RATE BASE

1.0 INTRODUCTION

This Exhibit outlines Hydro One's Transmission and Distribution rate base for the 2028 to 2032 test years, provides a detailed description of each rate base component, and compares historical actuals, bridge and test year forecasts with the corresponding OEB-approved amounts.

2.0 INTRODUCTION TO TRANSMISSION RATE BASE

The Transmission rate base underlying the 2026, 2027 (bridge year) and 2028-2032 (test years) revenue requirements includes a forecast of net fixed assets, calculated on a mid-year average basis, plus a working capital allowance. Net fixed assets are calculated as gross plant in service less accumulated depreciation and contributed capital.[1] Working capital includes an allowance for cash working capital as well as materials and supply inventory.

3.0 COMPARISON OF ACTUAL/FORECAST TRANSMISSION RATE BASE TO OEB APPROVED

Table 1 below compares the components of the 2028 Transmission test year rate base and the last OEB-approved rate base in 2023.

Table 1 - 2023 OEB-approved versus 2028 Test Year Rate Base ($M)[2]

Rate Base Component	2028 Test	2023 OEB-Approved	Variance
Mid-Year Gross Plant	29,551.8	22,860.7	6,691.1
Less: Mid-Year Accumulated Depreciation	(10,396.6)	(8,357.6)	(2,039.0)
Mid-Year Net Utility Plant	**19,155.2**	**14,503.1**	**4,652.1**
Cash Working Capital	25.3	17.2	8.1
Materials and Supply Inventory	18.7	14.1	4.5
Total Rate Base	**19,199.2**	**14,534.4**	**4,664.8**

[1] Contributed capital refers to amounts contributed by third parties to specific capital projects, e.g., Joint Use Assets (Customer Contributions).
[2] Figures presented in the tables may not sum to the totals shown due to rounding.

Table 2 below compares 2025 actuals to the 2025 rate base approved by the OEB in its Decision on Hydro One Transmission's 2023 to 2027 revenue requirement application in EB-2021-0110.

Table 2 - 2025 OEB-approved versus 2025 Historical Year Rate Base ($M)

Rate Base Component	2025 Actuals	2025 OEB-approved	Variance
Mid-Year Gross Plant	25,201.6	25,473.4	(271.9)
Less: Mid-Year Accumulated Depreciation	(8,987.5)	(9,235.5)	248.0
Mid-Year Net Utility Plant	**16,214.1**	**16,237.9**	**(23.8)**
Cash Working Capital	18.4	18.4	0
Materials and Supply Inventory	14.7	14.7	0
Total Rate Base	**16,247.2**	**16,271.0**	**(23.8)**

Actual Transmission rate base in 2025 was $23.8M, or 0.1%, below the OEB-approved amount and was materially consistent with the approved level. Further details are provided in the supporting continuity schedules in Exhibits C-04-02 and C-04-03.

Table 3 - 2027 OEB-approved versus 2027 Forecast Year Rate Base ($M)[3]

Rate Base Component	2027 Forecast	2027 OEB-approved	Variance
Mid-Year Gross Plant	28,125.8	28,132.1	(6.3)
Less: Mid-Year Accumulated Depreciation	(9,870.3)	(10,226.7)	356.5
Mid-Year Net Utility Plant	**18,255.6**	**17,905.4**	**350.2**
Cash Working Capital	30.1	19.5	10.6
Materials and Supply Inventory	18.0	15.3	2.7
Total Rate Base	**18,303.6**	**17,940.2**	**363.4**

As shown in Table 3 above, forecast Transmission rate base in 2027 is $363.4M, or 2.0%, higher than the OEB-approved amount. This results in an opening rate base for the 2028 test year that is materially consistent with the level forecasted in the prior rate application.

[3] Figures presented in the tables may not sum to the totals shown due to rounding.

4.0 TRANSMISSION UTILITY RATE BASE FORECAST

Utility rate base for the transmission system for the test years is filed at Exhibit C-04-01. The calculation of net utility plant is provided in Exhibits C-04-02 and C-04-03.

Hydro One Transmission's 2023 OEB-approved rate base, actual rate base from 2023 to 2025, and forecast rate base for 2026 to 2032 are shown in Tables 4A and 4B.

Table 4A - Transmission Rate Base ($M)[4]

Description	Last OEB-Approved	Historical				
	2023	2023	Variance (2023-Last Approved)	2024	2025	Variance (2025 vs 2024)
Mid-Year Gross Plant	22,860.7	22,893.9	33.2	24,016.0	25,201.6	1,185.6
Less: Mid-Year Accumulated Depreciation	(8,357.6)	(8,339.6)	18.0	(8,648.0)	(8,987.5)	(339.5)
Mid-Year Net Utility Plant	**14,503.1**	**14,554.3**	**51.2**	**15,368.0**	**16,214.1**	**846.1**
Cash Working Capital	17.2	17.2	0.0	18.7	18.4	(0.3)
Mid-Year Materials and Supply Inventory	14.1	14.1	0.0	14.4	14.7	0.3
Total Rate Base	**14,534.4**	**14,585.6**	**51.2**	**15,401.1**	**16,247.2**	**846.1**
Year-over-year change (%)		0.4%		5.6%	5.5%	

[4] Figures presented in the tables may not sum to the totals shown due to rounding.

Table 4B - Transmission Rate Base ($M)[5]

Description	Historical	Bridge	Test						
	2026 (Forecast)	2027	Variance (2027 vs 2025)	2028	Variance (2028 vs 2027)	2029	2030	2031	2032
Mid-Year Gross Plant	26,691.5	28,125.9	2,924.3	29,551.8	1,426.0	31,577.4	33,774.5	36,348.9	41,312.7
Less: Mid-Year Accumulated Depreciation	(9,415.5)	(9,870.3)	(882.8)	(10,396.6)	(526.3)	(10,967.8)	(11,568.1)	(12,210.9)	(12,903.5)
Mid-Year Net Plant	**17,276.0**	**18,255.6**	**2,041.5**	**19,155.2**	**899.6**	**20,609.6**	**22,206.5**	**24,138.0**	**28,409.2**
Cash Working Capital	24.8	30.1	11.7	25.3	(4.8)	31.6	40.8	45.1	37.6
Mid-Year Materials and Supply Inventory	17.6	18.0	3.3	18.7	0.7	19.7	20.7	21.7	22.7
Total Rate Base	**17,318.4**	**18,303.6**	**2,056.4**	**19,199.2**	**895.5**	**20,660.8**	**22,267.9**	**24,204.8**	**28,469.6**
Year-over-year change (%)	6.6%	5.7%		4.9%		7.6%	7.8%	8.7%	17.6 %

The mid-year gross plant balance reflects the in-service additions forecast for the 2026 historical year (on a forecast basis), 2027 bridge year and 2028-2032 test years, as outlined in Exhibit C-02-01.

Table 5 below provides the historical and bridge year continuity of total fixed assets. The growth in gross plant primarily reflects the in-service additions made to Hydro One Transmission's rate base over the period from 2023-2027. Over the 2023-2027 period, cumulative actual and forecast in-service additions of $7,029M are approximately $74M greater than the OEB-approved amount of $6,955M. Overall, cumulative in-service additions are materially consistent with the approved level, notwithstanding annual differences arising from the scope and timing of certain investments, as further described in Exhibit C-02-01.

[5] Figures presented in the tables may not sum to the totals shown due to rounding.

Table 5 - Continuity of Transmission Fixed Assets Summary ($M)

Description	Historical Years and Bridge Year				
	2023	2024	2025	2026	2027
Opening Gross Asset Balance	22,267.4	23,520.3	24,511.7	25,891.5	27,491.5
In-Service Additions	1,290.0	1,197.1	1,479.3	1,707.7	1,355.0
Retirements	(91.6)	(227.5)	(69.1)	(110.4)	(89.0)
Sales	(5.0)	(6.2)	(32.2)	0.0	0.0
Transfers/Other	59.4	28.0	1.9	2.7	2.7
Closing Gross Asset Balance	**23,520.3**	**24,511.7**	**25,891.5**	**27,491.5**	**28,760.2**

Table 6 provides the forecast continuity of total fixed assets for the test years.

Table 6 - Forecast of Transmission Fixed Assets Summary ($M) [6]

Description	Test				
	2028	2029	2030	2031	2032
Opening Gross Asset Balance	28,760.2	30,343.5	32,811.4	34,737.6	37,960.1
In-Service Additions	1,666.5	2,605.4	2,042.2	3,363.8	6,860.6
Retirements	(86.0)	(140.4)	(118.9)	(144.3)	(158.6)
Sales	0	0	0	0	0
Transfers/Other	2.8	2.9	2.9	3.0	3.0
Closing Gross Asset Balance	**30,343.5**	**32,811.4**	**34,737.6**	**37,960.1**	**44,665.2**

In-service additions reflect Hydro One Transmission's capital programs and projects coming into service and are discussed in Exhibit C-02-01.

Asset retirements over the test years include transmission plant equipment, computer software, and other general plant equipment. Transfers/Other reflects movements between strategic spares inventory and fixed assets.

[6] Figures presented in the tables may not sum to the totals shown due to rounding.

5.0 TRANSMISSION CASH WORKING CAPITAL

In 2025, Hydro One Transmission retained Guidehouse Inc. to undertake a lead-lag study, provided in Exhibit C-05-01, Attachment 1. The cash working capital requirement for the transmission system includes the following factors:

- the forecast of OM&A;
- capital and income taxes; and
- the net lead-lag days determined.

The application of the lead-lag study methodology results in a net cash working capital requirement that includes the impact of HST, as shown in Exhibit C-05-01, Attachment 1, and Exhibit C-05-02.

6.0 TRANSMISSION MATERIALS AND SUPPLY INVENTORY

In addition to cash working capital, the other component of working capital is materials and supply inventory. Materials and supply inventory are discussed in further detail in Exhibit C-06-01.

7.0 INTRODUCTION TO DISTRIBUTION RATE BASE

The Distribution rate base underlying the 2026, 2027 (bridge year) and 2028-2032 (test years) revenue requirements includes a forecast of net fixed assets, calculated on a mid-year average basis, plus a working capital allowance. Net fixed assets are calculated as gross plant in service less accumulated depreciation and contributed capital. Working capital includes an allowance for cash working capital as well as materials and supply inventory.

8.0 COMPARISON OF ACTUAL/FORECAST DISTRIBUTION RATE BASE TO OEB APPROVED

Table 7 below compares the components of the 2028 Distribution test year rate base and the last OEB-approved rate base figures in 2023.

Table 7 - 2023 OEB-approved versus 2028 Test Year Rate Base ($M)[7]

Rate Base Component	2028 Test	2023 OEB-Approved	Variance
Mid-Year Gross Plant	21,530.9	14,947.9	6,583.1
Less: Mid-Year Accumulated Depreciation	(7,603.1)	(5,737.6)	(1,865.5)
Mid-Year Net Utility Plant	**13,927.8**	**9,210.3**	**4,717.6**
Cash Working Capital	497.6	243.8	253.8
Materials and Supply Inventory	9.1	6.0	3.1
Total Rate Base	**14,434.6**	**9,460.0**	**4,974.6**

Table 8 below compares 2025 values to the 2025 rate base approved by the OEB in its Decision on Hydro One's 2023 to 2027 Distribution rate application in EB-2021-0110.

Over the 2023-2027 period, cumulative actual and forecast in-service additions are $6,343M, approximately $1,365M higher than the OEB-approved amount of $4,978M. The variance is primarily attributable to investments associated with customer-driven requirements and other obligations, such as Broadband, that Hydro One was required to undertake during the plan period. Further details are provided in Exhibit C-02-02.

[7] Figures presented in the tables may not sum to the totals shown due to rounding.

Table 8 - 2025 OEB-approved versus 2025 Historical Year Rate Base ($M)[8]

Rate Base Component	2025 Actuals	2025 OEB-approved	Variance
Mid-Year Gross Plant	17,263.6	16,536.7	726.8
Less: Mid-Year Accumulated Depreciation	(6,367.8)	(6,220.1)	(147.7)
Mid-Year Net Utility Plant	**10,895.8**	**10,316.7**	**579.1**
Cash Working Capital	249.6	249.6	0.0
Materials and Supply Inventory	6.2	6.2	0.0
Total Rate Base	**11,151.7**	**10,572.5**	**579.1**

Actual rate base in 2025 was 5.5% higher than OEB-approved, primarily attributable to higher in-service additions between 2023 and 2025 associated with customer-driven requests, storm damage, and additional demand for joint use and line relocation programs (see Exhibit C-02-02). The variance also reflects the inclusion of Broadband investments required to support the delivery of the Province's Broadband expansion (see DSP Section 3.11, D-SA-05).[9] For further details, please see the supporting continuity schedules provided in Exhibits C-04-02 and C-04-03.

Table 9 - 2027 OEB-approved versus 2027 Forecast Year Rate Base ($M)[10]

Rate Base Component	2027 Forecast	2027 OEB-approved	Variance
Mid-Year Gross Plant	19,835.1	18,210.9	1,624.2
Less: Mid-Year Accumulated Depreciation	(7,135.3)	(6,817.4)	(317.8)
Mid-Year Net Utility Plant	**12,699.8**	**11,393.5**	**1,306.3**
Cash Working Capital	336.7	255.7	80.9
Materials and Supply Inventory	9.0	6.5	2.5
Total Rate Base	**13,045.5**	**11,655.7**	**1,389.7**

[8] Figures presented in the tables may not sum to the totals shown due to rounding.
[9] Broadband investments are included in the reporting of actuals, but are not built into the rates revenue requirement until 2028.
[10] Figures presented in the tables may not sum to the totals shown due to rounding.

As shown in Table 9 above, the rate base forecast for 2027 is 11.9% higher than the OEB-approved amount. Similar to the above, the higher forecast rate base is primarily driven by the inclusion of Broadband investments required to support the delivery of the Province's Broadband expansion (see DSP Section 3.11, D-SA-05). Additionally, there are higher in-service additions from 2023 through 2027, notably due to storm damage and load connections (see Exhibit C-02-02). For further details, please see the supporting continuity schedules provided in Exhibit C-04-02 and Exhibit C-04-03.

9.0 DISTRIBUTION UTILITY RATE BASE FORECAST

Utility rate base for the distribution system for the test years is filed at Exhibit C-04-01. The calculation of net utility plant is provided in Exhibits C-04-02 and C-04-03.

Hydro One Distribution's 2023 OEB-approved rate base, actual rate base from 2023 to 2025, and forecast rate base for 2026 to 2032 are shown in Tables 10A and 10B.

