 2022 or 2021.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where the Company has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. 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 Hydro One’s 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 defined benefit pension plan (Pension Plan) and its 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. Defined benefit pension, post-retirement and post-employment plans are considered to be underfunded when the projected benefit obligation (PBO) exceeds the fair value of the plan assets. Liabilities are recognized on the consolidated balance sheets for any net underfunded PBO. The net underfunded PBO 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 PBO of the plan, an asset is recognized equal to the net overfunded PBO. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets.

Hydro One recognizes its contributions to the defined contribution pension plan (DC Plan) as pension expense, with a portion being capitalized as part of labour costs included in capital expenditures. The expensed amount is included in operation, maintenance and administration (OM&A) costs in the consolidated statements of operations and comprehensive income.

Defined Benefit Pension

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.

Post-retirement and Post-employment Benefits

Hydro One has post-retirement and post-employment benefit plans covering all regular employees of Hydro One and its subsidiaries, including Hydro One Networks. The benefit obligations of these post-retirement and post-employment benefit plans are not segregated, or funded separately, for Hydro One Networks. Accordingly, for purposes of these Financial Statements, the post-retirement and post-employment benefit obligations are reflective of earnings allocations of relevant employees to the Company's Distribution Business.

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. For post-retirement benefits, past service costs from plan amendments are amortized to results of operations based on the expected average remaining service period.

For post-retirement benefits, all actuarial gains or losses are deferred using the “corridor” approach. The amount calculated above the “corridor” is amortized to results of operations on a straight-line basis over the expected average remaining service life of active employees in the plan or 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 account, to the extent of the remeasurement adjustment.

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 account, to the extent of the remeasurement adjustment.

All post-retirement and post-employment benefit costs are attributed to labour costs and are either charged to results of OM&A costs or capitalized as part of the cost of property, plant and equipment and intangible assets (applies to the service cost component of benefit cost) and to regulatory assets for all other components of the benefit cost, consistent with their inclusion in OEB-approved rates.

Stock-Based Compensation

Share Grant Plans

The Company measures share grant plans based on fair value of share grants as estimated based on Hydro One Limited's grant date common 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. Costs are transferred from the regulatory asset to labour costs at the time the share grants vest and are issued, and are recovered in rates. Forfeitures are recognized as they occur.

Deferred Share Unit (DSU) Plans

The Company records the liabilities associated with its Directors' and Management DSU Plans 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 the Hydro One Limited common share closing price at the end of each reporting period.

Society Restricted Share Unit (RSU) Plan

The Company measures its Society RSU plan based on fair value of share grants as estimated based on Hydro One Limited's grant date common share price. The costs are recognized over the vesting period using the straight-line attribution method. The Company records a regulatory asset equal to the accrued costs of the Society RSU plan recognized in each period. Costs are transferred from the regulatory asset to labour costs at the time the share grants vest and are issued, and are recovered in rates. Forfeitures are recognized as they occur.

Long-term Incentive Plan (LTIP)

The Company measures the awards issued under Hydro One Limited's LTIP, at fair value based on Hydro One Limited grant date common share price. The related compensation expense is recognized over the vesting period on a straight-line basis. Forfeitures are recognized as they occur.

Loss Contingencies

Hydro One and its subsidiaries are involved in certain legal and environmental matters that arise in the normal course of business. In the preparation of the Financial Statements, management makes judgments regarding the future outcome of contingent events and records a loss for a contingency based on its best estimate when it is determined that such loss is probable and the amount of the loss can be reasonably estimated. Where the loss amount is recoverable in future rates, a regulatory asset is also recorded. When a range estimate for the probable loss exists and no amount within the range is a better estimate than any other amount, the Distribution Business records a loss at the minimum amount within the range.

Management regularly reviews current information available to determine whether recorded provisions should be adjusted and whether new provisions are required. Estimating probable losses may require analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, provincial and local courts or regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the Financial Statements may differ from the actual outcome once the contingency is resolved. Such differences could have a material impact on future results of operations, financial position and cash flows of the Distribution Business.

Provisions are based upon current estimates and are subject to greater uncertainty where the projection period is lengthy. A significant upward or downward trend in the number of claims filed, the nature of the alleged injuries, and the average cost of resolving each claim could change the estimated provision, as could any substantial adverse or favourable verdict at trial. A federal or provincial legislative outcome or structured settlement could also change the estimated liability. Legal fees are expensed as incurred.

Environmental Liabilities

Environmental liabilities are recorded in respect of past contamination when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated. The Distribution Business records a liability for the estimated future expenditures associated with contaminated land assessment and remediation (LAR) and for the phase-out and destruction of polychlorinated biphenyl (PCB)-

contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. The Company determines the present value with a discount rate that produces an amount at which the environmental liabilities could be settled in an arm's length transaction with a third party. As the Company anticipates that the future expenditures will continue to be recoverable in future rates, an offsetting regulatory asset has been recorded to reflect the future recovery of these environmental expenditures from customers. Hydro One reviews its estimates of future environmental expenditures annually, or more frequently if there are indications that circumstances have changed. Estimate changes are accounted for prospectively.

Asset Retirement Obligations

Asset retirement obligations 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 asset retirement obligations 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. This uncertainty is incorporated in the fair value measurement of the obligation.

When recording an asset retirement obligation, 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. The present value is determined with a discount rate that equates to the Company's credit-adjusted risk-free rate. Where an asset is no longer in service when an asset retirement obligation is recorded, the asset retirement cost is recorded in results of operations.

Leases

At the commencement date of a lease, the minimum lease payments are discounted and recognized as a lease obligation. Discount rates used correspond to the Company's incremental borrowing rates. Renewal options are assessed for their likelihood of being exercised and are included in the measurement of the lease obligation when it is reasonably certain they will be exercised. The Company 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. ROU assets are included in other long-term assets, and corresponding lease obligations are included in other current liabilities and other long-term liabilities on the balance sheets.

Subsequent to the commencement date, the lease expense recognized at each reporting period is the total remaining lease payments over the remaining lease term. Lease obligations are measured as the present value of the remaining unpaid lease payments using the discount rate established at commencement date. The amortization of the ROU assets is calculated as the difference between the lease expense and the accretion of interest, which is calculated using the effective interest method. Lease modifications and impairments are assessed at each reporting period to assess the need for a remeasurement of the lease obligations or ROU assets.

3. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present Accounting Standard Updates (ASUs) issued by the Financial Accounting Standards Board that are applicable to Hydro One Networks:

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Distribution Business
ASU 2020-06	August 2020	The update addresses the complexity associated with applying US GAAP for certain financial instruments with characteristics of liabilities and equity. The amendments reduce the number of accounting models for convertible debt instruments and convertible preferred stock.	January 1, 2022	No impact upon adoption
ASU 2021-05	July 2021	The amendments are intended to align lease classification requirements for lessors under Topic 842 with Topic 840's practice.	January 1, 2022	No impact upon adoption
ASU 2021-10	November 2021	The update addresses diversity on the recognition, measurement, presentation and disclosure of government assistance received by business entities.	January 1, 2022	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated Impact on Distribution Business
ASU 2021-08	October 2021	The amendments address how to determine whether a contractual obligation represents a liability to be recognized by the acquirer in a business combination.	January 1, 2023	No expected impact upon adoption
ASU 2022-02	March 2022	The amendments eliminate the troubled debt restructuring (TDR) accounting model for entities that have adopted Topic 326 Financial Instrument – Credit Losses and modifies the guidance on vintage disclosure requirements to require disclosure of current-period gross write-offs by year of origination.	January 1, 2023	Upon adoption, the Company will disclose the current period gross write-offs by year of origination relating to its accounts receivable

4. COMBINATIONS UNDER COMMON CONTROL

Orillia Power Transfer

On June 1, 2021, Orillia Power Corporation, a subsidiary of Hydro One, sold its net business assets at their carrying amount to Hydro One Networks in exchange for a demand promissory note.

The following table summarizes the assets and liabilities that were transferred to Hydro One Networks' Distribution Business at June 1, 2021:

(millions of dollars)	
Property, plant and equipment	33
Working capital	3
Regulatory liabilities	(1)
Inter-company demand facility	(23)
	12

Peterborough Distribution Transfer

On June 1, 2021 Hydro One sold its investment in 1937380 Ontario Inc. to Hydro One Networks and on the same day transferred its net assets to the Hydro One Network's Distribution Business.

The following table summarizes the assets and liabilities that were transferred to Hydro One Networks' Distribution Business at June 1, 2021:

(millions of dollars)	
Property, plant and equipment	66
Goodwill	33
Working capital	4
Regulatory assets	2
Inter-company demand facility	(105)
	—

5. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS

Year ended December 31 *(millions of dollars)*	**2022**	**2021**
Depreciation of property, plant and equipment[1]	294	294
Amortization of intangible assets	61	57
Amortization of regulatory assets	17	15
Depreciation and amortization	372	366
Asset removal costs	77	60
	449	426

[1] Includes gain on sale of assets of $20 million (2021 - $nil).

6. FINANCING CHARGES

Year ended December 31 *(millions of dollars)*	**2022**	**2021**
Interest on long-term debt *(Note 25)*	190	188
Interest on inter-company demand facility *(Note 25)*	11	1
Interest on regulatory accounts	4	3
Other	6	4
Less: Interest capitalized on construction and development in progress	(10)	(8)
DTA carrying charges	—	(4)
	201	184

7. INCOME TAXES

As a rate regulated utility business, the Distribution Business recovers income taxes from its ratepayers based on estimated current income tax expense in respect of its regulated operations. The amounts of deferred income taxes related to regulated operations which are considered to be more likely-than-not to be recoverable or refunded to, ratepayers in future periods are recognized as deferred income tax regulatory assets or liabilities, with an offset to deferred income tax expense (recovery). The Distribution Business' tax expense or recovery for the period includes all current and deferred income tax expenses for the period net of the regulated accounting offset to deferred income tax expense arising from temporary differences to be recoverable or refunded in future rates charged to customers. Thus, the Distribution Business' income tax expense or recovery 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:

Year ended December 31 *(millions of dollars)*	2022	2021
Income before income tax expense	533	504
Income tax expense at statutory rate of 26.5% (2021 - 26.5%)	141	134
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Impact of DTA Implementation Decision[1]	35	1
Capital cost allowance in excess of depreciation and amortization	(21)	(24)
Overheads capitalized for accounting but deducted for tax purposes	(16)	(9)
Pension and post-retirement benefit contributions in excess of expense	(7)	(5)
Environmental expenditures	(4)	(4)
Interest capitalized for accounting but deducted for tax purposes	(3)	(2)
Net temporary differences attributable to regulated business	(16)	(43)
Net permanent differences	(1)	—
Total income tax expense	124	91
Effective income tax rate	23.3 %	18.1 %

[1] Pursuant to the DTA Implementation Decision, the impact represents the amounts recovered from ratepayers in respect of tax deductions previously shared with the ratepayers. See Note 12 - Regulatory Assets and Liabilities

The major components of income tax expense are as follows:

Year ended December 31 *(millions of dollars)*	2022	2021
Current income tax expense	97	90
Deferred income tax expense	27	1
Total income tax expense	124	91

Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities reflect the future tax consequences attributable to temporary differences between the tax bases and the financial statement carrying amounts of the assets and liabilities including the carry forward amounts of tax losses and tax credits. Deferred income tax assets and liabilities attributable to the Distribution Business' regulated operations are recognized with a corresponding offset in deferred income tax regulatory assets and liabilities to reflect the anticipated recovery or repayment of these balances in the future electricity rates. At December 31, 2022 and 2021, deferred income tax assets and liabilities consisted of the following:

As at December 31 *(millions of dollars)*	2022	2021
Deferred income tax assets (liabilities)		
Capital cost allowance in excess of depreciation and amortization	(1,173)	(1,099)
Post-retirement and post-employment benefits expense in excess of cash payments	285	369
Regulatory assets and liabilities	110	2
Goodwill	(19)	(19)
Environmental expenditures	12	15
Non-capital losses	4	—
Other	2	(4)
Net deferred income tax liabilities[1]	(779)	(736)

[1] The net deferred income tax liabilities are presented on the balance sheets as long-term.