Table 10A - Distribution Rate Base ($M)[11]

Description	Last OEB-Approved	Historical				
	2023	2023	Variance (2023 vs Last Approved)	2024	2025	Variance (2025 vs 2024)
Mid-Year Gross Plant	14,947.9	15,228.4	280.9	16,211.9	17,263.6	1,051.6
Less: Mid-Year Accumulated Depreciation	(5,737.6)	(5,816.0)	(78.4)	(6,088.8)	(6,367.8)	(279.0)
Mid-Year Net Plant	**9,210.3**	**9,412.4**	**202.5**	**10,123.2**	**10,895.8**	**772.7**
Cash Working Capital	243.8	243.8	0.0	247.1	249.6	2.5
Mid-Year Materials and Supply Inventory	6.0	6.0	0.0	6.1	6.2	0.1
Total Rate Base	**9,460.0**	**9,662.2**	**202.5**	**10,376.4**	**11,151.7**	**775.3**
Year-over-year change (%)		2.1%		9.7%	7.5%	

Table 10B - Distribution Rate Base ($M)[12]

Description	Historical	Bridge		Test					
	2026 (Forecast)	2027	Variance (2027 vs 2025)	2028	Variance (2028 vs 2027)	2029	2030	2031	2032
Mid-Year Gross Plant	18,496.5	19,835.1	2,499.5	21,530.9	1,695.9	23,313.0	25,085.1	27,431.4	29,742.7
Less: Mid-Year Accumulated Depreciation	(6,724.1)	(7,135.3)	(727.4)	(7,603.1)	(467.9)	(8,051.9)	(8,507.4)	(9,060.7)	(9,624.7)
Mid-Year Net Plant	**11,772.4**	**12,699.8**	**1,772.1**	**13,927.8**	**1,228.0**	**15,261.1**	**16,577.7**	**18,370.8**	**20,118.0**
Cash Working Capital	328.7	336.7	87.1	497.6	160.9	524.9	548.6	577.3	584.5
Mid-Year Materials and Supply Inventory	8.7	9.0	2.7	9.1	0.2	9.3	9.5	9.7	9.9
Total Rate Base	**12,109.9**	**13,045.5**	**1,861.9**	**14,434.6**	**1,389.1**	**15,795.3**	**17,135.8**	**18,957.7**	**20,712.4**
Year-over-year change %	8.6%	7.2%		10.6%		9.4%	8.5%	10.6%	9.3%

[11] Figures presented in the tables may not sum to the totals shown due to rounding.
[12] 2031-2032 figures include the Orillia and Peterborough Rate Zones. Figures presented in the tables may not sum to the totals shown due to rounding.

The mid-year gross plant balance reflects the in-service additions forecast for the 2026 historical year (on a forecast basis), 2027 bridge year and 2028-2032 test years as outlined in Exhibit C-02-02.

Table 11 provides the historical and bridge year continuity of total fixed assets from 2023 to 2027. Growth in gross plant over this period primarily reflects assets placed in service through Hydro One Distribution's capital programs.

Table 11 - Continuity of Fixed Assets Summary ($M)

Description	Historical Years and Bridge Year				
	2023	2024	2025	2026	2027
Opening Gross Asset Balance	14,770.7	15,828.5	16,738.7	17,932.4	19,211.1
In-Service Additions	984.0	1,012.7	1,318.4	1,438.7	1,588.9
Retirements	(71.1)	(188.0)	(97.8)	(103.7)	(82.5)
Sales	(9.8)	(12.3)	(25.4)	0.0	0.0
Transfers/Other	154.8	97.7	(1.5)	(56.4)	(100.2)
Closing Gross Asset Balance	**15,828.5**	**16,738.7**	**17,932.4**	**19,211.1**	**20,617.3**
Less Provincial Funded Assets	(71.4)	(72.0)	(72.0)	(76.8)	(81.3)
Gross Asset Balance	**15,757.1**	**16,666.7**	**17,860.4**	**19,134.2**	**20,535.9**

Table 12 provides the forecast continuity of total fixed assets for the test years.

Table 12 - Forecast of Fixed Assets Summary ($M)[13]

Description	Test				
	2028	2029	2030	2031	2032
Opening Gross Asset Balance	20,617.3	22,613.0	24,199.9	26,366.8	28,735.0
In-Service Additions	2,086.6	1,823.4	2,151.4	2,554.2	2,457.0
Retirements	(92.9)	(238.5)	(170.4)	(188.5)	(178.3)
Sales	0.0	0.0	0.0	0.0	0.0
Transfers/Other	2.0	2.1	2.1	2.5	2.2
Closing Gross Asset Balance	**22,613.0**	**24,199.9**	**26,183.1**	**28,735.0**	**31,015.9**
Less Provincial Funded Assets	(87.0)	(99.9)	(112.9)	(126.2)	(139.4)
Gross Asset Balance	**22,526.0**	**24,100.1**	**26,070.2**	**28,608.8**	**30,876.5**

[13] 2031-2032 figures include the Orillia and Peterborough Rate Zones

In-service additions reflect Hydro One's Distribution capital programs and projects coming into service and are discussed in Exhibit C-02-02.

Asset retirements over the test years include distribution plant equipment, computer software, and other general plant equipment. Transfers/Other reflects movements between strategic spares inventory and fixed assets.

10.0 DISTRIBUTION CASH WORKING CAPITAL

In 2025, Hydro One Distribution retained Guidehouse Inc. to undertake a lead-lag study, provided in Exhibit C-05-01, Attachment 2. The cash working capital requirement for the distribution system includes the following factors:

- the forecast of OM&A;
- the forecast of Cost of Power;
- capital and income taxes; and
- the net lead-lag days determined.

The application of the lead-lag study methodology results in a net cash working capital requirement that includes the impact of HST, as shown in Exhibit C-05-01, Attachment 2, and Exhibit C-05-02.

11.0 DISTRIBUTION MATERIALS AND SUPPLY INVENTORY

In addition to cash working capital, the other component of working capital is materials and supply inventory. Materials and supply inventory are discussed in Exhibit C-06-01.

RATE BASE – HOSSM

1.0 INTRODUCTION

This Exhibit outlines HOSSM's rate base for the 2027 to 2032 test years, describes each rate base component, and compares historical actuals and test year forecasts with the 2016 OEB-approved rate base.

2.0 HOSSM RATE BASE

The HOSSM rate base underlying the 2026 bridge year, and the 2027-2032 test year revenue requirements includes forecast net fixed assets, calculated on a mid-year average basis, plus a working capital allowance. Net fixed assets are calculated as gross plant in service minus accumulated depreciation and contributed capital.[1] Working capital includes cash working capital, as well as materials and supply inventory.

3.0 COMPARISON OF ACTUAL/FORECAST HOSSM RATE BASE TO OEB APPROVED

Table 1 below compares the components of the 2027 and 2028 HOSSM test year rate base and the last OEB-approved rate base figures in 2016.

Table 1 - 2016 OEB-approved versus 2027 and 2028 Test Year Rate Base ($M)[2]

Rate Base Component	2027 Test	2028 Test	2016 OEB-approved	Variance (2027 vs 2016)	Variance (2028 vs 2016)
Mid-Year Gross Plant	439.4	482.2	259.5	179.9	222.7
Less: Mid-Year Accumulated Depreciation	(94.3)	(106.5)	(41.4)	(52.9)	(65.2)
Mid-Year Net Utility Plant	**345.1**	**375.7**	**218.2**	**127.0**	**157.5**
Cash Working Capital	0.5	0.4	0.5	0.0	(0.1)
Materials & Supply Inventory	0.0	0.0	0.0	0.0	0.0
Total Rate Base	**345.6**	**376.1**	**218.7**	**127.0**	**157.4**

[1] Contributed capital refers to amounts contributed by third parties to specific capital projects, e.g., Joint Use Assets (Customer Contributions).
[2] Figures presented in the tables may not sum to the totals shown due to rounding

Table 2 below compares 2025 figures to the 2016 rate base approved by the OEB in its Decision on HOSSM's (previously Great Lakes Power Transmission) 2016 revenue requirement application in EB-2014-0238. Since HOSSM has not rebased since this application, the 2016 approved rate base has been used as a reference for OEB-approved values.

Table 2 - 2016 OEB-approved versus 2025 Historical Year Rate Base ($M)[3]

Rate Base Component	2025 Actuals	2016 OEB-approved	Variance
Mid-Year Gross Plant	312.0	259.5	52.5
Less: Mid-Year Accumulated Depreciation	(73.5)	(41.4)	(32.1)
Mid-Year Net Utility Plant	**238.5**	**218.2**	**20.4**
Cash Working Capital	0.5	0.5	0.0
Materials & Supply Inventory	0.0	0.0	0.0
Total Rate Base	**239.0**	**218.7**	**20.4**

For further details on actuals, refer to the supporting continuity schedules provided in Exhibits C-04-02, C-04-03 and C-04-04A.

Table 3 compares the 2026 bridge forecast to the 2016 approved rate base.

Table 3 - 2016 OEB-approved versus 2026 Forecast Bridge Rate Base ($M)[3]

Rate Base Component	2026 Bridge	2016 OEB-approved	Variance
Mid-Year Gross Plant	380.7	259.5	121.2
Less: Mid-Year Accumulated Depreciation	(83.0)	(41.4)	(41.6)
Mid-Year Net Utility Plant	**297.7**	**218.2**	**79.5**
Cash Working Capital	0.5	0.5	0.0
Materials & Supply Inventory	0.0	0.0	0.0
Total Rate Base	**298.2**	**218.7**	**79.5**

[3] Figures presented in the tables may not sum to the totals shown due to rounding

As shown in Table 3 above, the 2026 bridge year rate base of $298.2M is $79.5M higher than the 2016 OEB-approved rate base, primarily reflecting growth in capital investments since the last rebasing application.

4.0 HOSSM UTILITY RATE BASE FORECAST

Utility rate base for HOSSM for the test years is filed at Exhibit C-04-01. The calculation of net utility plant is provided in Exhibits C-04-02 and C-04-03.

HOSSM's last OEB-approved rate base for 2016, historical actuals through 2025 and forecast rate base for 2026-2032 are shown in Tables 4A and 4B.

Table 4A - HOSSM Rate Base ($M)[4]

Description	Last OEB-Approved	Actual											
	2016	2016	Variance (2016-Last Approved)	2017	2018	2019	2020	2021	2022	2023	2024	2025	Variance (2025 vs 2024)
Mid-Year Gross Plant	259.5	258.8	(0.7)	269.6	254.7	236.3	240.7	246.7	253.5	256.8	269.0	312.0	43.0
Mid-Year Accumulated Depreciation	(41.4)	(39.5)	1.9	(48.2)	(35.0)	(22.0)	(30.4)	(38.7)	(47.2)	(55.9)	(64.8)	(73.5)	(8.7)
Mid-Year Net Plant	**218.2**	**219.3**	**1.1**	**221.5**	**219.7**	**214.3**	**210.3**	**208.0**	**206.3**	**201.0**	**204.3**	**238.5**	**34.3**
Cash Working Capital	0.5	0.5	0.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.0
Mid-Year Materials and Supply Inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Rate Base	**218.7**	**219.8**	**1.1**	**222.0**	**220.2**	**214.8**	**210.8**	**208.5**	**206.8**	**201.5**	**204.8**	**239.0**	**34.3**
Year over year % change		**0.5%**		**1.0%**	**(0.8%)**	**(2.5%)**	**(1.8%)**	**(1.1%)**	**(0.8%)**	**(2.6%)**	**1.6%**	**16.7%**	

[4] Figures presented in the tables may not sum to the totals shown due to rounding

Table 4B - HOSSM Rate Base ($M)[4]

Description	Bridge	Test							
	2026 (Forecast)	2027	2027 vs 2025 Actuals	2028	2028 vs 2027 Test	2029	2030	2031	2032
Mid-Year Gross Plant	380.7	439.4	127.4	482.2	42.8	544.5	589.5	610.7	637.8
Mid-Year Accumulated Depreciation	(83.0)	(94.3)	(20.8)	(106.5)	(12.2)	(119.7)	(133.7)	(148.5)	(163.8)
Mid-Year Net Plant	**297.7**	**345.1**	**106.6**	**375.7**	**30.5**	**424.8**	**455.7**	**462.2**	**474.0**
Cash Working Capital	0.5	0.5	0.0	0.4	(0.1)	0.5	0.7	0.8	0.6
Mid-Year Materials and Supply Inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Rate Base	**298.2**	**345.6**	**106.6**	**376.1**	**30.5**	**425.3**	**456.4**	**463.0**	**474.7**
Year over year % change		15.9%		8.8%		13.1%	7.3%	1.4%	2.5%

The mid-year gross plant balance reflects the in-service additions forecast for the 2026 bridge year and 2027-2032 test years as outlined in Exhibit C-02-03.

Table 5 below provides historical and bridge year continuity of total fixed assets. The growth in gross plant primarily reflects the in-service additions made to HOSSM's rate base during the period from 2016 to 2026.

Table 5 - HOSSM Continuity of Transmission Fixed Assets Summary ($M)

Description	Historical Years										Bridge Year
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Opening Gross Asset Balance	254.4	263.2	276.1	233.4	239.3	242.1	251.3	255.7	258.0	280.0	344.0
In-Service Additions	9.6	14.5	1.3	6.0	2.8	9.2	4.4	2.3	22.1	64.6	73.4
Retirements	(0.8)	(1.5)	(44.1)	0.0	0.0	0.0	0.0	0.0	0.0	(0.6)	0.0
Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers /Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing Gross Asset Balance	**263.2**	**276.1**	**233.4**	**239.3**	**242.1**	**251.3**	**255.7**	**258.0**	**280.0**	**344.0**	**417.4**

Table 6 provides the forecast continuity of total fixed assets for the test years.

Table 6 - HOSSM Forecast of Transmission Fixed Assets Summary ($M)

Description	Test					
	2027	2028	2029	2030	2031	2032
Opening Gross Asset Balance	417.4	461.5	502.9	586.0	592.9	628.6
In-Service Additions	44.1	41.4	83.1	6.9	35.6	18.5
Retirements	0.0	0.0	0.0	0.0	0.0	0.0
Sales	0.0	0.0	0.0	0.0	0.0	0.0
Transfers /Other	0.0	0.0	0.0	0.0	0.0	0.0
Closing Gross Asset Balance	**461.5**	**502.9**	**586.0**	**592.9**	**628.6**	**647.1**

In-service additions reflect HOSSM's capital programs and projects coming into service and are discussed in Exhibit C-02-03.

5.0 HOSSM CASH WORKING CAPITAL

In 2025, Hydro One Transmission retained Guidehouse Inc. to undertake a lead-lag study. HOSSM applies the annual net cash working capital percentages derived from the Hydro One Transmission lead-lag study to HOSSM's forecast OM&A expenses for each year of the 2027–2032 test period as shown in Exhibit C-05-04 and Exhibit C-05-05.

6.0 HOSSM MATERIALS AND SUPPLY INVENTORY

There is no materials and supply inventory forecast for HOSSM.

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TRANSMISSION IN-SERVICE ADDITIONS

1.0 INTRODUCTION

In-service additions (ISAs) represent increases to rate base when capital assets are declared in service and are ready to serve transmission customers. Because capital projects are delivered over multiple years, capital expenditures are not equivalent to in-service additions, as assets may enter service in periods that differ from when expenditures are incurred.

The timing of planned ISAs may change as projects progress through execution. Hydro One's ISA plan reflects the best available forecast of when assets across its transmission portfolio will be ready for service during the planning period. Project execution may be affected by factors such as outage constraints, external approvals, material delivery, site conditions, evolving customer needs, changing priorities and emergent investments, which may change the timing of ISAs.

Table 1 sets out Hydro One Transmission's ISAs over the 2023-2032 period, which includes historical, bridge and forecast years. The variance analysis provided in this Exhibit is on an ISA basis.

Table 1 - Capital ISA 2023 – 2032 ($M)

OEB Category	Historical								Bridge		Forecast Period				
	2023		2024		2025		2026		2027		2028	2029	2030	2031	2032
	OEB Approved	Actuals	OEB Approved	Actuals	OEB Approved	Actuals	OEB Approved	Forecast	OEB Approved	Bridge	Plan	Plan	Plan	Plan	Plan
System Access	75.7	26.4	51.4	47.9	63.9	99.2	66.5	240.8	41.0	248.3	235.0	188.4	168.7	151.9	1,150.6
System Renewal	1,093.8	882.2	1,105.6	932.2	1,334.2	1,168.1	1,023.4	1,273.1	1,314.1	861.4	1,082.0	899.3	1,008.8	1,902.7	2,121.3
System Service	60.6	228.8	21.7	93.8	172.3	77.3	75.7	112.7	104.4	175.9	107.0	1,252.2	613.7	1,071.2	3,339.6
General Plant	160.1	152.6	149.6	123.2	125.7	134.6	111.2	81.1	117.3	69.4	242.5	265.5	251.0	238.1	249.2
Progressive Productivity[1]	-56.2	-	-64.2	-	-64.2	-	-64.2	-	-64.2	-	-	-	-	-	-
Total	**1,334.1**	**1,290.0**	**1,264.2**	**1,197.1**	**1,631.8**	**1,479.3**	**1,212.7**	**1,707.7**	**1,512.5**	**1,355.0**	**1,666.5**	**2,605.4**	**2,042.2**	**3,363.8**	**6,860.6**

[1] Progressive productivity represents commitments made during the 2020-22 transmission rate application that are sustained through the 2023-2027 period.

2.0 IN-SERVICE ADDITIONS 2023-2027

Over the 2023-2027 period, Transmission ISAs are forecast to be within 1.1% of the OEB-approved five-year envelope, with forecast ISAs exceeding approved levels by $73.9M, as shown in Table 2. This net variance reflects forecast ISAs that are $444.1M below approved levels for non-externally driven work and $518.0M above approved levels for externally driven work, including incremental ISAs recorded through the Externally Driven Transmission Projects Variance Account (discussed in Exhibit G-01-01). Further discussion of ISA performance and the factors affecting ISA outcomes is provided below. The related discussion of externally driven capital expenditures is found in TSP Section 2.9.2.

Table 2 - Transmission Capital Expenditures and In-Service Additions within the 2023-2027 Rate Period ($M)

	Capital Expenditures ($M)				In-Service Additions ($M)			
	OEB Approved	Forecast	Variance	%	OEB Approved	Forecast	Variance	%
Non-Externally Driven Work	6,573.5	6,549.2	-24.4	-0.4%	6,678.3	6,234.2	-444.1	-6.6%
Externally Driven Work	303.5	1,968.0	1,664.5	548.4%	276.9	794.9	518.0	187.1%
Total	**6,877.0**	**8,517.2**	**1640.2**	**23.8%**	**6,955.2**	**7,029.1**	**73.9**	**1.1%**

Overall capital investment levels remained broadly consistent with the OEB-approved plan, and the lower forecast ISAs for non-externally driven work do not reflect a comparable reduction in investment activity. Rather, the ISA variance primarily reflects a reallocation of investment across the transmission portfolio in response to evolving system needs and materially higher non-discretionary investment requirements. A greater proportion of capital investments were directed toward System Access and System Service needs, which are characterized by different delivery and in-service timing profiles than traditional System Renewal programs. As a result, while overall capital investment levels remained broadly consistent with the OEB-approved plan, the timing of in-service additions shifted as the investment needs evolved.

The evolution of Hydro One's investment portfolio reflected changing transmission system requirements during the 2023-2027 period. In particular, Hydro One experienced a significant and unanticipated increase in customer connection requests, transmission system expansion requirements arising from IESO regional and bulk system planning activities, and other priority transmission investments. At the same time, Hydro One was affected by sustained cost escalation across key equipment and materials required to deliver its capital programs (see SPF Section 1.8). Together, these factors materially increased capital investment requirements relative to the assumptions underlying the OEB-approved capital plan and contributed to the reallocation of investment capital towards System Access and System Service needs.

The impact of these changing investment requirements is reflected in System Access and System Service spending. Compared to OEB-approved levels, actual and forecast System Access investments increased by $464M, while System Service investments increased by $1,396M. These increases reflect the substantial growth in non-discretionary transmission investment requirements experienced during the rate period.

In response to changing customer, system, and policy driven investment requirements, Hydro One rebalanced its transmission capital portfolio while maintaining overall adherence to approved funding levels, consistent with the process described in TSP Section 2.7. This included reallocating capital toward higher-priority customer-driven, system-driven, and regulatory-driven requirements, while accordingly adjusting the pace of selected System Renewal investments where risks could continue to be managed appropriately. As a result, System Renewal work was deferred in order to prioritize higher-priority System Access and System Service projects.

The reprioritization of investments also shifted the timing of in-service additions. System Renewal projects typically progress through phased and controllable milestones over extended delivery periods, allowing ISAs to occur incrementally throughout a project lifecycle. In contrast, System Access and System Service projects are frequently driven by customer, third-party, or broader system requirements and are often characterized by

a limited number of major milestones, with assets entering service later in the project lifecycle. Accordingly, while total capital expenditure continues to be incurred during the 2023-2027 rate period, a greater proportion of investment was directed towards projects whose assets are typically placed in service later in the project lifecycle.

As a result, a significant portion of the capital investments undertaken during the 2023-2027 period is expected to be placed in service during the early years of the 2028-2032 period. Given the typical three-year to five-year delivery timelines associated with many System Access and System Service investments, the associated ISAs are expected to occur beyond the current 2023-2027 period.

In summary, Hydro One reallocated capital during the 2023-2027 period from System Renewal investments toward higher-priority, non-discretionary, and externally driven projects, as further detailed in TSP Section 2.9. In-period capital performance was also impacted by the shift from on-premise (capital) to cloud-based solutions, further detailed in GSP Section 4.9. These factors altered the timing of when assets are expected to enter service but do not translate into a comparable reduction in Hydro One's overall investment activity. Rather, they reflect the evolution of Hydro One's capital portfolio in response to changing customer, system, and operational requirements.

In addition to discussing Hydro One Transmission's 2023-2027 ISA performance below, TSP Section 2.9, Attachment 2 summarizes transmission capital performance and introduces the supporting annual Capital Performance Reports in Attachments 3 – 5, which provide supplemental variance analyses for 2023-2025.

SYSTEM ACCESS

Over the 2023-2027 period, System Access ISAs are forecast to be $364.2M (122.0%) above the OEB-approved amount primarily due to the material and unanticipated increase in non-discretionary customer connections. In particular, the Centennial TS non-regulated entity customer connection (T-SA-12) and the Holt Switching Station SMR Connection (T-SA-Other) projects that arose during the current rate period are forecast to add over

$350.0M in new ISAs. As these investments are mandatory, Hydro One has limited ability to manage these expenditure increases through offsetting reductions within the System Access category and must defer work where it has flexibility over timing or schedule within other OEB categories.

SYSTEM RENEWAL

Over the 2023-2027 period, System Renewal ISAs are forecast to be $754.2M (12.8%) below the OEB-approved amount, with the variance primarily driven by investment reprioritization to the System Access and System Service categories to facilitate new customer connections, transmission system expansion requirements driven by IESO regional and bulk system planning, and the addition of priority transmission projects as discussed in TSP Section 2.9.

System Renewal ISAs were primarily lowered due to:

- **Line Refurbishments:** Thirteen material transmission line refurbishment projects were deferred out of the 2023-2027 period, including the refurbishments of T33E Almonte TS x Oshawa North Junction, D2/3H Hunta SS x Abitibi Canyon Junction, T25B Clarington TS x Pancake Junction, E8V/E9V Orangeville TS x Essa Junction, and L22H Easton Junction x Hinchinbrook. These five projects account for approximately $415.0M of the System Renewal negative variance. Further details are provided in TSP Section 2.12, T-SR-13, Transmission Line Complete Refurbishment
- **Defective Insulator Replacement:** Forecast accomplishments for the Transmission Lines Insulator Replacement program have been reduced by 22% for 2023-2027. The program was also impacted by system outage constraints and cancellations. This program accounts for approximately $105.0M of the System Renewal negative variance. Further details are provided in TSP Section 2.12, T-SR-08, Transmission Line Insulator Replacement.
- **Steel Structure Coating Program:** The Steel Structure Coating program was reduced during the 2023-2027 period. This investment is driven by economic

benefits to customers as outlined in TSP Section 2.12, T-SR-05, Steel Structure Coating Program. Over the 2023-2027 period, it is expected that 65% of the post-settlement planned accomplishments will be deferred, accounting for approximately $55.0M of the System Renewal negative variance.

SYSTEM SERVICE

Over the 2023-2027 period, System Service ISAs are forecast to be $254.0M (58.4%) above the OEB-approved amount primarily due to the material and unanticipated increase in non-discretionary investments driven by IESO regional and bulk system planning, and the addition of priority transmission projects. As such investments are mandatory, Hydro One has limited ability to manage such expenditure increases through offsetting reductions within the System Service category and must defer work where it has flexibility over timing/schedule within other OEB categories. In addition, System Service ISAs were higher due to:

- **M31W - Reinforce Buchanan x St. Thomas Line Tap Point:** This new investment emerged during the 2023-2027 period in response to increased load growth forecasts. The work involves rebuilding the M31W circuit between Buchanan TS and the new St. Thomas Line tap point with higher capacity conductor on double circuit towers, strung with one circuit but capable of accommodating a second circuit in the future, when needed, per the IESO's recommendation in the Central-West Bulk Plan.
- **Richview Manby Transmission Reinforcement:** Hydro One experienced increased costs as the project moved from planning to execution, refining the work plan and changing the construction execution methods to minimize disruption of vegetation and community green space along the corridor to align with public needs determined through the Environmental Assessment process. Even with these adjustments, the investment was completed well below the AACE Class 3 estimate nominal value, realizing approximately $12.0M in total savings through design optimization of the community trail, efficiencies in construction, and

effective risk management. This investment is further discussed in TSP Section 2.12, T-SS-06.

GENERAL PLANT

Over the 2023-2027 period, General Plant ISAs are forecast to be $103.0M (15.5%) below the OEB-approved amount, primarily reflecting SAP S/4 HANA investments shifting from an on-premise (capital) solution to a cloud-based (prepaid) solution (see GSP Section 4.11, G-GP-29). The variance also reflects lower in-service additions associated with the Non-Operational Data Management and Synchrophasors investments. For Non-Operational Data Management, in-service additions were lower than originally planned. For Synchrophasors, Hydro One is progressing the investment in accordance with a timing and implementation schedule agreed upon with the IESO in the planning period, resulting in a portion of the associated in-service additions occurring beyond 2027.

3.0 IN-SERVICE ADDITIONS 2028-2032

Hydro One Transmission's 2028-2032 ISA forecast is expected to increase according to the capital expenditure forecast discussed in TSP Section 2.8 and the Investment Summary Documents (ISDs) in TSP Section 2.12. Hydro One Transmission is committed to delivering the 2028-2032 capital forecast and ISA plan using its capital work execution strategy described in TSP Section 2.11.

Over the 2028-2032 period, Hydro One Transmission forecasts average annual ISAs of $3,307.7M per year[2] or a 138% increase compared to the average annual 2023-2027 OEB-approved amount. All material investments with expenditures greater than $4.0M per year are described in more detail in ISDs found in TSP Section 2.12.

System Access ISAs are forecast to be on average $378.9M per year, which is an increase relative to the current rate period due to the significant forecast increase in customer connection requests. Material ISAs include new and upgraded station facilities to supply Local Distribution Companies, new industrial and technology sector customers, and

[2] Average 2028-2032 ISA = (1,666.5 + 2,605.4 + 2,042.2 + 3,363.8 + 6,860.6)/5

facilitate Secondary Land Use projects. Detailed information on System Access investments greater than $100.0M has been summarized in Table 3 below and further information may be found in TSP Section 2.8 and TSP Section 2.12, under the T-SA ISDs.

System Renewal ISAs are forecast to be on average $1,402.8M per year, which is an increase relative to the current rate period due to the need to maintain the underlying transmission infrastructure, ensure safety, mitigate reliability risk, and maintain compliance with regulatory, environmental and reliability standards. Investments are increasing to address critical transmission assets that are in poor condition (as indicated by condition assessments), have inadequate performance, are functionally obsolete, or have failed. Detailed information on System Renewal investments greater than $100.0M has been summarized in Table 3 below and further information may be found in TSP Section 2.8 and TSP Section 2.12, under the T-SR ISDs.

System Service ISAs are forecast to be on average $1,276.7M per year, which is an increase relative to the current rate period due to the outcomes of formal IESO-led regional planning processes, bulk system planning studies, and government-directed transmission expansion initiatives that identify specific transmission reinforcements required to maintain reliability, ensure local supply adequacy, accommodate forecast load growth, and enable new generation resources. Detailed information on System Service investments greater than $100.0M has been summarized in Table 3 below and further information may be found in TSP Section 2.8 and TSP Section 2.12, under the T-SS ISDs.

General Plant ISAs are forecast to be on average $249.3M per year, which is an increase relative to the current rate period due to an increase in Transport and Work Equipment (TWE) for fleet. This increase reflects growth in the work program as well as higher TWE prices (see GSP Section 4.11, G-GP-01, subsection 1.3.2 for details). The increase also reflects additional requirements for Facilities and Real Estate (FRE) in Sustainment, New Build, and Governance and Compliance investment needs (see GSP Section 4.11, G-GP-03, subsection 2.1 and G-GP-04, subsection 2.1 for details). Detailed information on General Plant investments greater than $100.0M has been summarized in Table 3 below

and further information may be found in GSP Section 4.8 and GSP Section 4.11, under the G-GP ISDs.