8. ACCOUNTS RECEIVABLE

As at December 31 *(millions of dollars)*	2022	2021
Accounts receivable – billed	334	329
Accounts receivable – unbilled	406	356
Accounts receivable, gross	740	685
Allowance for doubtful accounts	(61)	(55)
Accounts receivable, net	679	630

The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2022 and 2021:

Year ended December 31 *(millions of dollars)*	2022	2021
Allowance for doubtful accounts – beginning	(55)	(44)
Write-offs	25	15
Additions to allowance for doubtful accounts	(31)	(26)
Allowance for doubtful accounts – ending	(61)	(55)

9. OTHER CURRENT ASSETS

As at December 31 *(millions of dollars)*	2022	2021
Regulatory assets *(Note 12)*	71	69
Prepaid expenses and other assets	21	24
Materials and supplies	6	6
	98	99

10. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2022 *(millions of dollars)*	Property, Plant and Equipment[1]	Accumulated Depreciation	Construction in Progress	Total
Distribution	12,615	4,353	101	8,363
Administration and service	1,292	679	64	677
Other	198	173	—	25
	14,105	5,205	165	9,065

[1] Includes future use assets totalling $79 million.

As at December 31, 2021 *(millions of dollars)*	Property, Plant and Equipment[1]	Accumulated Depreciation	Construction in Progress	Total
Distribution	11,964	4,134	90	7,920
Administration and service	1,212	656	64	620
Other	187	156	—	31
	13,363	4,946	154	8,571

[1] Includes future use assets totalling $63 million.

Financing charges capitalized on property, plant and equipment under construction in 2022 were $7 million (2021 - $6 million).

11. INTANGIBLE ASSETS

As at December 31, 2022 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	707	449	98	356
Other	69	40	1	30
	776	489	99	386

As at December 31, 2021 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	667	395	73	345
Other	68	33	—	35
	735	428	73	380

Financing charges capitalized to intangible assets under development were $3 million in 2022 (2021 - $2 million). The estimated annual amortization expense for intangible assets are as follows: 2023 - $54 million; 2024 - $45 million; 2025 - $43 million; 2026 - $40 million; and 2027 - $35 million.

12. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. The Distribution Business has recorded the following regulatory assets and liabilities:

As at December 31 *(millions of dollars)*	2022	2021
Regulatory assets:		
Deferred income tax regulatory asset	818	759
Post-retirement and post-employment benefits - non-service cost	111	88
Environmental	32	41
Deferred tax asset sharing	25	72
Stock-based compensation	18	20
Other	32	21
Total regulatory assets	1,036	1,001
Less: current portion	(71)	(69)
	965	932
Regulatory liabilities:		
Post-retirement and post-employment benefits	281	17
Tax rule changes variance	78	65
Earnings sharing mechanism deferral	55	42
Retail settlement variance account (RSVA)	53	58
Pension cost differential	24	24
Capitalized overhead tax variance	7	—
Green energy expenditure variance	5	13
Other	20	15
Total regulatory liabilities	523	234
Less: current portion	(56)	(8)
	467	226

Deferred Income Tax Regulatory Asset

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 income. The Distribution Business has recognized regulatory assets that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Distribution Business' income tax expense 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 2022 income tax expense would have been higher by approximately $16 million (2021 - $44 million). The $16 million (2021 - $44 million) impact is offset against deferred income tax regulatory asset, deferred tax asset sharing, and post-retirement and post-employment benefits - non-service cost.

Post-Retirement and Post-Employment Benefits - Non-Service Cost

The Distribution Business has recorded a regulatory asset relating to the future recovery of its post-retirement and post-employment benefits other than service costs. The regulatory asset includes the applicable tax impact to reflect taxes payable. Prior to adoption of ASU 2017-07 in 2018, these amounts were capitalized to property, plant and equipment and intangible assets. As part of Hydro One Networks' 2020-2022 Transmission Decision, the OEB concluded that the non-service cost component of Hydro One's OPEB costs shall be recognized as OM&A for both its transmission and distribution businesses. As part of the JRAP Decision received in November 2022, the OEB approved the disposition of the Distribution Business' account balance as at December 31, 2020, including accrued interest, which will be recovered from ratepayers over a three-year period ending December 31, 2025.

Environmental

The Distribution Business records a liability for the estimated future expenditures required to remediate environmental contamination. A regulatory asset is recognized because management considers it to be probable environmental expenditures will be recovered in the future through the rate-setting process. The Distribution Business has recorded an equivalent amount as a regulatory asset. In 2022, the revaluation adjustment increased the environmental regulatory asset by $7 million (2021 - $17 million) to reflect related changes in the Distribution Business' PCB and LAR environmental liabilities. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudency and the timing of recovery of all of the Distribution Business' actual environmental expenditures. In the absence of rate-regulated accounting, with respect to the revaluation adjustment, 2022 OM&A expenses would have been higher by $7 million (2021 - $17 million). In addition, 2022 amortization expense would have been lower by $17 million (2021 - $15 million), and 2022 financing charges would have been higher by $1 million (2021 - unchanged).

Deferred Tax Asset Sharing

On October 2, 2020, the OEB issued a procedural order to implement the direction of the Ontario Divisional Court which required Hydro One to submit its proposal for the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period. On April 8, 2021, the OEB rendered the DTA Implementation Decision, in which the OEB approved recovery of the DTA amounts allocated to ratepayers for the 2017 to 2021 period, plus carrying charges over a two-year period, commencing on July 1, 2021. In addition, the Distribution Business was approved to adjust base distribution rates beginning January 1, 2022 to eliminate any further amounts of future tax savings flowing to customers. As at December 31, 2022, the Distribution business has a regulatory asset of $25 million (2021 - $72 million) for the cumulative DTA amounts shared with ratepayers since 2017 to date, net of the amount recovered from ratepayers pursuant to the DTA Implementation Decision. As a result of the OEB's procedural order, the $25 million regulatory asset relating to the cumulative DTA amounts allocated to ratepayers since 2017 has been separately presented from the deferred income tax regulatory asset. The balance of this regulatory account will continue to decrease as amounts are recovered over the next 6 months.

Stock-based Compensation

The Distribution Business recognizes costs associated with share grant plans and Society RSUs in a regulatory asset as management considers it probable that share grant plans' and Society RSU costs will be recovered in the future through the rate-setting process. In the absence of rate-regulated accounting, OM&A expenses would have been lower by $1 million (2021 - no material impact). Share grant and Society RSU costs are transferred to labour costs at the time they vest and are issued, and are recovered in rates in accordance with recovery of these labour costs.

Post-Retirement and Post-Employment Benefits

In accordance with OEB rate orders, post-retirement and post-employment benefits costs are recovered on an accrual basis. The Distribution Business recognizes the net unfunded status of post-retirement and post-employment obligations on the consolidated balance sheets with an incremental offset to the associated regulatory asset or regulatory liability, as the case may be. A regulatory asset or liability is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered or returned in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to the present value of the actuarially determined benefit obligation at each year end based on an annual actuarial report, with an offset to the associated regulatory asset or liability as the case may be, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2022 OCI would have been higher by $263 million (2021 - OCL would have been lower by $50 million).

Tax Rule Changes Variance

The 2019 federal and Ontario budgets provided certain time-limited investment incentives permitting the Distribution Business to deduct accelerated capital cost allowance of up to three times the first-year rate for capital investments acquired after November 20, 2018 and placed in-service before January 1, 2028 (Accelerated Depreciation). Following the enactment of the Budget measures in the second quarter of 2019, the OEB directed all Ontario regulated utilities including Hydro One to track the full revenue impact of the tax benefits related to the Accelerated Depreciation rules to ratepayers. The tax benefit to be returned to ratepayers in the future gave rise to a regulatory liability and resulted in a decrease in revenues as current rates do not include the benefit of the Accelerated Depreciation; therefore, the revenue subject to refund cannot be recognized. As part of the JRAP Decision received in November 2022, the OEB approved the disposition of the Distribution Business' account balance as at December 31, 2020, including accrued interest, which will be returned to ratepayers over a three-year period ending December 31, 2025.

Earnings Sharing Mechanism Deferral

In March 2019, the OEB approved the establishment of an earnings sharing mechanism deferral account for the Distribution Business to record over-earnings including tax impacts, if any, realized for any year from 2018 to 2022. Under this mechanism, Hydro One shares 50% of regulated earnings that exceed the OEB-approved regulatory return-on-equity by more than 100 basis points with distribution ratepayers. As part of the JRAP Decision received in November 2022, the OEB approved the disposition of the Distribution Business' account balance as at December 31, 2020, including accrued interest, over a three-year period ending December 31, 2025.

RSVA

The Distribution business has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. The RSVA account tracks the difference between the cost of power purchased from the IESO and the cost of power recovered from ratepayers. As part of the JRAP Decision received in November 2022, the OEB approved the disposition of the Distribution Business' account balance as at December 31, 2020, including accrued interest, over a three-year period ending December 31, 2025.

Pension Cost Differential

Variances between the pension cost recognized and the cost embedded in rates as part of the rate-setting process for the Distribution Business are recognized as a regulatory asset or regulatory liability, as the case may be. As part of the JRAP Decision received in November 2022, the OEB approved the disposition of the Distribution Business' account balance as at December 31, 2020, including accrued interest, which will be returned to ratepayers over a three-year period ending December 31, 2025. In the absence of rate-regulated accounting, 2022 revenue would have been lower by $2 million (2021 - higher by $1 million).

Capitalized Overhead Tax Variance

In November 2022, the OEB approved the establishment of a capitalized overhead tax variance account to capture the difference between the capitalized overheads deducted in calculating the regulatory tax expense included in rates and the actual capitalized overhead costs deducted in Hydro One's tax returns for the Distribution Business for the 2016 to 2027 period. Variance amounts are recognized at the earlier of (i) when the tax year has been audited by the Canada Revenue Agency or (ii) when the taxation year is statute barred.

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.

13. OTHER LONG-TERM ASSETS

As at December 31 *(millions of dollars)*	2022	2021
Right-of-Use assets *(Note 22)*	27	28
Other long-term assets	1	1
	28	29

14. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

As at December 31 *(millions of dollars)*	2022	2021
Accrued liabilities	610	567
Accounts payable	110	87
Regulatory liabilities *(Note 12)*	56	8
Accrued interest *(Note 25)*	46	49
Environmental liabilities *(Note 20)*	14	14
Lease obligations *(Note 22)*	5	6
	841	731

15. OTHER LONG-TERM LIABILITIES

As at December 31 *(millions of dollars)*	2022	2021
Post-retirement and post-employment benefit liability *(Note 19)*	773	1,003
Lease obligations *(Note 22)*	22	23
Environmental liabilities *(Note 20)*	18	27
Long-term inter-company payable *(Note 25)*	14	15
Long-term accounts payable and other liabilities	11	5
Asset retirement obligations *(Note 21)*	9	7
	847	1,080

16. DEBT

Hydro One issues notes for long-term financing under its Medium-Term Note (MTN) Program. The terms of certain issuances are mirrored down to Hydro One Networks through the issuance of inter-company debt, and are allocated between the Company's transmission and distribution businesses. The following table presents long-term debt allocated to the Distribution Business outstanding at December 31, 2022 and 2021:

As at December 31 *(millions of dollars)*	2022	2021
Long-term debt [1]	4,925	4,991
Add: Net unamortized debt premiums	5	5
Less: Deferred debt issuance costs	(18)	(19)
Less: Long-term debt payable within one year	(228)	(261)
Long-term debt	4,684	4,716

[1] Includes a $29 million non-interest bearing note issued on June 1, 2021 to Orillia Power Distribution Corporation in exchange for the assets of Orillia Power.