Table 3 - 2028-2032 - Material In-Service Additions ($M)

ISD Reference	Description	2028-2032 ISA ($M)
System Access		
T-SA-07	Secondary Land Use Projects-West Toronto Transmission Line Relocation	276.4
T-SA-10	Build Leamington Area Transformer Stations	338.1
T-SA-11	Customer Connections - Regulated Entities-Dundas TS	107.4
T-SA-11	Customer Connections - Regulated Entities-New Coatsworth TS	168.6
System Renewal		
T-SR-01	Transmission Station Renewal - Network Stations-Manby TS	121.8
T-SR-02	Transmission Station Renewal - Air Blast Circuit Breakers-Cherrywood TS	109.0
T-SR-03	Transmission Station Renewal - Connection Stations-Cecil TS	118.0
T-SR-04	Wood Pole Structure Replacements	461.5
T-SR-05	Steel Structure Coating Program	129.4
T-SR-07	Transmission Line Shieldwire Replacement	195.5
T-SR-08	Transmission Line Insulator Replacement Program	368.9
T-SR-09	Transmission Station Demand and Spares and Targeted Assets-Purchase of Spare Transformers Program	114.7
T-SR-10	Protection Relay Replacement Program	147.0
T-SR-13	Transmission Line Complete Refurbishment- C28C	227.1
T-SR-13	Transmission Line Complete Refurbishment-D2/3H	189.2
T-SR-13	Transmission Line Complete Refurbishment-T33E	230.2
T-SR-16	High Voltage Underground Cable Replacements- X21/X22	202.5
T-SR-22	Transmission Transformers Demand and Spares-Replace End of Life Power Transformers	125.0
System Service		
T-SS-09	West of London Reinforcement-Longwood x Lakeshore: Stations Work	285.0
T-SS-10	Greenstone Transmission Line - Stations Work	117.0
T-SS-11	Bulk Planning- Northern York Region Reinforcement	441.0
T-SS-11	Bulk Planning-Mississagi x Hanmer Reinforcement- Stations Work	578.7
T-SS-11	Bulk Planning-North Shore Link: Mississagi x Third Line-Stations Work	370.2

T-SS-11	Bulk Planning-Bowmanville Switching Station Expansion	999.1
T-SS-11	Bulk Planning-E8V/E9V 230kV Transmission Line Upgrade	123.0
T-SS-11	Bulk Planning-Build 500kV line from Bowmanville x GTA - Stations Work	505.0
T-SS-11	Bulk Planning-Hanmer x Essa 500kV Circuit -Station Work	382.0
T-SS-11	Bulk Planning-New 500kV Station in St. Thomas	300.0
T-SS-11	Bulk Planning-Guelph North TS Development	300.0
T-SS-11	Bulk Planning-Connect X21/X22 to Belleville - Station Work	148.0
T-SS-11	Bulk Planning-Placeholder for Future Stations Work	186.2
T-SS-12	Regional Planning-Placeholder for Projects to be Identified	150.0
T-SS-12	Regional Planning-Orleans TS: Provide second 230kV supply	115.6
T-SS-12	Regional Planning-North of Dryden Area Reinforcement - Station Work	119.9
T-SS-12	Regional Planning-Wellington TS: Build new 500kV/230kV Station	264.6
General Plant – Allocated to Transmission		
G-GP-01	Transport and Work Equipment	358.5
G-GP-03	Facilities and Accommodations	150.3
G-GP-04	Transmission Facilities	245.1

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DISTRIBUTION – IN-SERVICE ADDITIONS

1.0 INTRODUCTION

In-service additions (ISAs) represent increases to rate base as a result of capital work being declared in-service and ready for use to serve Hydro One Distribution customers. The annual in-service additions amounts vary from annual capital expenditures due to the multi-year nature of capital projects.

Hydro One Distribution's ISA plan is developed by combining the best forecast available for all distribution projects and programs that have assets planned for capitalization during the test years. Projects in execution can encounter challenges such as outage constraints, external approvals, material delivery, site conditions, evolving customer needs, changing priorities and emergent investments. These challenges may result in changes to the timing of in-service additions. The variance analysis provided in this Exhibit is on an ISA basis.

Table 1 provides an overview of Hydro One Distribution's in-service additions over the 2023 to 2032 period, which includes historical, bridge and forecast years.

Table 1 - In-Service Capital Additions 2023 – 2032 ($M)[1]

OEB Category	Historical								Bridge		Forecast Period				
	2023		2024		2025		2026		2027		2028	2029	2030	2031	2032
	OEB Approved	Actuals	OEB Approved	Actuals	OEB Approved	Actuals	OEB Approved	Forecast	OEB Approved	Bridge	Plan	Plan	Plan	Plan	Plan
1. System Access	252.1	337.3	254.5	338.3	239.4	333.7	223.7	365.1	214.8	356.3	670.3	403.5	424.0	431.7	445.1
2. System Renewal (excl. AMI 2.0)	270.6	250.3	299.6	380.4	289.1	419.7	265.2	246.4	288.4	200.3	400.6	596.9	802.7	845.4	853.2
2. System Renewal – AMI 2.0	32.4	0.0	69.5	0.0	158.4	146.7	158.9	184.0	161.8	168.6	215.2	96.5	7.1	3.8	2.5
3. System Service	218.1	149.2	138.3	142.0	232.6	155.7	186.0	175.1	180.7	311.9	485.8	422.9	580.5	671.0	698.9
Subtotal Categories 1, 2, and 3	**773.1**	**736.9**	**761.9**	**860.7**	**919.5**	**1,055.7**	**833.9**	**970.7**	**845.7**	**1,037.1**	**1,771.9**	**1,519.8**	**1,814.3**	**1,951.9**	**1,999.7**
4. General Plant Allocated to Distribution	136.9	237.3	185.5	144.1	193.7	195.2	150.8	95.1	176.9	139.9	314.7	303.6	337.1	602.3	457.3
Grand Total	**910.0**	**974.2**	**947.4**	**1,004.8**	**1,113.1**	**1,250.9**	**984.6**	**1,065.8**	**1,022.6**	**1,177.0**	**2,086.6**	**1,823.4**	**2,151.4**	**2,554.2**	**2,457.0**
System Access (Broadband)	0.0	9.8	0.0	8.0	0.0	67.5	0.0	372.9	0.0	411.9	Included in the 2028-2032 forecast				
Total Including Broadband[2]	**910.0**	**984.0**	**947.4**	**1,012.7**	**1,113.1**	**1,318.4**	**984.6**	**1,438.7**	**1,022.6**	**1,588.9**	**2,086.6**	**1,823.4**	**2,151.4**	**2,554.2**	**2,457.0**

[1] Figures presented in the tables may not sum to the totals shown due to rounding
[2] Broadband-related costs for the 2023–2027 period are not included in rates and are recorded in the Designated Broadband Project Impacts Deferral Account. The associated in-service additions and accumulated depreciation are reflected in the continuity schedules supporting the 2028 opening rate base. See Exhibits G-01-01, Section 9, C-04-02 and C-04-03.

Witness: Gianni DiFilippo

From 2023 to 2025, Hydro One placed $3,229.9M[3] of incremental capital into service, which is 8.7% above the OEB-approved plan total for those years. Section 2.0 summarizes Hydro One Distribution's in-service additions in the historical years, with further details regarding capital investments and associated variances over the 2023 to 2025 period outlined in the Distribution Capital Performance Report (DSP Section 3.9, Attachment 2).

During the 2026 forecast and 2027 bridge years, in-service additions are expected to be $2,242.8M, which is 11.7% above the OEB-approved plan. In 2026, a total of $1,065.8M is forecasted, which is $81.2M higher than plan. In 2027, in-service additions are forecasted to be $154.4M higher than plan, with the annual forecast set at $1,177.0M. The variance between the OEB-approved plan and forecast in 2026-2027 is largely due to the increased level of System Access and System Service in-service additions associated with new load connections, upgrades and cancellations, and system upgrades driven by load growth.

Over the 2028-2032 test period, in-service additions are expected to total $11,072.6M, an average of $2,214.5M per year, which represents an increase when compared to assets historically in-serviced within the portfolio. This includes increased investment within the System Access category to enable provincial broadband and respond to customer connection requests, System Renewal investments to improve resilience and reliability, and System Service investments to support reliability-focused initiatives and enable additional system capacity, or as required to address capacity or operational constraints because of customer connections. As outlined in Distribution Capital Execution DSP Section 3.10, Hydro One will use its capital work execution strategy and portfolio governance processes to manage changing priorities and the timing of individual projects while supporting delivery of the overall capital plan.

2.0 PERFORMANCE ANALYSIS 2023-2025

As described in DSP Section 3.11, an investment plan must be executed in a manner that is flexible enough to respond to changing and unforeseen circumstances. This is due to

[3] This includes the Distribution allocation of General Plant as shown in Table 1.

the dynamic nature of Distribution's demand work programs that require periodic and ongoing assessment of priorities and timing for all programs and projects. Capital projects also experience changing conditions that must be managed during all phases of the project lifecycle. These changes are experienced in the form of project logistics and schedule delays, prudent cost or scope increases, or the reallocation of project funding to address new risks related to development, compliance, or anticipated expenditures associated with equipment failures. Although these changes can have an impact on an individual project's in-service addition forecast, Hydro One makes tactical adjustments to minimize the overall impact to the Distribution portfolio. The Distribution Capital Performance Report (DSP Section 3.9, Attachment 2) provides an overview of Hydro One's performance in 2023, 2024 and 2025 in relation to the overall distribution capital envelope, as well as performance of individual projects and programs. It addresses both capital expenditures and ISAs over the period, and demonstrates that Hydro One has delivered its capital plan, while responding to the external environment.

2.1 2023 IN-SERVICE ADDITION VARIANCES

In 2023, Hydro One Distribution's in-service additions exceeded the OEB-approved plan by $64.2M, or approximately 7%, as shown in Table 2.

Table 2 - OEB Category Performance (2023)[4]

OEB Category	In-Service Additions		
	2023		
	OEB-Approved	Actuals	Variance
1. System Access	252.1	337.3	34%
2. System Renewal (excl. AMI 2.0)	270.6	250.3	-7%
2. System Renewal – AMI 2.0	32.4	0.0	-100%
3. System Service	218.1	149.2	-32%
Subtotal Categories 1, 2, and 3	**773.1**	**736.9**	**-5%**
4. General Plant Allocated to Distribution	136.9	237.3	73%
Grand Total	**910.0**	**974.2**	**7%**

[4] Figures presented in the tables may not sum to the totals shown due to rounding

The largest variances relative to the OEB-approved plan were General Plant and System Access categories, offset by lower ISA in the System Renewal – AMI 2.0 and System Service category. The General Plant variance was driven by the timing of the completion of the HR Pay Transformation Project as discussed in GSP Section 4.11, G-GP-06 in the last distribution application (EB-2021-0110) and the Design Optimization and Transformation project as discussed in GSP Section 4.11, G-GP-08 in the last distribution application (EB-2021-0110). The System Access variance was driven by the volume and complexity of New Load Connections, Upgrades, and Cancellations (DSP Section 3.11, D-SA-02), as well as the influx in demand for the Joint Use and Line Relocations Program (DSP Section 3.11, D-SA-01). This work is considered non-discretionary as there were no alternatives to the investment. This was partially offset by reductions in System Renewal – AMI 2.0 due to scope refinement and integration issues and System Service category because of reprioritization to accommodate higher ISA of the non-discretionary System Access investments. Further details regarding 2023 variances can be found in the Distribution Capital Performance Report (DSP Section 3.9, Attachment 1).

2.2 2024 IN-SERVICE ADDITION VARIANCES

In 2024, Hydro One Distribution in-service additions exceeded the OEB-approved plan by $57.4M, or approximately 6%, as shown in Table 3.

Table 3 - OEB Category Performance (2024)

OEB Category	In-Service Additions		
	2024		
	OEB-Approved	Actuals	Variance
1. System Access	254.5	338.3	33%
2. System Renewal (excl. AMI 2.0)	299.6	380.4	27%
2. System Renewal – AMI 2.0	69.5	0.0	-100%
3. System Service	138.3	142.0	3%
Subtotal Categories 1, 2, and 3	**761.9**	**860.7**	**13%**
4. General Plant Allocated to Distribution	185.5	144.1	-22%
Grand Total	**947.4**	**1,004.8**	**6%**

The largest variances relative to the OEB-approved plan were System Access and System Renewal (excluding AMI 2.0). The increased investment in the System Access category was primarily driven by increased volume and complexity of the New Load Connections, Upgrades and Cancellations work (DSP Section 3.11, D-SA-02) and additional demand for the Joint Use and Line Relocations Program (DSP Section 3.11, D-SA-01). Investments in System Renewal (excluding AMI 2.0) were also accelerated to comply with polychlorinated biphenyls (PCBs) environmental regulations, respond to major weather events and complete pole replacements. These investments in the System Access category (i.e., customer driven), and the System Renewal category (i.e., compliance and demand driven), were partly offset by reductions in System Renewal AMI 2.0. Further details regarding 2024 variances can be found in the Distribution Capital Performance Report (DSP Section 3.9, Attachment 2).

2.3 2025 IN-SERVICE ADDITION VARIANCES

In 2025, Hydro One Distribution's in-service additions exceeded the OEB-approved plan by $137.8M, or approximately 12%, as shown in Table 4.

Table 4 - OEB Category Performance (2025)

OEB Category	In-Service Additions		
	2025		
	OEB Approved	Actuals	Variance
1. System Access	239.4	333.7	39%
2. System Renewal (excl. AMI 2.0)	289.1	419.7	45%
2. System Renewal – AMI 2.0	158.4	146.7	-7%
3. System Service	232.6	155.7	-33%
Subtotal Categories 1, 2, and 3	**919.5**	**1,055.7**	**15%**
4. General Plant Allocated to Distribution	193.7	195.2	1%
Grand Total	**1,113.1**	**1,250.9**	**12%**

The largest variances to OEB-approved plan were System Access and System Renewal, offset by lower in-service additions in System Service. The increased investment in the System Access category was primarily driven by increased volume and complexity of the New Load Connections, Upgrades, and Cancellations (DSP Section 3.11, D-SA-02) work

and additional demand for the Joint Use and Line Relocations Program (DSP Section 3.11, D-SA-01). Investments in System Renewal were required to respond to major weather events, predominantly the Generational Ice Storm and to comply with polychlorinated biphenyls (PCBs) environmental regulations. These investments in the System Access category (i.e., customer driven), and the System Renewal category (i.e., compliance and demand driven), were partly offset by strategic reductions in System Renewal (i.e. sustainment and replacement) and System Service (i.e., energy storage solutions and system capacity and feeder modernization) categories. Further details regarding 2025 variances can be found in the Distribution Capital Performance Report (DSP Section 3.9, Attachment 2).

3.0 IN-SERVICE ADDITIONS 2028 TO 2032

Hydro One's Distribution 2028-2032 ISA forecast is expected to increase according to the capital expenditure forecast discussed in DSP Section 3.8 and Investment Summary Documents (ISDs) in DSP Section 3.11. Hydro One is committed to delivering the forecast 2028-2032 capital and ISA plan using its capital work execution strategy described in DSP Section 3.10.

Over the 2028–2032 period, Hydro One forecasts total capital in-service additions of $11,072.6M, an annual average of $2,214.5M per year[5] or 122% increase compared to the 2023-2027 OEB-approved plan. All investments with greater than $1M in capital expenditures per year are described in more detail in the Investment Summary Documents (ISDs) found in DSP Section 3.11.

System Access ISAs are projected to average $474.9M annually from 2028 to 2032, which is higher than the average of $346.2M in the prior period (2023-2027)[6]. This is primarily due to investment to enable provincial Broadband priorities (DSP Section 3.11, D-SA-05) and alignment of anticipated demand within New Load Connections, Upgrades, and

[5] Average 2028-2032 ISA = (2,086.6+1,823.4+2,151.4+2,554.2+2,457.0)/5
[6] 2023-2027 refers to actual (2023-2025) and forecast (2026-2027) expenditures.

Cancellations (DSP Section 3.11, D-SA-02) and Joint Use and Relocations (DSP Section 3.11, D-SA-01) based on historical trends.

System Renewal ISAs are projected to average $764.8M annually from 2028 to 2032, which is higher than the average of $399.3M in the prior period (2023-2027). The largest contributors to the higher in-service additions are the increased focus on the Pole Sustainment Program (DSP Section 3.11, D-SR-07), and the introduction of the Underground Cable Replacement Program (DSP Section 3.11, D-SR-15), Distribution Station Refurbishments (DSP Section 3.11, D-SR-04), Selective Undergrounding (DSP Section 3.11, D-SR-14) and Voltage Consolidation (DSP Section 3.11, D-SR-17). These are offset by the completion of the Advanced Meter Infrastructure 2.0 investment (DSP Section 3.11, D-SR-12) to replace Hydro One's legacy AMI 1.0 system and completion of the PCB Equipment Replacement Program.

System Service ISAs are projected to average $571.8M annually from 2028-2032, which is higher than the average of $186.8M of the prior period (2023-2027). Increased expenditures to support investments required for Energy Storage Solutions projects (DSP Section 3.11, D-SS-04) as well as system upgrade investments to respond to Load Growth (DSP Section 3.11, D-SS-01) and address distribution system requirements to meet the increased connection demand are the largest contributors to in-service addition requirements in this category.

General Plant ISAs are forecast to be on average $403.0M per year, an increase relative to the current rate period. This increase reflects higher Distribution capital contributions to Hydro One Transmission for station or line upgrades required to accommodate forecasted distribution customer load growth in alignment with applicable Regional Planning (see GSP Section 4.11, G-GP-22). It also reflects higher Transport and Work Equipment (TWE) requirements resulting from work program growth and increased fleet prices (see GSP Section 4.11, G-GP-01, subsection 1.3.2 for details). Further increases relate to Facilities and Real Estate (FRE) investments in Sustainment, New Build, and Governance and

Compliance investment needs (see GSP Section 4.11, G-GP-03, subsection 2.1 and G-GP-04, subsection 2.1 for details).

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HOSSM IN-SERVICE ADDITIONS

1.0 INTRODUCTION

In-service additions (ISAs) represent increases to rate base when capital assets are declared in service and are ready to serve transmission customers. Because capital projects are delivered over multiple years, capital expenditures are not equivalent to in-service additions, as assets may enter service in periods that differ from when expenditures are incurred.

The timing of planned ISAs may change as projects progress through execution. Hydro One Sault Ste. Marie LP's (HOSSM) ISA forecast reflects the best available information of when assets across its transmission portfolio will be ready to be placed into service during the planning period. Project execution may be affected by factors such as outage constraints, external approvals, material delivery, site conditions, evolving customer needs, changing priorities and emergent investments which may change the timing of ISAs.

Table 1 sets out HOSSM's ISAs over the 2016 to 2026 period. Table 2 sets out HOSSM's ISAs over the 2027 to 2032 test period. The variance analysis provided in this Exhibit is on an ISA basis.

Table 1 - HOSSM Capital ISA 2016 - 2026 ($M)

OEB Category	Historical Actuals										Bridge Forecast
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
System Access	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	4.6	4.9	26.4
System Renewal	4.1	5.9	0.4	4.9	2.8	6.7	3.6	1.2	17.4	59.0	47.1
System Service	2.2	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Plant	3.2	3.9	0.9	1.1	0.0	1.7	0.8	1.1	0.0	0.7	0.0
Total	**9.6**	**14.5**	**1.3**	**6.0**	**2.8**	**9.2**	**4.4**	**2.3**	**22.1**	**64.6**	**73.4**

Table 2 - HOSSM Capital ISA 2027 - 2032 ($M)

OEB Category	Forecast Period					
	2027	**2028**	**2029**	**2030**	**2031**	**2032**
System Access	40.3	0.0	0.0	0.0	0.0	0.0
System Renewal	3.8	41.4	26.2	6.6	35.6	18.5
System Service	0.0	0.0	56.9	0.3	0.0	0.0
General Plant	0.0	0.0	0.0	0.0	0.0	0.0
Total	**44.1**	**41.4**	**83.1**	**6.9**	**35.6**	**18.5**

2.0 IN-SERVICE ADDITIONS 2016-2026

Over the 2016-2026 period, HOSSM's ISAs have predominantly been driven by a limited number of material projects, each discussed under the relevant OEB investment category below. During this period, HOSSM reprioritized its investments, particularly in System Renewal, to allow it to accommodate new mandatory customer connection work in System Access. HOSSM also experienced an unprecedented set of market forces in the latter part of its deferred rebasing period, which has resulted in sustained inflation, significantly increasing the cost of key electrical equipment and materials as discussed in SPF Section 1.8.

As discussed in TSP Section 2.10 sub-section 2.10.4, HOSSM has completed transmission total cost benchmarking, which indicates that its transmission costs have been below benchmark expectations over the last decade. These results demonstrate that HOSSM has maintained efficient cost performance while continuing to deliver safe and reliable service.

SYSTEM ACCESS

Over the 2016-2026 period, HOSSM carried out several System Access investments. The most material investment was a request to connect a new 10 km 230 kV double circuit transmission line from PUC (Transmission) LP's transformer station to HOSSM's Third Line TS (TSP Section 2.12, T-SA-11). This investment, with ISAs of $25.0M over the historical period, requires HOSSM to complete material station reconfiguration work at Third Line TS including new breakers, switches, yard expansion and a new protection and

control building. PUC's new transmission line will supply the local steel manufacturer's new Electric Arc Furnaces.

The balance of HOSSM's ISAs over the historical period were related to station upgrades at Echo River TS; construction of a new line tap and protection modifications at Hollingsworth TS to accommodate the expansion needs of a mine; and protection modifications and grounding upgrades at several stations to accommodate the connections associated with a local steel manufacturer.

SYSTEM RENEWAL

Over the 2016-2026 period, HOSSM carried out several System Renewal investments with notable station investments. These included the transformer replacement at Third Line TS (TSP Section 2.12, T-SR-01); component replacements, including a transformer, at Batchewana TS (TSP Section 2.12, T-SR-Other); and lines investments related to the refurbishment of the Sault #3 transmission line (TSP Section 2.12, T-SR-13).

Third Line TS, located in the City of Sault Ste. Marie, serves the majority of the city's residential and industrial load. This investment, with ISAs of $34.7M over the historical period, replaces the T2 autotransformer at Third Line TS, driven by its deteriorating condition and the risk that its failure would subject the station to single contingency through T1, the loss of which would result in extensive service outages in the Sault Ste. Marie area. HOSSM is also completing protection system upgrades at the station (TSP Section 2.12, T-SR-01).

The Sault #3 transmission line (TSP Section 2.12, T-SR-13) investment, with ISAs of $61.9M over the historical period, involves the refurbishment and capacity increase of the 115 kV circuit between Third Line TS and Mackay TS, connecting generation from the Wawa area to the Sault Ste. Marie area. The original transmission line was placed in service in 1929 and is approximately 90.5 km in length. This project is a significant component of the overall System Renewal expenditures during the historical period and

is expected to support system reliability and accommodate future load requirements once completed, in 2026.

Over the 2016-2026 period, HOSSM is expected to in-service $15.5M for component replacements, including a transformer, at Batchewana TS (TSP Section 2.12, T-SR-Other) and $2.3M for protection replacements at Watson TS.

Over the 2016-2026 period, HOSSM is expected to in-service $9.4M to replace poor condition wood poles (TSP Section 2.12, T-SR-04) and $4.6M to replace wood poles on P21G; $2.7M to address minor demand repairs (TSP Section 2.12, T-SR-09), $7.9M for emergency transmission line replacements (TSP Section 2.12, T-SR-15), completed $7.7M on structure repairs and replacement, and in-serviced $1.3M to replace T1 transformer at Mackay TS

To accommodate higher overall capital expenditures, several investments or programs were reprioritized including work in the Wood Pole Replacement program (TSP Section 2.12, T-SR-04), Northern Ave T1 Replacement, and the Watson TS Metalclad Replacement (both TSP Section 2.12, T-SR-03).

SYSTEM SERVICE

Over the 2016-2026 period, HOSSM completed System Service investments refurbishing Anjigami TS to upgrade aging and deteriorating station equipment to improve 44kV supply redundancy and reliability, and Watson TS T2 breaker and protection upgrades to improve reliability and safety. Since 2018, HOSSM has had no System Service ISAs.

GENERAL PLANT

Over the 2016-2026 period, General Plant ISAs were predominantly driven by, $3.6M for land rights in 2017 and 2018 for future station expansion, $3.5M for the acquisition of the Sackville Work Centre and $1.0M for the subsequent roof replacement to address the failing and end-of-life roof system, $1.2M for SCADA integration, and $1.2M for physical access control work.

3.0 IN-SERVICE ADDITIONS 2027 TO 2032

Over the 2027-2032 period, HOSSM plans to place an average of $38.3M in transmission assets into service[1]. This ISA forecast is based on HOSSM's proposed capital investment plan discussed in TSP Section 2.10.

System Access ISAs account for 18% of the 2027-2032 HOSSM ISA forecast. These investments are non-discretionary investments that facilitate new load and generation customer connections and address transmission asset modifications to accommodate third party requests. The forecast ISA of $40.3M in 2027 is related to the completion of the ongoing customer connection investment at Third Line TS (TSP Section 2.12, T-SA-11). Beyond this ongoing investment, HOSSM expects no new customer connections over the forecast period.

System Renewal ISAs account for 58% of HOSSM's 2027-2032 ISA forecast. These investments help manage and mitigate risks stemming from assets that are in poor condition (as indicated by condition assessments), have inadequate performance, are functionally obsolete, or have failed. The total 2027-2032 ISA forecast is $132.1M and is related to Connection Station renewal investments (TSP Section 2.12, T-SR-03), the replacement of wood pole structures through the Wood Pole Structure Replacement program (T-SR-04), emergency replacement of transmission station assets that have failed or are at an imminent risk of failure and the procurement of strategic spare inventory through the Transmission Station Demand and Spares program (TSP Section 2.12, T-SR-09), and investments to address transmission lines assets that have either failed or are at imminent risk of failure through the Transmission Line Emergency Restoration program (TSP Section 2.12, T-SR-15).

System Service ISAs account for 25% of HOSSM's 2027-2032 ISA forecast. These investments are non-discretionary investments identified in IESO bulk system studies, regional planning processes, and government-directed transmission expansion initiatives that identify specific transmission reinforcements required to maintain reliability, ensure

[1] 2027-2032 ISA = $229.7M / 6 = $38.3M

local supply adequacy, accommodate forecast load growth, and enable new generation resources. The total 2027-2032 ISA forecast is $57.2M and is related to a 230kV switchyard expansion at Third Line TS to accommodate new double circuits for the Mississagi x Third Line Reinforcement project, also known as the North Shore Link (TSP Section 2.12, T-SS-11). This project was recommended in the IESO's Northeast Bulk Plan and the Minister of Energy and Mines issued two Orders in Council in respect of this investment.

Investments with ISAs greater than $20M over the 2027-2032 period have been summarized in Table 3 below and further described in TSP Section 2.10 and TSP Section 2.12.

Table 3 - 2027-2032 Investment ISAs Greater than $20M ($M)

Investment Summary Document	Description	ISA
T-SA-11	Third Line TS PUC Connection	40.3
T-SR-03.HOSSM.04	Clergue TS Switchgear Replacement	37.6
T-SR-03.HOSSM.06	Watson TS Switchgear Replacement	22.8
T-SR-04	Wood Pole Structure Replacements	22.8
T-SS-11	North Shore Link	57.2

SHARED ASSET ALLOCATION

1.0 INTRODUCTION

Hydro One Networks, including its Transmission and Distribution businesses, provides customers with value for money by operating in a coordinated manner together with its affiliates so as to maximize efficiencies through centralization of the maintenance, management and purchase of Common Fixed Assets (Shared Assets).[1]

Shared Assets include fixed assets, such as land and buildings, telecommunications equipment, computer equipment, tools, and transportation and work equipment (T&WE), intangible assets such as applications software, and cloud computing implementation costs which are held by Hydro One Networks and used for the shared benefit of its Transmission and Distribution businesses, Hydro One Sault Ste. Marie LP (HOSSM), as well as affiliates.

Hydro One is committed to ensuring its transmission revenue requirement reflects only the cost of investments in transmission-related assets, including an appropriate share of the cost of investments in Shared Assets that are used for providing transmission service. Similarly, Hydro One is committed to ensuring that its distribution customers are only asked to pay for the cost of investments in distribution-related assets, including an appropriate share of the cost of investments in Shared Assets that are used for providing distribution service. Costs attributable to HOSSM and affiliates are excluded from Hydro One's regulated revenue requirements and are allocated separately in accordance with applicable regulatory requirements.

This Exhibit describes the nature of Hydro One’s Shared Assets and the methodology by which it allocates the costs of these assets to the Transmission and Distribution business units, and among HOSSM and affiliates for purposes of determining its proposed Transmission and Distribution revenue requirements, and explains how transfer pricing is

[1] The corporate organizational chart is provided in Exhibit A-07-01, Attachment 1.

used to account for the use of Shared Assets by Hydro One affiliates in accordance with the OEB's *Affiliate Relationships Code for Electricity Distributors and Transmitters* (ARC). The Corporate Cost Allocation Review was conducted in response to a commitment established in the EB-2021-0110 Settlement Proposal.[2] To fulfill this requirement, Hydro One selected Atrium Economics (Atrium) to conduct an independent assessment of the Company's Common Corporate Cost Allocation Methodology, Overhead Capitalization Methodology, and the methodology used to allocate Shared Asset costs among regulated business units and affiliates. Atrium was selected based on its expertise in utility cost allocation and regulatory matters, as well as its familiarity with Hydro One's operations and regulatory framework. Atrium was mandated to undertake a comprehensive review of the existing methodologies, critically assess current practices, and identify refinements where appropriate based on industry best practices. The review filed in this Application fulfills the commitment and provides an independent assessment of Hydro One's corporate and Shared Asset cost allocation methodologies.