In 2022, Hydro One issued $750 million long-term debt under its MTN Program (2021 - $900 million), of which $750 million was mirrored down to Hydro One Networks, and $195 million was allocated to the Distribution Business.

In 2022, Hydro One repaid $580 million (2021 - $800 million) of maturing long-term debt under its MTN Program. On the same date, Hydro One Networks repaid inter-company debt of $580 million (2021 - $800 million) to Hydro One, of which $261 million (2021 - $250 million) was allocated to the Distribution Business.

Principal and Interest Payments

At December 31, 2022, future principal repayments, interest payments, and related weighted-average interest rates were as follows:

	Long-Term Debt Principal Repayments *(millions of dollars)*	Interest Payments *(millions of dollars)*	Weighted-Average Interest Rate *(%)*
Year 1	228	197	1.0
Year 2	287	192	2.8
Year 3	77	185	2.8
Year 4	131	179	3.0
Year 5	245	175	—
	968	928	2.4
Years 6-10	1,186	760	4.2
Thereafter	2,743	1,476	4.6
	4,897	3,164	4.1

17. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The Distribution Business 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 occur with sufficient frequency and volume to provide ongoing pricing information.

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

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

Non-Derivative Financial Assets and Liabilities

At December 31, 2022 and 2021, the carrying amounts of accounts receivable, due from related parties, inter-company demand facility, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Distribution Business' long-term debt at December 31, 2022 and 2021 are as follows:

As at December 31 *(millions of dollars)*	2022 Carrying Value	2022 Fair Value	2021 Carrying Value	2021 Fair Value
Long-term debt, including current portion	4,912	4,618	4,977	5,683

Fair Value Measurements of Derivative Instruments

Hydro One enters into interest-rate swaps agreements with respect to its long-term debt. The terms of certain of these interest-rate swap agreements are mirrored down to Hydro One Networks, and are allocated between the Company's transmission and distribution businesses.

At December 31, 2022 and 2021, the Distribution Business' share of the Company's derivative instruments was $nil.

At December 31, 2022 and 2021, the Company had no interest-rate swaps classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at December 31, 2022 and 2021 is as follows:

As at December 31, 2022 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Long-term debt, including current portion	4,912	4,618	—	4,618	—

As at December 31, 2021 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Long-term debt, including current portion	4,977	5,683	—	5,683	—

The fair value 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 transfers between any of the fair value levels during the years ended December 31, 2022 or 2021.

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 which results from changes in values, foreign exchange rates and interest rates. The Company is exposed to fluctuations in interest rates, as its regulated return on equity is derived using a formulaic approach that takes anticipated interest rates into account. The Company is not currently exposed to material commodity price risk or material foreign exchange risk.

Hydro One Networks uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. Hydro One Networks also uses derivative financial instruments to manage interest-rate risk. 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. Hydro One Networks may utilize interest-rate swaps designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt, and may also utilize interest-rate derivative instruments to manage its exposure to short-term interest rates or to lock in interest-rate levels on forecasted financing.

A hypothetical 100 basis point increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in the Company's net income for the years ended December 31, 2022 and 2021, respectively.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument 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 years ended December 31, 2022 and 2021 were not material.

The Pension Plan manages market risk by diversifying investments in accordance with the Pension Plan's Statement of Investment Policies and Procedures. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the Pension Plan's financial instruments. In addition, changes in interest rates can also impact discount rates which impact the valuation of the pension and post-retirement and post-employment liabilities. Currency risk is the risk that the value of the Pension Plan's financial instruments will fluctuate due to changes in foreign currencies relative to the Canadian dollar. Other price risk is the risk that the value of the Pension Plan's investments in equity securities will fluctuate as a result of changes in market prices, other than those arising from interest rate risk or currency risk. All three factors may contribute to changes in values of the Pension Plan investments. See Note 19 - Pension and Post-Retirement and Post-Employment Benefits for further details.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At December 31, 2022 and 2021, there were no significant concentrations of credit risk with respect to any class of financial assets. The Distribution Business' revenue is earned from a broad base of customers. As a result, the Distribution Business did not earn a material amount of revenue from any single customer. At December 31, 2022 and 2021, there was no material accounts receivable balance due from any single customer.

At December 31, 2022, the Distribution Business' allowance for doubtful accounts was $61 million (2021 - $55 million). The allowance for doubtful accounts reflects the Company's CECL for all accounts receivable balances, which are based on historical overdue balances, customer payments and write-offs. At December 31, 2022, approximately 3% (2021 - 5%) of the Distribution Business' net accounts receivable were outstanding for more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including (i) entering into transactions with highly rated counterparties, (ii) limiting total exposure levels with individual counterparties, (iii) entering into master agreements which enable net settlement and the contractual right of offset, and (iv) monitoring the financial condition of counterparties. Hydro One monitors current credit exposure to counterparties on both an individual and an aggregate basis. The Company's counterparty credit risk profile is consistent with Hydro One. The Distribution Business' credit risk for accounts receivable is limited to the carrying amounts on the balance sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The maximum credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts in an asset position at the reporting date. At December 31, 2022 and 2021, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At December 31, 2022, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, was with two financial institutions with investment grade credit ratings as counterparties.

The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade corporate and government bonds and with respect to derivative instruments by transacting only with highly rated financial institutions and by ensuring that exposure is diversified across counterparties.

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 operating liquidity requirements through the inter-company demand facility with Hydro One and funds from operations. The short-term liquidity available to the Company is expected to be sufficient to fund the Company's operating requirements. The Company's currently available liquidity is also expected to be sufficient to address any reasonably foreseeable impacts that the COVID-19 pandemic may have on the Company's cash requirements.

18. CAPITAL MANAGEMENT

The Distribution Business' 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. At December 31, 2022 and 2021, the Distribution Business' capital structure was as follows:

As at December 31 *(millions of dollars)*	2022	2021
Long-term debt payable within one year	228	261
Inter-company demand facility	414	70
	642	331
Long-term debt	4,684	4,716
Excess of assets over liabilities	3,010	2,893
Total capital	8,336	7,940

The following table shows the movements in the excess of assets over liabilities for the years ended December 31, 2022 and 2021:

Year ended December 31 *(millions of dollars)*	2022	2021
Excess of assets over liabilities - beginning	2,893	2,770
Comprehensive income	411	414
Payments to Hydro One to finance dividends	(291)	(279)
Other[1]	(2)	(12)
Excess of assets over liabilities - ending	3,011	2,893

[1] The amount represents an allocation to the Other non-regulated Hydro One Networks segment as the underlying transactions do not represent the operations of the regulated Distribution Business. In line with the basis of accounting, these amounts have been excluded from the assets and liabilities of the Distribution Business, resulting in an impact to excess of assets over liabilities.

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

Hydro One has a Pension Plan, a DC Plan, a supplementary pension plan (Supplementary Plan), and post-retirement and post-employment benefit plans.

DC Plan

Hydro One established a DC Plan effective January 1, 2016. The DC Plan covers eligible management employees hired on or after January 1, 2016, as well as management employees hired before January 1, 2016 who were not eligible to join the Pension Plan as of September 30, 2015. Members of the DC Plan have an option to contribute 4%, 5% or 6% of their pensionable earnings, with matching contributions by Hydro One up to an annual contribution limit. There is also a Supplementary DC Plan that provides members of the DC Plan with employer contributions beyond the limitations imposed by the Income Tax Act (Canada) in the form of credits to a notional account. The Distribution Business contributions to the DC Plan for the year ended December 31, 2022 were $1 million (2021 - $1 million).

Pension Plan and Supplementary Plan

The Pension Plan is a defined benefit contributory plan which covers eligible regular employees of Hydro One and its subsidiaries. The Pension Plan provides benefits based on highest three-year average pensionable earnings. For management employees who commenced employment on or after January 1, 2004, and for the Society of United Professionals (Society)-represented staff hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation. Membership in the Pension Plan was closed to management employees who were not eligible to join the Pension Plan as of September 30, 2015. These employees are eligible to join the DC Plan.

Company and employee contributions to the Pension Plan are based on actuarial reports, including valuations performed at least every three years, and actual or projected levels of pensionable earnings, as applicable. The most recent actuarial valuation was performed effective December 31, 2021 and filed on September 26, 2022. Total annual cash Pension Plan employer contributions for 2022 were $46 million (2021 - $34 million). Estimated annual Pension Plan employer contributions for the years 2023, 2024, 2025, 2026 and 2027 are approximately $50 million, $55 million, $56 million, $58 million and $59 million, respectively.

The Supplementary Plan provides members of the Pension Plan with benefits that would have been earned and payable under the Pension Plan beyond the limitations imposed by the *Income Tax Act* (Canada). The Supplementary Plan obligation is included with other post-retirement and post-employment benefit obligations on the balance sheets.

At December 31, 2022, the present value of Hydro One's projected pension benefit obligation was estimated to be $7,546 million (2021 - $9,358 million). The fair value of pension plan assets available for these benefits was $7,904 million (2021 - $8,645 million).

Post-Retirement and Post-Employment Plans

The Company accounts for post-retirement and post-employment costs consistent with their inclusion in OEB-approved rates. During the year ended December 31, 2022, for the Distribution Business, $66 million (2021 - $65 million) were attributable to labour, of which $34 million (2021 - $31 million) was charge to operations, $15 million (2021 - $14 million) was recorded in the Distribution Business' post-retirement and post-employment benefits non-service cost regulatory asset, and $17 million (2021 - $20 million) was capitalized as part of the cost of property, plant and equipment and intangible assets. Benefits paid in 2022 were $23 million (2021 - $25 million).

The Distribution Business presents its post-retirement and post-employment benefit liabilities on its balance sheets as follows:

As at December 31 *(millions of dollars)*	2022	2021
Accrued liabilities	35	33
Post-retirement and post-employment benefit liability	773	1,003
Net unfunded status	808	1,036

Future Transfers from Other Plans

Hydro One and Inergi LP agreed to transfer the employment of certain Inergi LP employees (Transferred Employees) to Hydro One Networks. Employees related to the Information Technology Operations, Finance and Accounting, Payroll, Source to Pay, Settlements and certain Shared Services functions were transferred over a period ending January 1, 2022. The Transferred Employees who were participants in the Inergi LP Pension Plan (Inergi Plan) became participants in the Hydro One Pension Plan upon transfer to Hydro One. In December 2022, approval was granted by the Financial Services Regulatory Authority of Ontario to transfer the assets and liabilities of the Inergi Plan, however, the assets and liabilities have not yet been transferred to the Hydro One Pension Plan. The values of assets and liabilities of the Inergi Plan to be transferred to the Plan will be determined at the date of transfer, which is expected to occur sometime in 2023. Inergi and Hydro One Networks also agreed to transfer OPEB liabilities related to the Transferred Employees to Hydro One’s post-retirement and post-employment benefit plans.

On March 1, 2021, Transferred Employees associated with information technology operations (ITO Employees) transferred to Hydro One Networks, and the transfer of the OPEB liability of $27 million related to the ITO Employees was completed, of which $15 million pertained to the Distribution Business. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totaling $26 million was transferred to Hydro One and recorded as an asset with an offset to OCI, of which $14 million pertained to the Distribution Business. Both, the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of the other post-retirement benefit liability are being recognized in net income over the expected average remaining service lifetime (EARSL) of the ITO Employees.