The Common Corporate Cost Allocation Methodology and Overhead Capitalization Methodology are addressed in Exhibit E-04-08 and Exhibit C-08-02 respectively. The allocation of Shared Assets, including Atrium's review thereof, is addressed below. A consolidated report from Atrium, addressing all aspects of its review, is provided in Exhibit E-04-08, Attachment 1.

2.0 SHARED ASSET VALUES

Shared Assets within the Hydro One group of companies are held by Hydro One Networks. Within Hydro One Networks, those Shared Assets represent approximately 3.9% of the company's total assets. The remaining (non-shared) assets of Hydro One Networks are held directly by, and are for the exclusive use of, either the Transmission business or the Distribution business. Hydro One Networks' Transmission and Distribution business units, HOSSM, as well as affiliates, are each allocated a portion of the value of the Shared

[2] In its Settlement Proposal in EB-2021-0110, Appendix A, *Studies, Reports and Reporting*, the OEB required Hydro One to undertake and file a Corporate Cost Allocation Review as part of its next cost-based rate application.

Assets based on their respective use of those assets, as described later in this Exhibit. Table 1 summarizes the total gross fixed assets and identifies the proportions of Shared Assets that are allocated to Transmission, Distribution, HOSSM and other affiliates.

Table 1 - Summary of Net Book Value of Fixed Assets as at December 31, 2025 ($M)[3]

Category	Transmission	%	Distribution	%	HOSSM	%	Affiliates	%	Total
Total Fixed Assets (including Shared Assets)	$16,499.7	57.2%	$11,146.5	38.6%	$266.3	0.9%	$955.8	3.3%	$28,868.3
Total Shared Assets	$469.2	42.1%	$631.9	56.7%	$0.6	0.0%	$13.0	1.2%	$1,114.7
Total Shared Assets as % of Total Fixed Assets	**2.8%**		**5.7%**		**0.2%**		**1.4%**		**3.9%**

Shared Assets are divided into three categories. Major Shared Fixed Assets include both tangible and intangible assets such as land, buildings, telecommunications equipment, and applications software. Minor Shared Fixed Assets include office furniture, computer equipment, tools and T&WE. Cloud Computing Implementation Costs include interfacing, customization, configuration, and testing activities.

Table 2 shows the proportion of Major Shared Fixed Assets and Minor Shared Fixed Assets by Transmission, Distribution, HOSSM and other Affiliates, and their net book value.

Table 2 - Details of Shared Net Fixed Assets as at December 31, 2025 ($M)[4]

	Net Book Value (Transmission)	Net Book Value (Distribution)	Net Book Value (HOSSM)	Net Book Value (Affiliates)	Total
Major Shared Fixed Assets	334.6	440.7	0.5	11.9	787.7
Minor Shared Fixed Assets	123.8	182.1	0.0	1.0	306.9
Cloud Computing Implementation Cost	10.8	9.2	0.0	0.1	20.1
Total Shared Assets	**469.2**	**632.0**	**0.5**	**13.0**	**1,114.7**

[3] Figures presented in the tables may not sum to the totals shown due to rounding
[4] Figures presented in the tables may not sum to the totals shown due to rounding

3.0 ALLOCATION OF SHARED ASSETS

Due to the evolving nature of Hydro One's business and investment priorities, Shared Assets are not subject to permanent allocation factors for the Transmission or Distribution business units. Over time, the relative use of Shared Assets may change, depending on changes in the underlying transmission and distribution work programs. Consequently, the methodology and the resulting allocation of Shared Assets to the Transmission and Distribution business units is subject to periodic review. The intent of such reviews is to ensure that the allocation of Shared Assets continues over time to be reflective of their use and that the costs associated with those Shared Assets are allocated appropriately between the Transmission and Distribution business units, HOSSM and Hydro One's affiliates.

Hydro One's methodology for allocating Shared Asset costs was originally developed in 2006 by Black & Veatch (B&V) and has evolved through successive independent third-party reviews. The methodology is founded on the principles of cost causation, benefits received, transparency, and consistency with the OEB's *Affiliate Relationships Code* (ARC). Hydro One has consistently applied the methodology in its transmission and distribution rate applications, where it has been reviewed and accepted by the OEB (from RP-2005-0020 to EB-2021-0110).

Building on the methodology established through prior independent reviews, Atrium reviewed the appropriateness of the Shared Asset allocation methodology for the test period as part of its Corporate Cost Allocation Update (Atrium Study) provided in Exhibit E-04-08, Attachment 1. The review included an assessment of the nature and use of Shared Assets, the allocation methodologies and cost drivers applied to each asset group, and the alignment of the Shared Asset allocation methodology with the Common Corporate Cost Allocation Methodology. Atrium also conducted a detailed review of Shared Assets and consulted with Hydro One personnel most familiar with the assets to confirm the continued appropriateness of the allocation factors.

The review incorporated updates reflecting Hydro One's current organizational structure and operations, including the inclusion of prepaid cloud computing implementation and amortization costs within the Shared Asset methodology. Atrium concluded that the methodology remains appropriate, is consistent with regulatory cost allocation principles, the ARC, and continues to fairly allocate Shared Asset costs among Hydro One's regulated businesses and affiliates while avoiding cross-subsidization. Atrium further confirmed that, where Shared Assets and Shared Services provide similar functions, consistent allocation factors are applied across both methodologies to support cost causation and regulatory transparency.

4.0 TRANSFER PRICING

To account for the use of Shared Assets by its affiliates, Hydro One applies transfer pricing to allocate the portion of revenue requirement related to certain Shared Assets to its affiliates. The service level agreements between Hydro One and its affiliates, for services provided to or received from affiliates, are described in more detail in Exhibit D-02-03. The use of transfer pricing under those agreements reduces the revenue requirements of Hydro One’s Transmission and Distribution businesses. The Shared Assets allocated to affiliates include major fixed assets and intangible assets, as well as minor fixed assets. For example, one significant Shared Asset is the Computing Infrastructure, which is enterprise software necessary to maintain the day-to-day operations of Hydro One. The methodology for calculating the transfer pricing and its impact on the Transmission and Distribution Shared Asset costs are described in more detail in Section 7 of the Atrium Study provided at Exhibit E-04-08, Attachment 1.

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STATEMENT OF UTILITY RATE BASE

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CONTINUITY OF PROPERTY, PLANT AND EQUIPMENT: GROSS FIXED ASSETS

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CONTINUITY OF PROPERTY, PLANT AND EQUIPMENT: ACCUMULATED DEPRECIATION

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FIXED ASSET CONTINUITY SCHEDULES: CHAPTER 2 APPENDIX 2-BA

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FIXED ASSET CONTINUITY SCHEDULES: CHAPTER 2 APPENDIX 2-BA – HOSSM

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CONTINUITY OF PROPERTY, PLANT AND EQUIPMENT - CONSTRUCTION WORK IN PROGRESS

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WORKING CAPITAL

1.0 INTRODUCTION

Working capital represents the amount of funds required to finance the day-to-day operations of a regulated utility and is included as part of rate base for ratemaking purposes. Hydro One's working capital requirement for both the Transmission and Distribution businesses has been determined based on its utility-specific lead-lag study. Working capital is integral to Hydro One's financial stability in order to meet its obligations to customers.

In August 2025, Hydro One commissioned Guidehouse Inc. to conduct separate lead-lag studies for its Transmission and Distribution businesses. Hydro One has used these studies to determine the net cash working capital requirements in the 2028-2032 test period. These studies use consistent methodologies that were previously approved in prior lead-lag studies filed by Hydro One Transmission and Distribution with updated information.

Consistent with past studies, Guidehouse's lead-lag studies filed in this Application for each of Transmission and Distribution take into consideration:

- the most important elements of revenue lags, including the service, billing and collection lags; and
- the most important elements of expense leads, such as payroll and benefits, cost of power (Distribution lead-lag study only), operations, maintenance, administration expenses, and taxes, including property taxes.

Both Guidehouse lead-lag studies are based on Hydro One's revenue and expense data from the twelve months ending July 31, 2025.

The final lead-lag studies are included as the following attachments to this Exhibit:

- Attachment 1 of Exhibit C-05-01 (Working Capital Requirements of Hydro One Networks' Transmission Business); and

- Attachment 2 of Exhibit C-05-01 (Working Capital Requirements of Hydro One Networks' Distribution Business).

2.0 TRANSMISSION

Hydro One Transmission's net cash working capital requirement for the 2028 test year is $25.3M, or 3.99% of total OM&A expenditures ($634.5M), as supported by the results of Guidehouse's study in Table 1 below.

As compared with the 2023 net cash working capital requirement of $17.8M derived from the prior 2021 study, the net cash working capital requirement proposed for 2028 is $25.3M, an increase of $7.5M. The increase is primarily attributable to higher interest expense working capital requirements, reflecting both higher forecast interest expense levels and changes in the lead-lag results for interest payments. The increase is partially offset by reductions in revenue lag days associated with improved collection of other revenues, including merchandising, jobbing, rents and leases of HONI property, as well as increases in OM&A expense lead days. The results of Hydro One's current Transmission lead-lag study are compared to the results of Hydro One's prior Transmission lead-lag study in Section 5.1 (Comparison with Prior Study) of Attachment 1, pages 15-19.

Table 1 summarizes the net cash working capital requirements for Hydro One Transmission, which are determined by using the lead-lag days from the study to reflect the 2028-2032 test year revenues, expenses and HST amounts. Table 2 shows the development of the HST working capital amounts.

Table 1 - Transmission Net Cash Working Capital Requirement

(All Data in $M Except Lead/Lag Days)

	Revenue Lag (Days)	Expense Lead (Days)	Net Lag (Lead Days)	2028 Test Year	2029 Test Year	2030 Test Year	2031 Test Year	2032 Test Year
	(A)	(B)	(C)=(A)-(B)	(D)	(E)	(F)	(G)	(H)
Expenses								
OM&A Expenses[1]	35.9	40.72	-4.8	634.5	654.0	674.3	695.1	716.6
Income Tax	35.9	14.2	21.7	103.7	124.2	184.6	166.0	63.3
Interest Expense	35.9	(0.8)	36.7	442.1	481.5	523.7	580.3	691.2
Asset Removals	35.9	43.6	(7.7)	71.2	67.1	87.9	97.9	84.7
Total				**1,251.5**	**1,326.9**	**1,470.5**	**1,539.3**	**1,551.8**
HST				600.8	665.9	751.3	801.1	773.5
Total Amounts Paid/Accrued				**1,852.3**	**1,992.8**	**2,221.8**	**2,340.4**	**2,325.3**
Working Capital Required								
(Calculations based on above values, for each expense category, calculated using the following formula: For Test Years 2028 to 2032 (Col (D)*Col (C)/365))								
OM&A Expenses				-8.6	-8.6	-8.9	-9.2	-9.4
Income Tax				6.2	7.4	11.0	9.9	3.8
Interest Expense				44.3	48.4	52.7	58.3	69.3
Asset Removals				-1.5	-1.4	-1.9	-2.1	-1.8
Total				**40.6**	**45.8**	**52.9**	**57.0**	**61.8**
HST (see Table 2)				-15.3	-14.2	-12.1	-11.9	-24.2
Net Cash Working Capital Required[2]				**25.3**	**31.6**	**40.8**	**45.1**	**37.6**

Source: Exhibit C-05-01, Attachment 1, pp. 11-14, Tables 4-1 to 4-5.

[1] 2024-27 OM&A Expenses are derived by escalating 2023 by 2.0% OEB-approved inflation factor per EB-2020-0202

[2] See Exhibit C-06-01 for the working capital requirement for materials and supplies.

Table 2 - Transmission Summary of HST Cash Working Capital Requirement

(All Data in $M Except Lead-Lag Days)[3]

	HST Lead Time (Days)	Working Capital Factor	2028 Test Year	2029 Test Year	2030 Test Year	2031 Test Year	2032 Test Year
Revenue (external)	-46.1	-12.6%	-44.6	-48.1	-52.3	-55.2	-59.7
OM&A	44.2	12.1%	3.3	3.4	3.5	3.6	3.7
Removal costs	43.4	11.9%	0.1	0.1	0.2	0.2	0.2
Capital expenditures	43.4	11.9%	25.9	30.5	36.5	39.6	31.7
Total			**-15.3**	**-14.2**	**-12.1**	**-11.9**	**-24.2**

Source: Exhibit C-05-01, Attachment 1, p. 11, Table 3-5

Additional details of the calculation of the Transmission HST Cash Working Capital Requirement are shown on page 11 of Exhibit C-05-01, Attachment 1.

3.0 DISTRIBUTION

Hydro One Distribution's net cash working capital requirement for the 2028 test year is $497.6M, or 8.5% of OM&A from revenue requirement and cost of power ($5.9B), as supported by the Guidehouse study.[4]

Compared with the 2023 net cash working capital requirement of $243.4M derived from the prior 2021 study, the proposed 2028 requirement is $497.6M, an increase of $254.3M. The increase reflects higher forecast expense levels, including cost of power, OM&A, interest expense, and income taxes, together with changes in the current lead-lag results. In particular, the overall revenue lag increased, principally because of an increase in collections lag, reflecting changes in the timing of outstanding-balance collections. This increase was partly offset by the revised classification of distributed-generation payments within cost of power, which reduced revenue lag.[5] The results of Hydro One's current Distribution lead-lag study are compared to the results of Hydro One's prior Distribution

[3] Figures presented in the tables may not sum to the totals shown due to rounding
[4] See Exhibit C-05-01, Attachment 2 pp. 5-14
[5] See Exhibit C-05-01, Attachment 2 pp. 17-18

lead-lag study in Section 5.1 (Comparison with Prior Study) of Attachment 2, pages 17-21.

Table 3 summarizes the net cash working capital requirements for Hydro One Distribution, including Acquired Utilities. The requirements were determined by using the lead-lag days from the Guidehouse study to reflect the 2028-2032 test year revenues, expenses and HST amounts. Table 4 shows the development of the HST working capital amounts.