On November 1, 2021, Transferred Employees associated with source to pay operations (S2P Employees) transferred to Hydro One Networks, and the transfer of the OPEB liability of $6 million related to the S2P Employees was completed, of which $3 million pertained to the Distribution Business. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totaling $6 million was transferred to Hydro One and recorded as an asset with an offset to OCI, of which $3 million pertained to the Distribution Business. Both, the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of the other post-retirement benefit liability are being recognized in net income over the EARSL of the S2P Employees.

The transfer of Finance and Accounting, Payroll and certain Shared Services functions occurred on January 1, 2022 and the transfer of the OPEB liability of $9 million related to these Employees was completed in the first quarter, of which $5 million pertained to the Distribution Business. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totaling $10 million was transferred to Hydro One and recorded as an asset with an offset to OCI, of which $5 million pertained to the Distribution Business. Both the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of the other post-retirement benefit liability are being recognized in net income over the EARSL of the Finance and Accounting, Payroll and certain Shared Services employees.

20. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2022 and 2021:

Year ended December 31, 2022 *(millions of dollars)*	**PCB**	**LAR**	**Total**
Environmental liabilities - beginning	34	7	41
Interest accretion	1	—	1
Expenditures	(27)	(4)	(31)
Revaluation adjustment	20	1	21
Environmental liabilities - ending	28	4	32
Less: current portion	(13)	(1)	(14)
	15	3	18

Year ended December 31, 2021 *(millions of dollars)*	**PCB**	**LAR**	**Total**
Environmental liabilities - beginning	28	11	39
Expenditures	(11)	(4)	(15)
Revaluation adjustment	17	—	17
Environmental liabilities - ending	34	7	41
Less: current portion	(11)	(3)	(14)
	23	4	27

The following tables show the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized on the balance sheets after factoring in the discount rate:

As at December 31, 2022 *(millions of dollars)*	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities	29	4	33
Less: discounting environmental liabilities to present value	(1)	—	(1)
Discounted environmental liabilities	28	4	32

As at December 31, 2021 *(millions of dollars)*	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities	35	7	42
Less: discounting environmental liabilities to present value	(1)	—	(1)
Discounted environmental liabilities	34	7	41

At December 31, 2022, the estimated future environmental expenditures were as follows:

(millions of dollars)	
2023	14
2024	14
2025	4
2026	1
2027	—
Thereafter	—
	33

The Company records a liability for the estimated future expenditures for 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 two parts per million (ppm).

At December 31, 2022, the Distribution Business' best estimate of the total estimated future expenditures to comply with current PCB regulations was $29 million (2021 - $35 million). These expenditures are expected to be incurred over the period from 2023 to 2025. As a result of its annual review of environmental liabilities, the Distribution Business recorded a revaluation adjustment in 2022 to increase the PCB environmental liability by $20 million (2021 - $17 million).

LAR

At December 31, 2022, the Distribution Business' best estimate of the total estimated future expenditures to complete its LAR program was $4 million (2021 - $7 million). These expenditures are expected to be incurred over the period from 2023 to 2027. As a result of its annual review of environmental liabilities, the Distribution Business recorded a revaluation adjustment in 2022 to increase the LAR environmental liability by $1 million (2021 - no revaluation adjustment was recorded).

21. ASSET RETIREMENT OBLIGATIONS

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

In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.0% to 4.0% in 2022 (2021 - 2.0% to 4.0%), depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Distribution Business' asset retirement obligations represent management's best estimates of the cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively. As a result of its annual review of asset retirement obligations, $2 million increase to the asset retirement obligations related to the Distribution Business was recorded in 2022 (2021 - no revaluation adjustment to the asset retirement obligations was recorded).

At December 31, 2022, Hydro One Networks had recorded asset retirement obligations of $9 million (2021 - $7 million) related to the Distribution Business, primarily consisting of the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities.

22. LEASES

Hydro One has operating lease contracts for buildings used in administrative and service-related functions. These leases have terms between three and eight years with renewal options of additional three- to five-year terms at prevailing market rates at the time of extension. 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 by entering into these leases. Renewal options are included in the lease term when their exercise is reasonably certain. Other information related to the Distribution Business' operating leases was as follows:

Year ended December 31 *(millions of dollars)*	**2022**	**2021**
Lease expense	5	7
Lease payments made	6	7

As at December 31	**2022**	**2021**
Weighted-average remaining lease term[1] *(years)*	5	6
Weighted-average discount rate	2.4 %	2.3 %

[1] Includes renewal options that are reasonably certain to be exercised.

At December 31, 2022, future minimum operating lease payments were as follows:

(millions of dollars)	
2023	6
2024	6
2025	5
2026	4
2027	4
Thereafter	4
Total undiscounted minimum lease payments	29
Less: discounting minimum lease payments to present value	(2)
Total discounted minimum lease payments	27

At December 31, 2021, future minimum operating lease payments were as follows:

(millions of dollars)	
2022	7
2023	5
2024	5
2025	4
2026	4
Thereafter	6
Total undiscounted minimum lease payments	31
Less: discounting minimum lease payments to present value	(2)
Total discounted minimum lease payments	29

Hydro One presents its ROU assets and lease obligations on the balance sheets as follows:

As at December 31 *(millions of dollars)*	**2022**	**2021**
Other long-term assets *(Note 13)*	27	28
Accounts payable and other current liabilities *(Note 14)*	5	6
Other long-term liabilities *(Note 15)*	22	23

23. HYDRO ONE NETWORKS' SHARE CAPITAL

Hydro One Networks is authorized to issue an unlimited number of common and preferred shares. At December 31, 2022 and 2021, Hydro One Networks had 209,401,290 common shares issued and outstanding and no preferred shares issued and outstanding.

During 2022, Hydro One Networks declared common share dividends in the amount of $652 million (2021 - $620 million) and no return of stated capital to Hydro One at December 31, 2022 and 2021, respectively. The amount allocated to the Distribution Business to finance these dividends was $291 million (2021 - $279 million).

24. 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

Hydro One Limited has two share grant plans (Share Grant Plans), one for the benefit of certain members of the Power Workers' Union (PWU) (PWU Share Grant Plan) and one for the benefit of certain members of the Society (Society Share Grant Plan). Hydro One and Hydro One Limited entered into an intercompany 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 PWU 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 began on July 3, 2015, which is the date the share grant plan was 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 Initial Public Offering (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, 2,152,519 Hydro One Limited common shares were granted under the PWU Share Grant Plan relevant to the total stock-based compensation recognized by the Distribution Business.

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 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 began 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, 743,877 Hydro One Limited common shares were granted under the Society Share Grant Plan relevant to the total stock-based compensation recognized by the Distribution Business.

The fair value of the Hydro One Limited 2015 share grants to employees of Hydro One Networks and allocated to the Distribution Business was $59 million. The fair value was 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. In 2022, 216,364 common shares of Hydro One Limited were issued under the Share Grant Plans (2021 - 224,777) to eligible employees of Hydro One Networks and allocated to the Distribution Business. Total stock-based compensation recognized by the Distribution Business during 2022 was $2 million (2021 - $3 million) and was recorded as a regulatory asset.

A summary of the Distribution Business' share grant activity under the Share Grant Plans during the years ended December 31, 2022 and 2021 is presented below:

Year ended December 31, 2022	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding - beginning	1,357,558	$20.50
Vested and issued[1]	(216,364)	—
Forfeited	(44,949)	$20.50
Share grants outstanding - ending	1,096,245	$20.50

[1] In 2022, Hydro One Limited issued from treasury common shares to eligible Hydro One Networks employees in accordance with provisions of the Share Grant Plans. In accordance with the intercompany agreement between Hydro One and Hydro One Limited, Hydro One Networks made payments to Hydro One for the common shares issued.

Year ended December 31, 2021	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding - beginning	1,624,103	$20.50
Vested and issued[1]	(224,777)	—
Transfers to Hydro One Remote Communities[2]	(1,450)	$20.50
Forfeited	(40,318)	$20.50
Share grants outstanding - ending	1,357,558	$20.50

[1] In 2021, Hydro One Limited issued from treasury common shares to eligible Hydro One Networks employees in accordance with provisions of the Share Grant Plans. In accordance with the intercompany agreement between Hydro One and Hydro One Limited, Hydro One Networks made payments to Hydro One for the common shares issued.

[2] These transfers relate to share grants allocated to the Transmission Business for PWU employees transferred from Hydro One Networks to Hydro One Remote Communities during 2021. These employees have been granted Hydro One Limited shares under the PWU Share Grant Plan in 2015.

Directors' DSU Plan

Under the Directors’ DSU Plan, directors can elect to receive credit for their annual cash retainer in a notional account of DSUs in lieu of cash. Hydro One Limited Board of Directors may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled. Each DSU represents a unit with an underlying value equivalent to the value of one common share of Hydro One Limited and is entitled to accrue Hydro One Limited common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One Limited Board of Directors.

During 2022 and 2021, Directors' DSU Plan awards granted by Hydro One Limited that related to the Distribution Business were as follows:

Year ended December 31 *(number of DSUs)*	2022	2021
DSUs outstanding - beginning	22,333	16,705
Granted	6,893	7,549
Settled	—	(1,921)
DSUs outstanding - ending	29,226	22,333

For the years ended December 31, 2022 and 2021, the expense related to the Directors' DSU Plan was less than $1 million. At December 31, 2022, the liability related to Directors' DSUs was $1 million (2021 - less than $1 million).

Management DSU Plan

Under the Management DSU Plan, eligible executive employees can elect to receive a specified proportion of their annual short-term incentive in a notional account of DSUs in lieu of cash. Each DSU represents a unit with an underlying value equivalent to the value of one common share of Hydro One Limited and is entitled to accrue common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One Limited Board of Directors.

During 2022 and 2021, Management DSU Plan awards granted by Hydro One Limited that related to Hydro One Network's Distribution Business were as follows:

Year ended December 31 *(number of DSUs)*	2022	2021
DSUs outstanding - beginning	15,579	10,744
Granted	5,783	4,835
Paid	(539)	—
DSUs outstanding - ending	20,823	15,579

To comply with the Accountability Act and the OEB Act, in 2019 Hydro One Limited removed all executive-related compensation from the labour costs of its regulated subsidiaries. During the years ended December 31, 2022 and 2021, no executive-related stock-based compensation was allocated to the regulated businesses of Hydro One Networks.

Employee Share Ownership Plan

In 2015, Hydro One Limited established Employee Share Ownership Plans (ESOP) for certain eligible management and non-represented employees (Management ESOP) and for certain eligible Society-represented staff (Society ESOP). Under the Management ESOP, the eligible management and non-represented employees may contribute between 1% and 6% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 50% of their contributions, up to a maximum Company contribution of $25,000 per calendar year. Under the Society ESOP, the eligible Society-represented staff may contribute between 1% and 4% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 25% of their contributions, with no maximum Company contribution per calendar year. In 2022, Company contributions made under the ESOP and allocated to the Distribution Business were $1 million (2021 - $1 million).

LTIP

Effective August 31, 2015, the Board of Directors of Hydro One Limited adopted an LTIP. Under the LTIP, long-term incentives are 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 which also permit the participants to surrender a portion of their awards to satisfy related withholding taxes requirements. 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 Performance Share Units (PSUs), Restricted Share Units (RSUs), stock options, share appreciation rights, restricted shares, DSUs, and other stock-based awards. The mix of vehicles is intended to vary by role to recognize the level of executive accountability for overall business performance.