Table 3 - Distribution Net Cash Working Capital Requirement

(All Data in $M Except Lead/Lag Days)

	Revenue Lag (Days)	Expense Lag (Days)	Net Lag (Lead Days)	2028 Test Year	2029 Test Year	2030 Test Year	2031 Test Year	2032 Test Year
	(A)	(B)	(C)=(A)-(B)	(D)	(E)	(F)	(G)	(H)
Expenses								
Cost of Power	58.9	37.2	21.7	4,930.9	5,019.1	5,105.4	5,181.6	5,285.3
OM&A Expenses[6]	58.9	33.4	25.4	957.8	987.3	1,017.7	1,049.0	1,081.4
Income Tax	58.9	14.2	44.7	47.5	123.6	161.9	144.6	88.2
Interest Expense	58.9	0.1	58.8	309.7	342.6	377.9	424.3	472.0
Asset Removals	58.9	38.5	20.4	125.2	167.8	212.0	185.8	188.9
Total				**6,371.0**	**6,640.4**	**6,874.9**	**6,985.5**	**7,115.7**
HST				1,794.8	1,871.0	1,953.4	2,000.8	2,034.3
Total Amounts Paid/Accrued				**8,165.8**	**8,511.4**	**8,828.3**	**8,986.3**	**9,150.0**
Working Capital Required								
(Calculations based on above values, for each expense category, calculated using the following formula: For Test Years 2028 to 2032 (Col (D)*Col (C)/365))								
Cost of Power				292.6	298.7	303.8	308.4	313.7
OM&A				66.6	68.8	70.9	73.1	75.2
Income & Capital Tax				5.8	15.1	19.8	17.7	10.8
Interest Expense				49.7	55.2	60.9	68.4	75.8
Asset Removals				7.0	9.4	11.8	10.4	10.5
Total				**421.7**	**447.2**	**467.3**	**477.9**	**486.0**
HST (see Table 4)				75.9	77.7	81.3	83.2	82.5
Distribution Net Cash Working Capital Required				**497.6**	**524.9**	**548.6**	**561.1**	**568.5**

Source: Exhibit C-05-01, Attachment 2, pp. 14-16, Tables 4-1 to 4-5

[6] To derive 2024-2027 values, 2023 OM&A Expenses are escalated by 1.9% (2.2% OEB-approved inflation per EB-2020-0030 less 0.3% stretch)

Table 4 - Distribution Summary of HST Cash Working Capital Requirement (All Data in $M Except Lead-Lag Days)

	HST Lead Time (Days)	Working Capital Factor	2028 Test Year	2029 Test Year	2030 Test Year	2031 Test Year	2032 Test Year
Revenue (external)	-9.5	-2.6%	-25.3	-26.7	-27.9	-28.5	-29.3
Cost of power	45.9	12.5%	80.4	82.1	83.5	84.7	86.2
OM&A	44.2	12.1%	5.6	5.8	6.0	6.2	6.3
Asset Removal	43.4	11.8%	0.2	0.3	0.4	0.3	0.2
Capital expenditures	43.4	11.8%	14.9	16.2	19.3	20.5	18.9
Total			**75.9**	**77.7**	**81.3**	**83.2**	**82.5**

Source: Exhibit C-05-01, Attachment 2, p.13, Table 3-7

For the Orillia and Peterborough rate zones, the above methodology was applied in 2031 and 2032. The percentage of OM&A and Cost of Power was applied to derive their working capital.

The table below provides a summary of the working capital percentages.

Table 5 - HONI Distribution Summary of Working Capital Requirements

	2028	2029	2030	2031	2032
Percentage of OM&A and Cost of Power	8.5%	8.7%	9.0%	9.0%	8.9%

Additional details on the calculation of the Distribution HST Cash Working Capital Requirement is shown on pages 3-13 of Exhibit C-05-01, Attachment 2.

Guidehouse

Working Capital Requirements of Hydro One Networks Inc.'s Transmission Business

2028 to 2032

Prepared for:

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July 24, 2026

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This deliverable was prepared by Guidehouse Canada Inc. ("Guidehouse") pursuant to a client relationship exclusively with Hydro One Networks Inc. ("HONI"), for the sole purpose of HONI's rate application to the Ontario Energy Board. The information in this deliverable may not be relied upon for any other purpose. The work presented in this deliverable represents Guidehouse's professional judgement based on the information available at the time this report was prepared. Accordingly, Guidehouse disclaims any contractual or other responsibility to others based on their access to or use of the deliverable.

Table of Contents

Disclaimer iii
Executive Summary 1
1. Introduction and Methodology 2
1.1 Key Concepts 2
1.1.1 Mid-Point Method 2
1.1.2 Statutory Approach 3
1.1.3 Revenue Lag Components 3
1.1.4 Expense Lead Components 3
1.1.5 Dollar Weighting 3
1.2 Methodology 4
2. Revenue Lags 5
2.1 IESO Revenue Lag 5
2.2 Other Revenue Lags 6
3. Expense Leads 7
3.1 Interest on Debt 7
3.2 Income Taxes 7
3.3 Operations, Maintenance and Administration ("OM&A") 8
3.3.1 Payroll and Benefits 9
3.3.2 Property Tax 10
3.3.3 Lease Payments 10
3.3.4 Consulting and Contract Staff 10
3.3.5 Corporate Procurement Card 10
3.3.6 Miscellaneous OM&A 10
3.4 Asset Removals 11
3.5 Harmonized Sales Tax 11
4. Working Capital Requirements 12
5. Findings and Conclusions 15
5.1 Comparison with Prior Transmission Study 15
5.1.1 Revenue Lag 17
5.1.2 OM&A Expenses 17
5.1.3 Income Taxes 18
5.1.4 Interest Expense 18
5.1.5 Asset Removals 18
5.2 Comparison with the Prior Transmission Working Capital Study Using Constant Revenue Lag Days 19

List of Tables

Table 1-1. HONI Transmission Summary of Working Capital Requirements 1
Table 1-2. HONI Transmission Net Lag Days by Expense Category (TME 7/31/2025) 1
Table 2-1. Summary of Retail Revenue Lag (TME 07/31/2025) 5
Table 2-2. Summary of IESO Revenues (TME 07/31/2025) 6
Table 3-1. Interest Expenses (TME 07/31/2025) 7
Table 3-2. Income Taxes Expenses (TME 07/31/2025) 8
Table 3-3. Summary of OM&A Expenses (TME 07/31/2025) 9
Table 3-4. Summary of Payroll & Benefits Expenses (TME 07/31/2025) 10
Table 3-5. Summary of HST Working Capital Amounts 11
Table 4-1. HONI Working Capital Requirements (2028) 12
Table 4-2. HONI Working Capital Requirements (2029) 12
Table 4-3. HONI Working Capital Requirements (2030) 13
Table 4-4. HONI Working Capital Requirements (2031) 13
Table 4-5. HONI Working Capital Requirements (2032) 14
Table 5-1. HONI Transmission Working Capital Requirements (2023), Prior 2021 Study 15
Table 5-2. HONI Transmission Working Capital Requirements (2028), Current Study 16
Table 5-3. HONI Transmission Working Capital Requirements (Current versus Prior) 16
Table 5-4. OM&A Expense Lead Comparison 17
Table 5-5. Working Capital Requirements with 2021 Study Revenue Lag Days Held Constant (2023 from 2021 Study versus 2028 from Current Study) 19

Disclaimer

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Executive Summary

Guidehouse Canada Inc. ("Guidehouse") was retained by Hydro One Networks Inc. ("HONI") to calculate the working capital requirements of HONI's transmission business using a lead-lag study.

Cash working capital is the amount of funding required to finance the day-to-day utility operations, and which are included as part of a rate base for ratemaking purposes. A lead/lag study is generally regarded as the most accurate basis for the determination of working capital and was used by Guidehouse for this purpose. The results of this study are provided in this report.

The lead/lag days calculated in this study are based on HONI's revenue and expense data from the twelve months ending July 31, 2025, or "TME 7/31/2025". The working capital requirement of HONI's transmission business is shown below, in Table 1-1.

Table 1-1. HONI Transmission Summary of Working Capital Requirements

Description	2028	2029	2030	2031	2032
Percentage of OM&A	3.99%	4.83%	6.05%	6.49%	5.25%
Working Capital Requirement ($M)	$25.3	$31.6	$40.8	$45.1	$37.6

The working capital requirements shown in Table 1-1 above are based upon the revenue lag and expense lead days shown in Table 1-2.

Table 1-2. HONI Transmission Net Lag Days by Expense Category (TME 7/31/2025)

Description	Revenue Lag Days	Expenses Lead Days	Net Lag Days
OM&A Expenses	35.90	40.72	(4.82)
Income Taxes	35.90	14.17	21.73
Interest Expense	35.90	(0.79)	36.70
Asset Removals	35.90	43.60	(7.69)

1. Introduction and Methodology

Guidehouse Canada Inc. ("Guidehouse") was retained by Hydro One Networks Inc. ("HONI") to calculate the working capital requirements for HONI's transmission business. This report provides the results of the assessment and the working capital requirements of the transmission business.

Cash working capital is the amount of funds that are required to finance the day-to-day operations, and which are included as part of a rate base for ratemaking purposes. A lead-lag study is generally regarded as the most accurate basis for the determination of working capital and was used by Guidehouse for this purpose.

A lead-lag study analyzes the time between the date customers receive service and the date that customers' payments are available to HONI (or "revenue lag" or "lag") together with the time between the date HONI receives goods and services from its vendors and the date that HONI pays for them (or "expense lead" or "lead").

"Leads" and "Lags" are both measured in days and are dollar-weighted where appropriate. The dollar-weighted net lag (lag minus lead) days is then divided by 365 (or 366 for leap years) and then multiplied by the annual test year expenses to determine the amount of working capital required. The resulting amount of working capital is then included in HONI's rate base for the purpose of deriving revenue requirement.

HONI provided revenue and expense data to support the lead-lag study from the test year of twelve months ending July 31, 2025, or "TME 7/31/2025". Unless stated otherwise, Guidehouse leveraged the revenue and expense data for TME 7/31/2025 for it, as it was the most recent year of data provided.

1.1 Key Concepts

The following section outlines the key concepts used throughout this report to assess the working capital requirements of HONI's transmission business. This includes the mid-point method, statutory approach, revenue lag components, expense lead components and dollar weighting.

1.1.1 Mid-Point Method

When a service is provided to (or by) HONI over a period of time, the service is deemed to have been provided (or received) evenly over the period, unless specific information regarding the provision (or receipt) of that service indicates otherwise. If both the service end date ("Y") and the service start date ("X") are known, the mid-point of a service period can be calculated using Equation 1-1.

Equation 1-1

$$Mid - Point = \frac{(Y - X) + 1}{2}$$

When specific start and end dates are unknown, but it is known that a service is evenly distributed over the mid-point of a period, an alternative formula that is generally used is shown below. Equation 1-2 uses the number of days in a year ("A") and the number of periods in a year ("B"):

Equation 1-2

$$\boldsymbol{Mid - Point = \frac{A/B}{2}}$$

1.1.2 Statutory Approach

In conjunction with the mid-point method, it is important to note that not all areas of this study may utilize dates on which actual payments were made to (or by) HONI. In some instances, the due dates for payments are established by statute or by regulation. In these instances, the due date established by statute has been used in lieu of when payments were made.

1.1.3 Revenue Lag Components

As used in this study, revenue lags are comprised of IESO Revenues and Other Revenues. These revenue components are defined to consist of two components:

- Service Lag component (services are assumed to be provided by HONI evenly around the mid-point of the service period); and,
- Payment Lag component (the period from the end of the service period to the time payments are received and funds are available to HONI).

1.1.4 Expense Lead Components

As used in this study, expense leads are defined to consist of two components:

- Service Lead component (services are assumed to be provided to HONI evenly around the mid-point of the service period); and,
- Payment Lead component (the time period from the end of the service period to the time payment was made and when funds have left HONI's possession).

1.1.5 Dollar Weighting

Both leads and lags should be dollar-weighted where appropriate and where data is available to accurately reflect the flow of dollars. For example, suppose that a particular transaction has a lead time of 100 days and has a dollar value of $100. Further, suppose that another transaction has a lead time of 30 days with a dollar value of $1 million. A simple unweighted average of the two transactions would give us a lead time of 65 days ([100+30]/2). However, when these two transactions are dollar weighted, the resulting lead time would be closer to 30 days which is more representative of how the dollars flow.

1.2 Methodology

Performing a lead-lag study requires two key undertakings:

1. Developing an understanding of how the regulated transmission business operates in terms of products and services sold to customers/purchased from vendors, and the policies and procedures that govern such transactions; and,

2. Modeling such operations using data from a relevant period of time and a representative data set. It is important to ascertain and factor into the study whether (or not) there are known changes to existing business policies and procedures going forward. Where such changes are known, measurable, and material, they should be factored into the study.

To develop an understanding of HONI's transmission operations, interviews with personnel within HONI's Accounts Payable, Accounts Receivable, Real Estate, Wholesale Market Operations, Payroll, Customer Care, Benefits, Treasury, and Tax Departments were conducted. Key questions that were addressed during the interviews included:

1. What is being sold (or purchased)? If a service is provided to (or by) HONI, over what time period was this service provided?

2. Who are the buyers (or sellers)?

3. What are the terms for payment? Are the terms for payment driven by industry norms or by company policy? Is there flexibility in the terms for payment?

4. Are any changes to the terms for payment expected? Are these terms driven by industry or internally? What is the basis for any such changes?

5. Are there any new rules or regulations governing transactions relating to transmission operations that are expected to materialize over the time frame considered in this report?

6. How are payments made (or received)? Do payment types have different payment lead times (i.e., internet payments have shorter deposit times than cheque deposit times)?

2. Revenue Lags

This section of the report provides the revenue lag days for HONI's transmission business. A revenue lag represents the number of days from the date that is service is rendered by HONI until the date payments are received and funds are available to HONI.

HONI receives revenue from the following funding streams:

- IESO Revenue: Revenue from the Independent Electric System Operator ("IESO"); and,
- Other Revenue: HONI receives other revenue from a variety of sources.

A summary of the revenue lags for HONI's transmission business is shown below.

Table 2-1. Summary of Retail Revenue Lag (TME 07/31/2025)

Description	Amounts ($M)	Lag Time Days	Weighting Factor	Weighted Lag Time Days
IESO Revenue	$2,314.2	35.32	98.4%	34.76
Other Revenue	$37.4	71.73	1.6%	1.14
Total	**$2,351.6**		**100.0%**	**35.90**

2.1 IESO Revenue Lag

HONI receives revenues from the IESO monthly in a manner that is consistent with the settlement and payment procedures outlined in the IESO's tariff. Taking this information into account and using actual amounts and dates received for TME 07/31/2025, a revenue lag of 35.32 days was determined. The derivation is shown in Table 2-2 below.