PSUs and RSUs

A summary of the PSU and RSU award activity related to Hydro One Network's Distribution Business were as follows:

	PSUs		RSUs	
Year ended December 31 *(number of units)*	**2022**	**2021**	**2022**	**2021**
Units outstanding – beginning	—	29,644	—	32,717
Vested and issued	—	(29,644)	—	(32,717)
Units outstanding – ending	—	—	—	—

To comply with the Accountability Act and the OEB Act, in 2019 Hydro One Limited removed all executive-related compensation from the labour costs of its regulated subsidiaries. During the years ended December 31, 2022 and 2021, no executive-related stock-based compensation was allocated to the regulated businesses of Hydro One Networks.
No awards were granted in 2022 or 2021. The compensation expense related to the PSU and RSU awards recognized by the Company during 2022 was $nil (2021 - not significant). At December 31, 2022 and 2021, there were no amounts payable relating to PSU and RSU awards included in due to related parties on the balance sheets.

Society RSU Plan

As a result of the renewal of the Company's prior collective agreement with members of the Society, the Company provided equity compensation in the form of RSUs to certain eligible members. The equity compensation provides for the purchase of common shares of Hydro One Limited from the open market, effective March 1, 2021 in one equity grant vesting in equal portions over a two-year period. To be eligible, an employee must be an employee of the Company as of July 30, 2021, the date the plan was ratified by the Society; the grant date. The number of common shares issued to each eligible employee will be equal to 1.0% of such eligible employee's salary as at April 1, 2021, divided by $30.80, being the price of the common shares of Hydro One Limited at the grant date. Each RSU is entitled to accrue common share dividend equivalents in the form of additional RSUs at the time dividends are paid, subsequent to declaration by Hydro One's Board of Directors.

A summary of RSU awards activity under the Society RSU Plan during the years ended December 31, 2022 and 2021 is presented below:

Year ended December 31 *(number of RSUs)*	**2022**	**2021**
RSUs outstanding - beginning	35,696	—
Granted	833	35,696
Vested and issued	(17,239)	—
Settled	(563)	—
Forfeited	(571)	—
RSUs outstanding - ending	18,156	35,696

25. RELATED PARTY TRANSACTIONS

The Distribution Business is a separately regulated business of Hydro One Networks which is indirectly owned by Hydro One Limited. The Province of Ontario is a shareholder of Hydro One Limited with approximately 47.2% ownership at December 31, 2022. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One Networks because they are controlled or significantly influenced by the Ministry of Energy. Acronym Solutions Inc. (Acronym) and Hydro One Broadband Solutions Inc, (HOBSI) are subsidiaries of Hydro One Limited. The following is a summary of the Distribution Business' related party transactions during the years ended December 31, 2022 and 2021:

Year ended December 31 *(millions of dollars)* Related Party	Transaction	2022	2021
IESO	Power purchased	2,374	2,194
	Amounts related to electricity rebates	1,026	1,051
	Distribution revenues related to rural rate protection	247	245
	Funding received related to Conservation and Demand Management programs	3	—
OPG	Power purchased	20	13
	Revenues related to supply of electricity	5	6
OEFC	Power purchased from power contracts administered by the OEFC	2	1
OEB	OEB fees	5	4
Hydro One	Payments to finance dividends	291	279
	Interest expense on long-term debt	190	188
	Stock-based compensation costs	2	—
	Services received - costs expensed	1	1
	Interest expense (recovery) on inter-company demand facility	11	1
Hydro One Networks' Transmission Business	Services received - costs expensed	2	2
	Capital contributions made	1	14
Acronym	Services received - costs expensed	7	7
Hydro One Limited and its other subsidiaries	Revenues for services provided	4	6
	Services received - costs recovered	4	4
	Increase (decrease) in capital contributions from HOBSI	(2)	3

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

As at December 31 *(millions of dollars)*	2022	2021
Due from related parties	102	121
Long-term inter-company payable	(14)	(15)
Accrued interest	(46)	(49)
Due to related parties	(270)	(266)
Inter-company demand facility	(414)	(70)
Long-term debt, including current portion	(4,912)	(4,977)

26. STATEMENTS OF CASH FLOWS

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

Year ended December 31 *(millions of dollars)*	2022	2021
Accounts receivable	(49)	(4)
Due from related parties	17	65
Other assets	3	(1)
Accounts payable	7	(5)
Accrued liabilities	43	25
Accrued interest	(3)	4
Due to related parties	5	(56)
Long-term accounts payable and other liabilities	6	(3)
Post-retirement and post-employment benefit liability	6	45
	35	70

Capital Expenditures

The following tables reconcile investments in property, plant and equipment and intangible assets and the amounts presented in the statements of cash flows for the years ended December 31, 2022 and 2021. The reconciling items include net change in accruals and capitalized depreciation.

Year ended December 31, 2022 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(825)	(69)	(894)
Reconciling items	34	1	35
Cash outflow for capital expenditures	(791)	(68)	(859)

Year ended December 31, 2021 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(693)	(81)	(774)
Reconciling items	20	—	20
Cash outflow for capital expenditures	(673)	(81)	(754)

Supplementary Information

Year ended December 31 *(millions of dollars)*	2022	2021
Net interest paid	193	184
Income taxes paid	98	81

27. CONTINGENCIES

Hydro One Networks is involved in various lawsuits and claims 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 Distribution Business' financial position, results of operations or cash flows.

The Company is a wholly owned subsidiary of Hydro One. As such, the assets of the Distribution Business are available to satisfy the debts, contingent liabilities and commitments of both the Company and Hydro One.

28. COMMITMENTS

The Company and Hydro One have numerous commitments. These commitments have not been specifically allocated to the Distribution Business. However, the assets of the Distribution Business are available to satisfy the commitments of both the Company and Hydro One.

29. SUBSEQUENT EVENTS

Debt Issuance

On January 27, 2023, Hydro One issued sustainable bonds totaling $1,050 million under its MTN Program as follows:

a. $300 million Series 53 notes with a maturity date of November 30, 2029, of which $300 million was mirrored down to Hydro One Networks, and $141 million was allocated to the Distribution Business with a coupon rate of 4.18% ; and

b. $450 million Series 54 notes with a maturity date of January 27, 2033, of which $450 million was mirrored down to Hydro One Networks, and $211 million was allocated to the Distribution Business with a coupon rate of 4.41%; and

c. $300 million Series 55 notes with a maturity date of January 27, 2053, of which $300 million was mirrored down to Hydro One Networks, and $141 million was allocated to the Distribution Business with a coupon rate of 4.71%.

Payments to Finance Dividends

On February 13, 2023, Hydro One Networks declared a dividend of $165 million. The amount allocated to the Distribution Business to finance this payment was $75 million.

Financial Statements of

CHAPLEAU PUBLIC UTILITIES CORPORATION

And Independent Auditors' Report thereon

Year ended December 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Chapleau Public Utilities Corporation

Opinion

We have audited the financial statements of Chapleau Public Utilities Corporation (the Entity), which comprise:

- the statement of financial position as at December 31, 2021
- the statement of income and comprehensive income for the year then ended
- the statement of changes in 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, 2021, and its results of operations and its cash flows 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 these financial statements in accordance with International Financial Reporting Standards, 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's 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sudbury, Canada

April 20, 2022

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Financial Position

As at December 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 976,074	$ 640,104
Accounts receivable (note 5)	221,870	426,107
Unbilled revenue	395,346	425,405
Short-term investments (note 6)	100,069	72,068
Plant materials and supplies	106,661	108,375
Total current assets	1,800,020	1,672,059
Non-current assets:		
Long-term investments (note 6)	66,582	68,952
Property, plant and equipment (note 7)	1,610,209	1,587,128
Deferred payment in lieu of taxes (note 9)	-	12,000
Total non-current assets	1,676,791	1,668,080
Total assets	3,476,811	3,340,139
Regulatory deferral account debit balances (note 10)	381,507	359,071
Total assets and regulatory deferral account debit balances	$ 3,858,318	$ 3,699,210

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Financial Position (continued)

As at December 31, 2021, with comparative information for 2020

		2021		2020
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	551,903	$	551,484
Due to related parties (note 17)		45,492		49,272
Payment in lieu of taxes (note 9)		8,500		-
Deferred revenue		-		83,776
Customer deposits (note 11)		12,880		15,230
Total current liabilities		618,775		699,762
Non-current liabilities:				
Deferred payment in lieu of taxes (note 9)		6,800		-
Total non-current liabilities		6,800		-
Total liabilities		625,575		699,762
Shareholder's equity:				
Share capital (note 12)		2,884,884		2,884,884
Retained earnings (deficit)		66,877		(118,514)
Total shareholder's equity		2,951,761		2,766,370
Total liabilities and shareholder's equity		3,577,336		3,466,132
Regulatory deferral account credit balances (note 10)		280,982		233,078
Commitments and contingencies (note 14)				
Total equity, liabilities and regulatory deferral account credit balances	$	3,858,318	$	3,699,210

See accompanying notes to financial statements.

Approved by the Board:

______________________________ Director

______________________________ Director

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Income and Comprehensive Income

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Energy sales (note 18)	$ 2,824,542	$ 3,487,515
Distribution services (note 18)	983,210	987,999
	3,807,752	4,475,514
Other operating revenue (note 13)	107,681	41,339
Net operating revenue (note 18)	3,915,433	4,516,853
Expenses:		
Energy purchases	2,845,322	3,525,039
Operations and maintenance	160,938	212,012
General and administrative	449,339	487,566
Billing and collection	122,192	129,698
Depreciation and amortization	127,225	125,288
	3,705,016	4,479,603
Income from operating activities	210,417	37,250
Finance income (expense):		
Finance income	12,698	11,099
Finance charges	(10,570)	(11,706)
Other income and deductions	(29,889)	(8,127)
Unrealized gain on investments	8,419	3,259
Net finance income (loss)	(19,342)	(5,475)
Income for the year before taxes and regulatory items	191,075	31,775
Payment (recovery) in lieu of taxes (note 9)		
Current income tax	7,500	1,000
Deferred payment (recovery) in lieu of taxes	18,800	(12,000)
	26,300	(11,000)
Net income	164,775	42,775
Net movement in regulatory deferral account balances, net of tax	20,616	37,523
Net income and comprehensive income for the year	$ 185,391	$ 80,298

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Changes in Equity

Year ended December 31, 2021, with comparative information for 2020

		Share Capital		Retained earnings (deficit)		Total
Balance, January 1, 2020	$	2,884,884	$	(198,812)	$	2,686,072
Net income and comprehensive income		-		80,298		80,298
Balance, December 31, 2020		2,884,884		(118,514)		2,766,370
Net income and comprehensive income		-		185,391		185,391
Balance, December 31, 2021	$	2,884,884	$	66,877	$	2,951,761

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Cash Flows

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Cash flows from operating activities:		
Net income and comprehensive income	$ 185,391	$ 80,298
Item not involving cash:		
Depreciation and amortization	127,225	125,288
Unrealized gain on investments	(8,419)	(3,259)
Deferred payment in lieu of taxes	18,800	(12,000)
	322,997	190,327
Changes in non-cash working capital:		
Decrease (increase) in accounts receivables	204,237	(43,419)
Decrease in plant materials and supplies	1,714	13,609
Decrease in unbilled revenue	30,059	14,965
Increase (decrease) in accounts payable and accrued liabilities	419	2,588
Increase in payment in lieu of taxes	8,500	-
Decrease in regulatory deferral account balances	25,468	8,723
Increase (decrease) in deferred revenue	(83,776)	83,776
Decrease in customer deposits	(2,350)	(169)
Net cash from operating activities	507,268	270,400
Cash flows from financing activities:		
Decrease in advances from related company	(3,780)	(3,803)
Cash flows from investing activities:		
Purchase of investments	(99,900)	(7,816)
Proceeds on sale of investments	82,688	-
Purchase of property, plant and equipment	(150,306)	(98,182)
	(167,518)	(105,998)
Increase in cash	335,970	160,599
Cash, beginning of year	640,104	479,505
Cash, end of year	$ 976,074	$ 640,104

See accompanying notes to financial statements.

1. Reporting entity:

Chapleau Public Utilities Corporation (the “Corporation”) is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the Township of Chapleau. The address of the Corporation’s registered office is 110 Lorne Street, Chapleau, Ontario.

The Corporation delivers electricity and related energy services to residential and commercial customers in the Township of Chapleau. The Corporation is wholly owned by the Corporation of the Township of Chapleau.

The financial statements are for the Corporation as at and for the year ended December 31, 2021.

2. Basis of presentation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on April 20, 2022.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for the following:

(i) Where held, financial instruments designated to be measured at fair value through profit or loss, including those held for trading, are measured at fair value.

(ii) Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 19.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars.

2. Basis of presentation (continued):

(d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

(i) Note 7 - Property, plant and equipment
(ii) Note 14 - Commitments and contingencies

(e) Rate regulation:

The Corporation is regulated by the Ontario Energy Board (“OEB”), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies (“LDCs”), such as the Corporation, which may include, amongst other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

Rate setting:

i) COVID-19 pandemic considerations:

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. The COVID-19 pandemic has had, and as at the date of the Consolidated Financial Statements continues to have, a significant impact on the Corporation.

On April 21, 2021, the OEB extended the existing ban on disconnecting residential customers until May 19, 2021, which was further extended on May 14, 2021 until June 2, 2021, in light of the stay-at-home order issued by the Ontario Government under its State of Emergency declaration. The restriction also applied to the issuance of any post-dated disconnection notices during that period.

On November 15, 2021, the OEB’s standard winter disconnection ban commenced and will remain in effect until May 1, 2022.

2. Basis of presentation (continued):

(e) Rate regulation (continued):

Rate setting (continued):

i) COVID-19 pandemic considerations (continued):

On January 7, 2022, the Ontario Government announced further targeted relief measures setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.2 cents per kWh, 24 hours a day, seven days a week, effective January 18, 2022 until February 7, 2022.

There was no impact to the net income to the Corporation as a result of these changes.

ii) Distribution revenue:

For the distribution revenue included in electricity sales, the Corporation typically files a Cost of Service (COS) rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenses, debt and shareholder's equity required to support the Corporation's business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and the intervenors and rates are approved based upon this review, including any revisions resulting from that review. In the intervening years an Incentive Rate Mechanism application (IRM) is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand (GDP IPI-FDD) net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

The Corporation filed an IRM application in 2020 for distribution rates effective as of May 1, 2021. The OEB approved the application on March 25, 2021.

iii) Electricity rates:

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up. This rate setting pattern differed in the current and prior periods as a result of the COVID-19 pandemic as discussed in note 2 (e) i).

3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

(a) Financial instruments:

Financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured in a manner consistent with their classification less any impairment as described in note 3(g).

The Corporation does not enter into derivative contracts.

Hedge accounting has not been used in the preparation of these financial statements.

i) Classification:

On initial recognition, a financial asset is classified and measured at: amortized cost, FVTPL or FVOCI.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

On initial recognition of an equity investment that is not held for trading, the Corporation may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified and measured at FVTPL.

In addition, on initial recognition, the Corporation may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3. **Significant accounting policies:**

(a) Financial instruments (continued):

i) Classification (continued):

Business model assessment

The Corporation makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Corporation's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Corporation's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Corporation considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Corporation considers:

3. Significant accounting policies:

(a) Financial instruments (continued):

i) Classification (continued):

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Corporation's claim to cash flows from specified assets (e.g. nonrecourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Corporation changes its business model for managing financial assets. There were no changes to any of the Corporation's business models related to previously designated assets for the years ended December 31, 2021 and December 31, 2020.

The classifications effective January 1, 2021 are noted below:

Financial asset/liability	Classification
Cash	Amortized cost
Accounts receivable and unbilled revenue	Amortized cost
Investments	FVTPL
Accounts payable and accrued liabilities	Amortized cost

ii) Derecognition of financial instruments:

Financial assets

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Corporation neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognized in profit or loss.

Financial liabilities

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

3. Significant accounting policies (continued):

(b) Revenue recognition:

Electricity sales:

Electricity sales are recognized as the electricity is delivered to customers and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution, and any other regulatory charges. Electricity revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation.

Rendering of services:

Revenue earned from the provision of services is recognized as the service is rendered.

Conservation programs:

Incentive payments to which the Corporation is entitled from the Independent Electricity Systems Operation (“IESO”) are recognized as revenue in the period when they are determined by the IESO and the amount is communicated to the Corporation.

(c) Dividends:

Dividends are recognized as revenue when the Corporation has a right to receive the dividend and are included within finance income.

(d) Inventory:

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

(e) Investments:

Short-term investments include securities and other investments with maturities of three months or less. Long-term investments include debentures and other investments with maturities greater than three months.

(f) Property, plant and equipment:

All items of property, plant and equipment are measured at cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation.

3. Significant accounting policies (continued):

(f) Property, plant and equipment (continued):

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

When 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.

Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of property, plant and equipment and, other income and are recognized within the statement of income and comprehensive income.

Major spare parts and standby equipment are recognized as items of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of property, plant and equipment is written off, and the related gain or loss is included in other income. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is calculated over the depreciable amount and is recognized in income on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. The depreciable amount is cost. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	25 years
Transmission and distribution systems	40 – 50 years
Meters	14 years
Transportation equipment	14 years
Equipment	5 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

3. Significant accounting policies (continued):

(g) Intangible assets:

(i) Computer software:

Computer software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses

(ii) Amortization:

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives are:

Computer software	55%

Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate.

(h) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its current carrying amount (using prevailing interest rates), and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

3. Significant accounting policies (continued):

(h) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are 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 if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. For assets other than goodwill, impairment recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3. Significant accounting policies (continued):

(j) Regulatory balances:

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. The Corporation adopted IFRS 14 in 2015.

The Corporation has determined that certain asset and liability balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electricity Distributors. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory asset and liability balances on the Corporation's balance sheets, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB.

Regulatory deferral account asset balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account liability balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account asset balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The asset balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

Regulatory deferral account liability balances are recognized if it is probable that future billings in an amount at least equal to the liability balance will be reduced as a result of rate-making activities. The offsetting amount is recognized in profit and loss. The liability balance is reduced by the amounts returned to customers as electricity is delivered to the customer at rates approved by the OEB for the return of the regulatory account liability balance.

3. Significant accounting policies (continued):

(j) Regulatory balances (continued):

The probability of recovery or repayment of the regulatory account balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover or repay the balance. Any resulting impairment loss is recognized in profit and loss in the year incurred.

Regulatory deferral accounts attract interest at OEB prescribed rates. In 2021, the interest rate was 0.57%. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances is assessed to no longer be probable based on management’s judgment, the balances are recorded in the Corporation’s statement of income and comprehensive income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the statement of financial position as regulatory deferral account debit/credit balances and on the statement of income and comprehensive income as net movements in regulatory balances, net of tax. The netting of regulatory debit and credit balances is not permitted.

The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB’s regulations and decisions.

(k) Employee future benefits:

Pension plan:

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

3. Significant accounting policies (continued):

(l) Finance income and finance costs:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and short-term investments and on regulatory assets and dividend payments.

Finance charges comprise interest expense on borrowings and regulatory liabilities. Finance costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

(m) Payment in lieu of taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income or equity, in which case, it is recognized in other comprehensive income or equity, respectively.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

3. Significant accounting policies (continued):

(n) Leased assets:

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

i) The contract involves the use of an identified asset;

ii) The Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

iii) The Corporation has the right to direct the use of the asset. The Corporation has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Corporation has the right to direct the use of the asset if either:

a) The Corporation has the right to operate the asset; or

b) The Corporation designed the asset in a way that predetermines how and for what purposes it will be used.

Short-term leases and low value assets

The Corporation has elected not to recognize right-of-use assets and related lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4. Cash and cash equivalents:

Cash consists of overnight deposits at a Canadian chartered bank and high interest savings accounts that are redeemable the next day.

5. Accounts receivable:

		2021		2020
Trade receivables	$	233,109	$	216,820
IESO receivables		7,005		152,003
Billable work		3,470		82,370
		243,584		451,193
Less: allowance for doubtful accounts		(21,714)		(25,086)
	$	221,870	$	426,107

6. Investments:

		2021			2020	
		Cost	Fair Value		Cost	Fair Value
Fixed income securities	$	–	–	$	102,412	72,068
Equity securities		99,000	100,069		–	–
Short-term investments		99,000	100,069		102,412	72,068
Provincial government debentures		64,569	66,582		64,569	68,952
Long-term investments	$	64,569	66,582	$	64,569	68,952

7. Property, plant and equipment:

Cost:

		Land		Transmission and distribution systems		Meters		Buildings		Equipment		Transportation equipment		Total
Balance, January 1, 2020	$	30,141	$	1,039,665	$	340,858	$	135,085	$	78,265	$	556,141	$	2,180,155
Additions		-		91,835		3,127		-		3,220		-		98,182
Balance, December 31, 2020		30,141		1,131,500		343,985		135,085		81,485		556,141		2,278,337
Additions		-		133,628		4,250		4,380		2,628		5,420		150,306
Balance, December 31, 2021	$	30,141	$	1,265,128	$	348,235	$	139,465	$	84,113	$	561,561	$	2,428,643

Accumulated depreciation:

		Land		Transmission and distribution systems		Meters		Buildings		Equipment		Transportation equipment		Total
Balance, January 1, 2020	$	-	$	113,859	$	121,986	$	91,109	$	69,583	$	169,384	$	565,921
Depreciation charges		-		52,320		31,180		5,403		4,446		31,939		125,288
Balance, December 31, 2020		-		166,179		153,166		96,512		74,029		201,323		691,209
Depreciation charges		-		54,691		31,438		5,491		3,476		32,129		127,225
Balance, December 31, 2021	$	-	$	220,870	$	184,604	$	102,003	$	77,505	$	233,452	$	818,434

Carrying amounts:

		Land		Transmission and distribution systems		Meters		Buildings		Equipment		Transportation equipment		Total
At December 31, 2020	$	30,141	$	965,321	$	190,819	$	38,573	$	7,456	$	354,818	$	1,587,128
At December 31, 2021		30,141		1,044,258		163,631		37,462		6,608		328,109		1,610,209

8. Intangible assets:

(a) Cost:

		Computer software
Balance at January 1, 2020	$	188,462
Additions		–
Balance at December 31, 2020 and December 31, 2021	$	188,462

(b) Accumulated amortization:

		Computer software
Balance at January 1, 2020	$	188,462
Additions		–
Balance at December 31, 2020 and December 31, 2021	$	188,462

(c) Carrying amounts:

		Computer software
At December 31, 2020 and December 31, 2021	$	–

9. Payment in lieu of income taxes (PILS):

PIL's varies the amounts which would be computed applying the Corporation's combined statutory tax rate. The following is a reconciliation of the effective tax rate:

	2021	2020
Net income excluding payments in lieu for the period	$ 211,691	$ 69,298
Income tax using the Corporation's statutory tax rate	26,000	8,000
Change in valuation allowance	–	(19,000)
Other	300	–
	$ 26,300	$ (11,000)

All deferred tax assets are expected to be settled after 12 months. The tax effect of temporary differences that give rise to deferred tax assets are as follows:

	Plant and equipment	Regulatory adjustment	Total
Balance, January 1, 2021	$ 27,000	$ (15,000)	$ 12,000
Change in deferred tax balance	(21,500)	2,700	(18,800)
Balance, December 31, 2021	$ 5,500	$ (12,300)	$ (6,800)

10. Regulatory deferral account balances:

The following is a reconciliation of the carrying amount for each class of regulatory deferral account balances:

	January 1, 2021	Balances arising in the period	Recovery/ reversal	December 31, 2021
Regulatory deferral account debit balances				
Retail settlement variances	$ 69,241	$ –	$ 12,522	$ 81,763
Regulatory variances disposition	202,159	–	9,914	212,073
Other regulatory accounts	87,671	–	–	87,671
Total amount related to regulatory deferral account debit balances	$ 359,071	$ –	$ 22,436	$ 381,507

10. Regulatory deferral account balances (continued):

	January 1, 2021	Balances arising in the period	Recovery/ reversal	December 31, 2021
Regulatory deferral account credit balances				
Retail settlement variances	$ 35,611	$ 1,182	$ (9,942)	$ 26,851
Regulatory variances disposition	147,666	–	56,664	204,330
Other regulatory accounts	49,801	–	–	49,801
Total amount related to regulatory deferral account credit balances	$ 233,078	$ 1,182	$ 46,722	$ 280,982

	January 1, 2020	Balances arising in the period	Recovery/ reversal	December 31, 2020
Regulatory deferral account debit balances				
Retail settlement variances	$ 162,139	$ 9,357	$ (102,255)	$ 69,241
Regulatory variances disposition	28,584	141,701	31,874	202,159
Other regulatory accounts	87,671	–	–	87,671
Total amount related to regulatory deferral account debit balances	$ 278,394	$ 151,058	$ (70,381)	$ 359,071

	January 1, 2020	Balances arising in the period	Recovery/ reversal	December 31, 2020
Regulatory deferral account credit balances				
Retail settlement variances	$ 24,391	$ 4,107	$ 7,113	$ 35,611
Regulatory variances disposition	69,486	–	78,180	147,666
Other regulatory accounts	49,801	–	–	49,801
Total amount related to regulatory deferral account credit balances	$ 143,678	$ 4,107	$ 85,293	$ 233,078

Settlement of the retail settlement variance accounts is done on an annual basis through application to the OEB. An application will be made to the OEB to recover certain retail settlement variance accounts and 1595 variance accounts. The approvals for the recoveries was received on April 16, 2020. The balance is to be recovered over a period of one to four years.

11. Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers and retailers.

Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

12. Share capital:

		2021		2020
Authorized:				
Unlimited number of common shares				
Unlimited number of Class B special shares				
Issued:				
1,121,529 common shares	$	1,442,442	$	1,442,442
1,121,529 Class B special shares		1,442,442		1,442,442
	$	2,884,884	$	2,884,884

13. Other operating revenue:

Other operating revenue comprises:

		2021		2020
Rendering of services	$	102,515	$	38,479
Late payment charges		5,166		2,860
Total other operating revenue	$	107,681	$	41,339

14. Commitments and contingencies:

General:

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2021, no assessments have been made.

15. Pension agreement:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2021, the Corporation made employer contributions of $25,211 to OMERS (2020 - $38,625).

The Corporation estimates that a contribution of $33,000 to OMERS during the next fiscal year.

16. Salaries and employee benefits:

	2021	2020
Salaries, wages and benefits	$ 357,478	$ 442,653
CPP and EI remittances	19,375	22,391
Contributions to OMERS	25,211	38,625
	$ 402,064	$ 503,669

17. Related party transactions:

(a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is the Corporation of the Township of Chapleau (“Township”). Chapleau Public Utilities Corporation is a wholly-owned subsidiary of the Township. The Township produces financial statements that are available for public use.

(b) Key management personnel:

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members, and is summarized below:

	2021	2020
Directors’ fees	$ 14,200	$ 16,200
Salaries and other short-term benefits	157,103	168,622
	$ 171,303	$ 184,822

(c) Transactions with the Township of Chapleau:

The Corporation delivers electricity to the Township throughout the year for the electricity needs of the Township and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB.

The Corporation billed the Township $346,331 (2020 - $448,306) for power purchased. Included accounts receivable and unbilled revenue is $37,872 (2020 - $48,982) relative to power purchased as of December 31, 2021.

18. Revenues:

The following table disaggregates revenues by type of customer:

	2021	2020
Revenue from contracts with customers:		
Energy sales:		
Residential service	$ 1,460,174	$ 1,862,302
General service	846,053	1,164,496
Other	518,315	460,717
	2,824,542	3,487,515
Distribution revenue:		
Residential service	569,482	355,260
General service	113,748	212,630
Other	299,980	420,109
	983,210	987,999
Revenue from other sources:		
Other charges	107,681	41,339
	$ 3,915,433	$ 4,516,853

19. Financial instruments and risk management:

Fair value disclosure

Cash and short-term investments are measured at fair value. The carrying values of receivables, and accounts payable and accrued charges approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

Financial risks

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the Township of Chapleau. No single customer accounts for a balance in excess of 4% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously provisioned are credited to net income. The balance of the allowance for impairment at December 31, 2021 is $21,714 (2020 - $25,086). An impairment loss of $Nil (2020 - $Nil) was recognized during the year.

19. Financial instruments and risk management (continued):

(a) Credit risk (continued):

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2021, approximately $11,917 (2020 - $13,407) is considered 60 days past due. The Corporation has over 1,229 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2021, the Corporation holds security deposits in the amount of $12,880 (2020 - $15,230).

(b) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk.

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

The Corporation is required to provide security to the IESO to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by default notice issued by the IESO. At December 31, 2021, no amounts have been drawn on this letter of credit in the amount of $209,813 (2020 - $209,813).

The majority of accounts payable, as reported on the statement of financial position, are due within 30 days.

(d) Capital disclosures:

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity. As at December 31, 2021, shareholder's equity amounts to $2,951,761 (2020 - $2,686,072).

(e) Other risk:

The Corporation's main source of revenue relates to the distribution and sale of energy to its customers. In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This resulted in the Canadian and Provincial governments enacting emergency measures to combat the spread of the virus. The Corporation altered certain operating processes in order to comply with the recommendations of Public Health Ontario.

19. Financial instruments and risk management (continued):

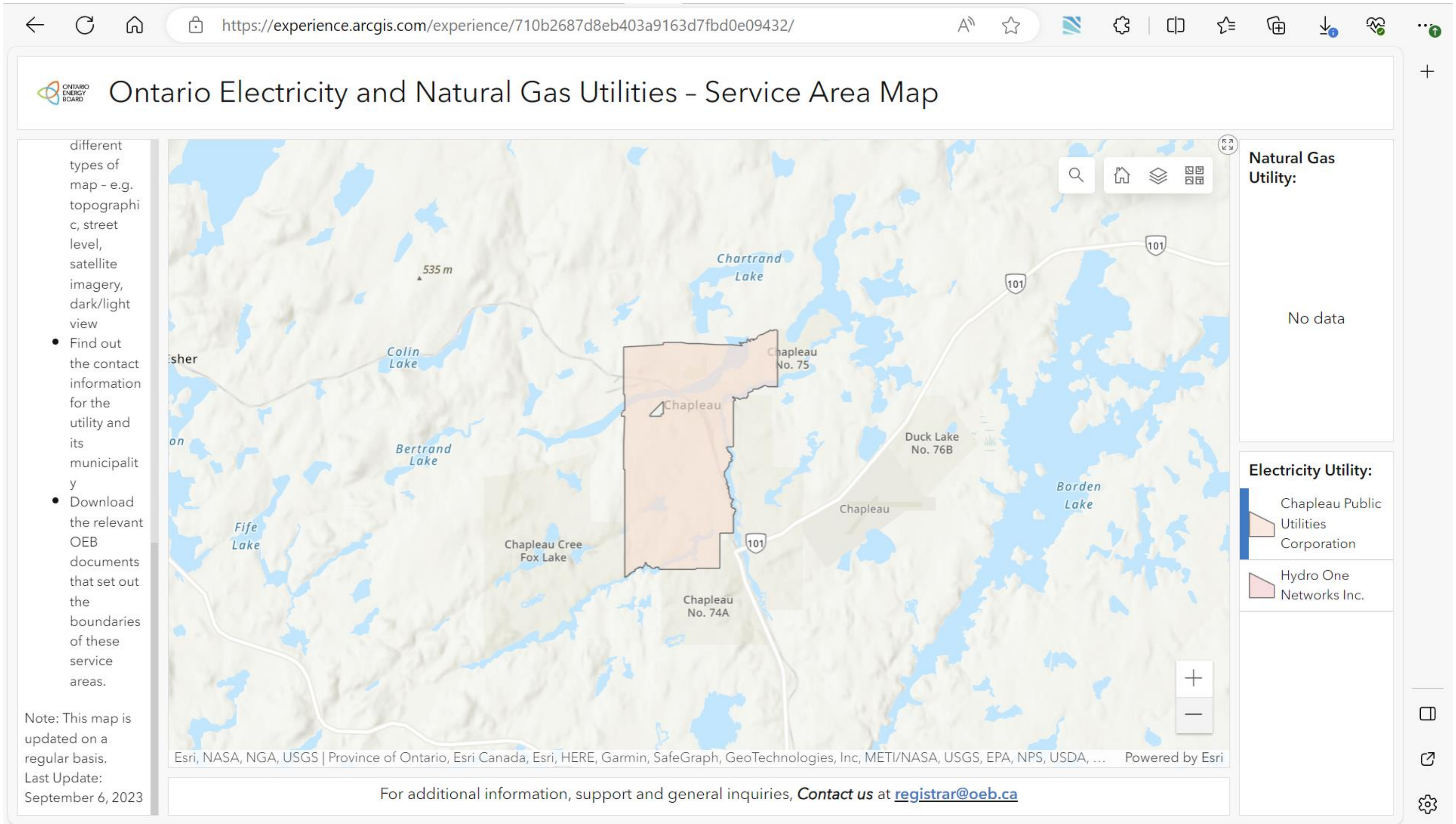
(e) Other risk (continued):

The impact of COVID-19 is expected to negatively impact operations for a duration that cannot be reasonably predicted. The further overall operational and financial impact is highly dependent on the duration of COVID-19, including the potential occurrence of additional waves of the pandemic, and could be affected by other factors that are not known at this time.

Management is actively monitoring the effect of the pandemic on its financial condition, liquidity, operations, suppliers, ad workforce. Given the daily evolution of the pandemic and the global responses to curb its spread, the Corporation is not able to fully estimate the effects of the pandemic on its results of operations, financial condition, or liquidity at this time.

20. Comparative information:

Certain 2020 comparative information has been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.


https://experience.arcgis.com/experience/710b2687d8eb403a9163d7fbd0e09432/
Ontario Electricity and Natural Gas Utilities – Service Area Map
different types of map – e.g. topographic, street level, satellite imagery, dark/light view
Find out the contact information for the utility and its municipality
Download the relevant OEB documents that set out the boundaries of these service areas.
Note: This map is updated on a regular basis.
Last Update: September 6, 2023
535 m
Chartrand Lake
Colin Lake
Bertrand Lake
Fife Lake
Chapleau Cree Fox Lake
Chapleau
Chapleau No. 75
Duck Lake No. 76B
Chapleau
Chapleau No. 74A
Borden Lake
101
Esri, NASA, NGA, USGS | Province of Ontario, Esri Canada, Esri, HERE, Garmin, SafeGraph, GeoTechnologies, Inc, METI/NASA, USGS, EPA, NPS, USDA, ...
Powered by Esri
For additional information, support and general inquiries, Contact us at registrar@oeb.ca
Natural Gas Utility:
No data
Electricity Utility:
Chapleau Public Utilities Corporation
Hydro One Networks Inc.

Hydro One Networks Inc.
483 Bay Street
7th Floor South Tower
Toronto, Ontario M5G 2P5
HydroOne.com

Joanne Richardson
Director, Major Projects and Partnerships
C 416.902.4326
Joanne.Richardson@HydroOne.com

BY EMAIL AND RESS

September 29, 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-2023-0144 – Hydro One Networks Inc. – Chapleau Public Utilities Corporation – Observation Report

In accordance with Hydro One's interim distribution licence, issued May 23, 2023 pursuant to the OEB's decision and order in proceeding EB-2023-0144, Hydro One, under the management of CPUC's General Manager, Ted Lyberogiannis, is providing the attached observations to inform the OEB of the current distribution operations of the utility.

Hydro One is providing this report, on a best-efforts basis and in accordance with good utility practice, to give information on our observations of CPUC's current asset and operating conditions necessary to supply electricity to consumers in the Township of Chapleau.

An electronic copy of this Report has been filed through the OEB's Regulatory Electronic Submission System.

Sincerely,

Joanne Richardson

HYDRO ONE'S OBSERVATION REPORT ON OPERATION OF CHAPLEAU PUBLIC UTILITIES CORPORATION (EB-2023-0144)

On May 23, 2023, the OEB ordered Hydro One Networks Inc. to take possession and control of the electricity distribution system owned and operated by Chapleau Public Utilities Corporation (CPUC). On June 13, 2023, Hydro One took over management and control of CPUC.

Hydro One met with OEB staff on August 17, 2023, and provided an oral status report on the operations and the condition of the assets of CPUC. This report provides written documentation of Hydro One's comments on findings since managing the operations of CPUC.

EXISTING ASSET CONDITION

In general, lines assets are in relatively good condition. Hydro One has significant concerns however with the station assets and the submarine cables. There may also need to be several replacements based on the discovery of PCB oil.

STATIONS ASSETS

The biggest risk to the supply of power in Chapleau is the failure of station equipment – specifically the two transformers located inside the station. The CPUC station is located next to Hydro One's Distribution station. The relatively small customer base and the desire to mitigate rate impacts are likely why a large investment to renew the station has not been executed in the past.

Panorama View of Hydro One & Chapleau Stations

The transformers at the station are more than 50 years old and diagnostic testing has confirmed that they are at their expected service life. In addition, the manufacturer, General Electric, has released a bulletin indicating that certain transformer components, as contained in the transformers at the CPUC station, are defective.

Side View of Both Transformers

Although the transformers can back each other up most of the year, there are likely certain periods during the peak winter season where the failure of one unit may result in rotating blackouts for the community. The transformers are a non-Hydro One standard voltage (115kV-4kV) and therefore neither CPUC nor Hydro One have any spares. An appropriate contingency plan to restore power to customers in the event of a transformer failure during peak winter season would be to utilize a Mobile Unit Substation. This is not currently available to CPUC customers however, in the interim, this contingency plan could be addressed via Hydro One Mobile Unit Substations in conjunction with another temporary transformer, to be delivered and set up in Chapleau during the event of a failure.

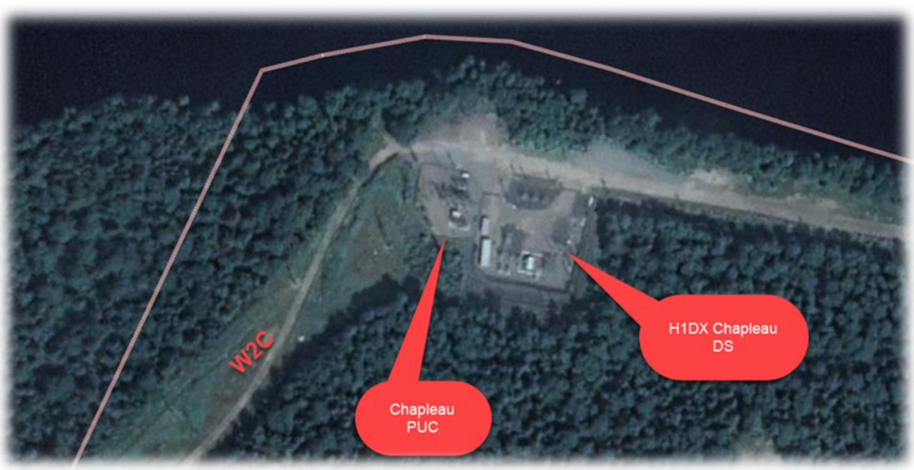
In addition to the transformer condition, there are another four major concerns within the station. First, the clearances from live equipment to ground are not consistent with current industry standards and extra care and safety steps and processes are required when working within the station when compared to current standard-compliant stations.

Second, the CPUC station has fuses instead of reclosers. The existence of this old fuse technology means that any time a temporary fault occurs on a feeder, customers will remain without power until the fuse is replaced manually by field staff. Comparatively, the Hydro One standard requires Distribution station to be fitted with reclosers that can automatically restore power when a temporary fault occurs.

Fuses on Station Structure

Thirdly, with CPUC's station secondary voltage at 4kV, CPUC's distribution system is subject to a large number of line losses. A consultant (METSCO) report from 2018 calculated the system losses to be more than $100k per year when compared to the system if converted to 25kV.

Finally, the station is located next to a body of water often used by the community. In the event of a catastrophic transformer failure, oil may be released into the water.



Overhead View of Hydro One & Chapleau Stations

Given the above reasons, Hydro One believes that a large-scale investment to address the station assets' age and safety related deficiencies will be required within the next few years. Planning for this should begin immediately such that the Town's reliability and quality of service do not deteriorate.

SUBMARINE CABLES

CPUC has a submarine feeder (4 separate cables) that leaves the station and supplies the northern part of the town. Earlier this year, Hydro One assisted CPUC field staff with a temporary assessment and repair of several exposed cables. Based on observations made at that time, Hydro One believes that these cables have reached their expected service life and will need to be replaced within the next few years. Hydro One recommends testing to validate the remaining expected service life of these cables.

Hydro One and Chapleau PUC Staff Repairing Sub Cable

PCB EQUIPMENT REPLACEMENTS

CPUC will be testing approximately 150 pieces of oil-filled equipment for PCB. Depending on how many of them test above the PCB threshold, investments may be required to replace equipment to be compliant with the 2025 deadline.

A Pole-Mounted Transformer

OBSOLETE BILLING SYSTEM

CPUC is currently using a very old billing system that is being supported by a single external individual who is the only person that knows how to program and make changes. Updating of rates and extracting reports from the system is cumbersome and the utility is entirely dependent on this individual.

CONCLUSION

The issues identified in this report encapsulate the findings of Hydro One to date. Should any further material observations be made, Hydro One will update this report and the OEB, accordingly.

Chapleau Hydro
PO Box 670, 110 Lorne St., S.
Chapleau, ON P0M 1K0
(705) 864-0111
puc@chapleau.ca
www.chapleau.ca

BY EMAIL AND RESS

May 9, 2023

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

Dear Ms. Marconi,

Chapleau Public Utilities Corporation and Hydro One Networks Inc. – Request to Ontario Energy Board

Chapleau Public Utilities Corporation (CPUC) is requesting that, in accordance with Section 59(1) of the *Ontario Energy Board Act* (OEB Act), the Ontario Energy Board (OEB) issue an interim license to Hydro One Networks Inc. (Hydro One) to undertake activities under Section 57 of the OEB Act in respect of the CPUC's electricity distribution business. Hydro One is supportive of this request as evidenced by its signature below.

The CPUC provides electricity distribution services to customers in the Township of Chapleau (Township) and is one of the smallest remaining electricity distributors in the Province of Ontario, serving approximately 1,200 customers. The Township is the sole shareholder of the CPUC.

In recent years, the CPUC has experienced difficulty attracting and retaining qualified staff to oversee the general and financial management of the utility. As of May 1, 2023, the only two management staff have departed/retired and the Chair of the CPUC Board has assumed the General Manager role on an interim basis. Given this situation, and with the increasing regulatory oversight and capital upgrade requirements, the Township and the CPUC have been looking at all options to ensure electricity ratepayers within the Township continue to receive excellent electricity distribution services.

The Township and the CPUC Board would like Hydro One to manage the day-to-day operations of the CPUC's business. A search for qualified and synergistic service providers to fill the current resourcing needs of the CPUC was conducted, and the search identified Hydro One as the preferred solution provider. Hydro One is willing to fulfil this role and we are working expeditiously together to establish a pathway to facilitate this role. The CPUC believes that Hydro One is in the best position to fulfil this role for a number of reasons, including:

- Hydro One is willing to assist the CPUC;

- The CPUC service territory is embedded within Hydro One's service territory, therefore Hydro One already has a local presence in the area;
- Hydro One already serves Indigenous communities and businesses on the outskirts of Chapleau; and
- Hydro One is an established and dependable electricity distributor in Ontario.

The Township is aware of the growing challenges associated with continuing to own and operate a small electricity distribution utility like the CPUC, beyond just staffing and succession planning. The electricity sector is poised for significant change going forward. No longer will distribution utilities be responsible for simple power delivery to customers in a single direction. Distributed energy resources, such as solar and wind generation, battery storage, and other technologies, must be adopted and managed in our region, requiring additional skillsets and resources beyond the capacity of our small utility. Aging infrastructure and growing electricity loads associated with the onset of electric vehicles and transitioning heating loads to electricity are but a couple of matters that, as we further decarbonize our lives, will drive the need for large capital investments to rejuvenate and grow our electricity distribution system. Such capital investment requirements will quickly outpace the financial capabilities of the Township and the CPUC. It is this reality that has prompted the Township and the CPUC to consider a potential sale of the CPUC to a larger utility. Any such transaction will take time as it will involve conducting due diligence to ensure all parties achieve a mutually agreeable outcome. The Township wants to retain local jobs and ensure electricity ratepayers within the Township and neighbouring areas, including our First Nations communities, will continue to receive safe and reliable electricity service and access to emerging technologies. The Township and the CPUC hope to enter into a sale agreement in 2023. The CPUC will keep the OEB and the Township residents informed of the progress made in respect of a potential sale transaction.

As a sale transaction is contemplated, it would appear appropriate to seek the OEB's support in the interim. With Hydro One's full support, the CPUC is requesting that the OEB issue an interim license to Hydro One to undertake activities under Section 57 of the OEB Act in respect of the CPUC's electricity distribution business. We also request that a decision be rendered by the OEB by May 15, 2023. If approved, Hydro One will inform the OEB when it has assumed its role as an interim licensee in accordance with the OEB's decision.

Should you have any questions on this application, please contact Jason Rioux at jason.rioux@gmail.com or (416)-427-9434 with respect to the CPUC, Mayor Ryan Bignucolo for the Township of Chapleau at mayor@chapleau.ca or (705) 864-5050, and Joanne Richardson at joanne.richardson@hydroone.com or (416) 902-4326 with respect to Hydro One.

Chapleau Hydro
PO Box 670, 110 Lorne St., S.
Chapleau, ON P0M 1K0
(705) 864-0111
puc@chapleau.ca
www.chapleau.ca

Sincerely,

Frank D'Andrea

Ryan Bignucolo
[Mayor, Town of Chapleau]

Frank D'Andrea
[VP, Regulatory Affairs, Hydro One Networks Inc.]

Robert Jean

Robert Jean, Chair
[Board Chair, CPUC]