Table 2-2. Summary of IESO Revenues (TME 07/31/2025)

Period Beginning	Period Ending	Payment Date	Amounts ($M)	Weighting Factor	Service Lag Time	Payment Lag Time	Total Lag Time	Weighted Lag
2024-07-01	2024-07-31	2024-08-21	$208.0	9.0%	15.50	21.00	36.50	3.28
2024-08-01	2024-08-31	2024-09-20	$207.4	9.0%	15.50	20.00	35.50	3.18
2024-09-01	2024-09-30	2024-10-21	$186.7	8.1%	15.00	21.00	36.00	2.90
2024-10-01	2024-10-31	2024-11-21	$162.7	7.0%	15.50	21.00	36.50	2.57
2024-11-01	2024-11-30	2024-12-19	$168.3	7.3%	15.00	19.00	34.00	2.47
2024-12-01	2024-12-31	2025-01-17	$184.0	7.9%	15.50	17.00	32.50	2.58
2025-01-01	2025-01-31	2025-02-21	$206.3	8.9%	15.50	21.00	36.50	3.25
2025-02-01	2025-02-28	2025-03-18	$200.3	8.7%	14.00	18.00	32.00	2.77
2025-03-01	2025-03-31	2025-04-22	$190.3	8.2%	15.50	22.00	37.50	3.08
2025-04-01	2025-04-30	2025-05-21	$189.8	8.2%	15.00	21.00	36.00	2.95
2025-05-01	2025-05-31	2025-06-19	$171.1	7.4%	15.50	19.00	34.50	2.55
2025-06-01	2025-06-30	2025-07-21	$239.4	10.3%	15.00	21.00	36.00	3.72
Total			**$2,314.2**	**100.0%**				**35.32**

2.2 Other Revenue Lags

The lag time associated with other revenues is defined as the sum of an average service lag time and a dollar-weighted payment lag time. The expectation is that HONI bills monthly for services such as merchandising, jobbing, rents and leases of HONI property. Thus, the midpoint of a month (i.e., 15 days) was used as indicative of the service lag time. Accounts receivable balances on other revenues for TME 07/31/2025 were reviewed to determine a dollar-weighted payment lag which was determined to be 71.73 days.

After considering both the IESO Revenue Lag and the Other Revenue Lag, the total retail revenue lag is determined as 35.90 days.

3. Expense Leads

The determination of working capital requires both a measurement of the lag in the collection of revenues for services provided by HONI, and the lead times associated with payments for services provided to HONI. Expense Leads are defined as the time period between when a service is provided to HONI and when payment is required for that service.

The following expense leads were calculated in this study:

- Interest on HONI's debt;
- Income Taxes;
- Operations, Maintenance and Administration ("OM&A") expenses;
- Asset Removals;
- Environmental Remediation; and
- Harmonized Sales Tax ("HST").

3.1 Interest on Debt

HONI makes interest payments on its long and short-term debt. Such payments are generally made twice a year. Considering the various bonds and other long-term debt instruments, a dollar-weighted expense lag (-lead) time of 0.79 days was determined for the TME 07/31/2025.

Table 3-1. Interest Expenses (TME 07/31/2025)

Description	Amounts ($M)	Lead Time Days	Weighting Factor	Weighted Lead Time Days
Interest Expense	$426.3	(0.79)	100.0%	(0.79)
Total	**$426.3**		**100.0%**	**(0.79)**

3.2 Income Taxes

HONI is liable to make payments to the relevant tax authorities. Typically, payments are made monthly by HONI, occurring close to the end of the calendar month. HONI therefore estimated its monthly transmission tax installments by dividing the transmission business's annual tax obligation evenly over the year, assuming equal payments once per month.

Table 3-2. Income Taxes Expenses (TME 07/31/2025)

Description	Amounts ($M)	Lead Time Days	Weighting Factor	Weighted Lead Time Days
Income Tax	$135.9	14.17	100.0%	14.17
Total	**$135.9**		**100.0%**	**14.17**

3.3 Operations, Maintenance and Administration ("OM&A")

The following expenses are included in the calculation of lead days for OM&A expenses:

- **Payroll and Benefits;** this line item includes basic payroll, payroll withholdings, and benefit expenses related to the regulated utility.
- **Property Tax;** this line item includes property tax payments to various municipalities or tax authorities in the Province of Ontario. These payments are made in the given year and are typically made in installments.
- **Lease Payments;** this line item includes payments made on the properties HONI uses for operations.
- **Consulting and Contracting Services;** this line item includes the provision of outside services to HONI.
- **Corporate Procurement Card**; this line item includes credit card expenses related to OM&A.
- **Miscellaneous OM&A;** this line item includes miscellaneous OM&A expenses non-related to the procurement of Outside Services.

Some of HONI's OM&A expenses are incurred jointly by the distribution and transmission businesses. HONI provided an allocation factor to assign costs to distribution and transmission respectively for all OM&A datasets that were not already disaggregated. These datasets included: Payroll and Benefits, Lease Payments, Consulting and Contracting Services, and Corporate Procurement Card.

Expense lead times were calculated individually for each of the items listed above and then dollar-weighted to derive a composite expense lead time of 40.72 days for OM&A expenses.

Table 3-3. Summary of OM&A Expenses (TME 07/31/2025)

Description	Amounts ($M)	Lead Time Days	Weighting Factor	Weighted Lead Time Days
Payroll and Benefits	$826.4	24.09	51.8%	12.48
Property Tax	$55.0	(31.17)	3.4%	(1.07)
Lease Payments	$8.9	(19.45)	0.6%	(0.11)
Consulting and Contract Staff	$110.8	44.20	6.9%	3.07
Corporate Procurement Card	$28.9	29.79	1.8%	0.54
Miscellaneous OM&A	$565.1	72.85	35.4%	25.81
Total	**$1,595.0**		**100.0%**	**40.72**

3.3.1 Payroll and Benefits

The following items were considered as expenses related to the payroll and benefits of HONI's transmission business:

1. Payroll for four groups of HONI employees including Basic & Management, Construction & Trades, Customer Service Operations, and Board of Directors;

2. Three types of payroll withholdings including the Canada Pension Plan, Employment Insurance, and Income Tax withholdings for each of the payroll groups;

3. Contributions made by HONI to the HONI Pension Plan;

4. Three types of benefits including payments made by Hydro One to the Worker Safety Improvement Board ("WSIB"), payments made by Hydro One for the Employer Health Tax ("EHT"), and Health and Dental Insurance related administrative fees and claims; and

5. Other Benefits, including Union Dues and Group Life Insurance related administrative fees and claims.

When all payroll, withholdings and benefits were dollar-weighted using actual payment data, the weighted average expense lead time associated with payroll and benefits was determined to be 24.09 days as shown in Table 3-4 below.

Table 3-4. Summary of Payroll & Benefits Expenses (TME 07/31/2025)

Description	Amounts ($M)	Lead Time Days	Weighting Factor	Weighted Lead Time Days
Payroll	$465.4	21.04	56.3%	11.85
Payroll Withholdings	$243.3	30.11	29.4%	8.87
Pensions	$35.1	44.61	4.2%	1.90
Benefits	$72.0	15.29	8.7%	1.33
Other Benefits	$10.5	11.87	1.3%	0.15
Total	**$826.4**		**100.0%**	**24.09**

3.3.2 Property Tax

HONI executes property tax payments to various municipalities or taxing authorities in the Province of Ontario. These payments are made in the given year and are typically made in installments. A dollar-weighted expense lag (-lead) time of 31.17 was determined for TME 07/31/2025.

3.3.3 Lease Payments

HONI leases office space to support its ongoing transmission operations in several different locations. HONI typically makes lease payments at the end of the month preceding the month to which the payment applies. Taking this information into account and using actual invoices and payments for TME 07/31/2025, a dollar-weighted expense lag (-lead) time of 19.45 days was determined.

3.3.4 Consulting and Contract Staff

HONI engages consulting and contract staff to provide assistance in the areas of engineering, environmental services, receivables management, accounting, and general consulting. A dollar-weighted expense lead time of 44.20 days was determined based on a review of invoices rendered and payments made by HONI in TME 07/31/2025.

3.3.5 Corporate Procurement Card

Procurement (or charge) cards are used by the HONI's employees for a variety of company related reasons including, and not limited to, purchases of materials in the field, incidental expenses, and to settle charges for travel and accommodation. Based on actual invoices from the HONI's charge card provider and payments made by HONI, a dollar-weighted expense lead time of 29.79 days was determined.

3.3.6 Miscellaneous OM&A

This category of expense includes items such as product purchases, equipment rentals, travel expenses, and provision of general services to HONI. Based on transactions in HONI's accounts payable system under this category, a dollar-weighted expense lead time of 72.85 days was derived.

3.4 Asset Removals

HONI incurs costs when removing or replacing equipment from existing sites or right of ways. Costs relating to environmental remediation at these sites are sometimes also incurred, however these costs are expected to be immaterial over the 2028-2032 timeframe. While costs are required to be reported as a depreciation and amortization expense for accounting purposes, there is a cash flow impact associated with HONI's expenditures on such asset removal costs. Based upon discussions with and data provided by HONI staff, a dollar-weighted expense lead time of 43.60 days was determined for asset removal costs.

3.5 Harmonized Sales Tax

The expense lead times associated with the following items that attract HST were considered in HONI's transmission lead-lag study.

1. Revenues;
2. OM&A[1];
3. Asset Removals; and
4. Capital

A summary of the expense lead times and working capital amounts associated with each of the above items is provided in Table 3-5. Note that the statutory approach described at the outset was used to determine the expense lead times associated with HONI's remittances and disbursements of HST (*i.e.,* both remittances and collections are generally on the last day of the month following the date of the applicable invoice).

Table 3-5. Summary of HST Working Capital Amounts

Description	HST Lead Time	2028 ($M)	2029 ($M)	2030 ($M)	2031 ($M)	2032 ($M)
Revenues	(46.08)	($44.6)	($48.1)	($52.3)	($55.2)	($59.7)
OM&A Expenses	44.15	$3.3	$3.4	$3.5	$3.6	$3.7
Asset Removals	43.43	$0.1	$0.1	$0.2	$0.2	$0.2
Capital	43.43	$25.9	$30.5	$36.5	$39.6	$31.7
Total		**($15.3)**	**($14.2)**	**($12.1)**	**($11.9)**	**($24.2)**

[1] Costs within OM&A that attract HST include Lease Payments, Consulting and Contract Staff, Corporate Procurement Card and Miscellaneous OM&A.

4. Working Capital Requirements

Using the results described under the discussion of revenue lags and expense leads and applying them to HONI's proposed transmission expenses for the 2028 to 2032 test period, HONI's working capital requirements were determined.

Table 4-1 to Table 4-5 below summarize HONI's working capital requirements for 2028 to 2032.

Table 4-1. HONI Working Capital Requirements (2028)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
OM&A Expenses	35.90	40.72	(4.82)	(1.3%)	$634.5	($8.6)
Income Taxes	35.90	14.17	21.73	5.9%	$103.7	$6.2
Interest Expenses	35.90	(0.79)	36.70	10.0%	$442.1	$44.3
Asset Removals	35.90	43.60	(7.69)	(2.1%)	$71.2	($1.5)
Total					**$1,251.5**	**$40.6**
HST						($15.3)
Total – Including HST						**$25.3**
Working Capital as a Percentage of OM&A						**3.99%**

Table 4-2. HONI Working Capital Requirements (2029)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
OM&A Expenses	35.90	40.72	(4.82)	(1.3%)	$654.1	($8.6)
Income Taxes	35.90	14.17	21.73	6.0%	$124.2	$7.4
Interest Expenses	35.90	(0.79)	36.70	10.1%	$481.5	$48.4
Asset Removals	35.90	43.60	(7.69)	(2.1%)	$67.1	($1.4)
Total					**$1,326.9**	**$45.8**
HST						($14.2)
Total – Including HST						**$31.6**
Working Capital as a Percentage of OM&A						**4.83%**

Table 4-3. HONI Working Capital Requirements (2030)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
OM&A Expenses	35.90	40.72	(4.82)	(1.3%)	$674.3	($8.9)
Income Taxes	35.90	14.17	21.73	6.0%	$184.6	$11.0
Interest Expenses	35.90	(0.79)	36.70	10.1%	$523.7	$52.7
Asset Removals	35.90	43.60	(7.69)	(2.1%)	$87.9	($1.9)
Total					**$1,470.5**	**$52.9**
HST						($12.1)
Total – Including HST						**$40.8**
Working Capital as a Percentage of OM&A						**6.05%**

Table 4-4. HONI Working Capital Requirements (2031)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
OM&A Expenses	35.90	40.72	(4.82)	(1.3%)	$695.1	($9.2)
Income Taxes	35.90	14.17	21.73	6.0%	$166.0	$9.9
Interest Expenses	35.90	(0.79)	36.70	10.1%	$580.3	$58.3
Asset Removals	35.90	43.60	(7.69)	(2.1%)	$97.9	($2.1)
Total					**$1,539.3**	**$57.0**
HST						($11.9)
Total – Including HST						**$45.1**
Working Capital as a Percentage of OM&A						**6.49%**

Table 4-5. HONI Working Capital Requirements (2032)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
OM&A Expenses	35.90	40.72	(4.82)	(1.3%)	$716.6	($9.4)
Income Taxes	35.90	14.17	21.73	5.9%	$63.3	$3.8
Interest Expenses	35.90	(0.79)	36.70	10.0%	$691.2	$69.3
Asset Removals	35.90	43.60	(7.69)	(2.1%)	$84.7	($1.8)
Total					**$1,555.8**	**$61.8**
HST						($24.2)
Total – Including HST						**$37.6**
Working Capital as a Percentage of OM&A						**5.25%**

Guidehouse completed a 2021 working capital study for HONI's transmission business, to be used in HONI's rebasing proceeding filed with the Ontario Energy Board (EB-2021-0110). This prior study resulted in a working capital requirement of between $17.8M and $19.9M for the 2023 to 2027 test period. The working capital requirements represented between 4.2% and 4.4% of OM&A.

As compared with the prior study, the total amount of working capital for the current study is lower as a percentage of OM&A (3.99% in the current study's 2028 year versus 4.20% in the prior study's 2023 year). Further details regarding the differences between the two studies are shown in the section below.

5. Findings and Conclusions

The purpose of this section is to compare the results from this study to HONI's prior working capital transmission study as per EB-2021-0110. In addition, this section demonstrates that the results from this study reflect the current operations of HONI.

5.1 Comparison with Prior Transmission Study

Table 5-1. HONI Transmission Working Capital Requirements (2023), Prior 2021 Study

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
OM&A Expenses	34.52	28.73	5.79	1.6%	$420.5	$6.7
Income Taxes	34.52	13.92	20.61	5.6%	$40.5	$2.3
Interest Expenses	34.52	11.27	23.25	6.4%	$330.4	$21.0
Asset Removals	34.52	29.77	4.75	1.3%	$61.2	$0.8
Environmental Remediation	34.52	31.54	2.98	0.8%	$7.6	$0.1
Total					**$860.3**	**$30.9**
HST						($13.1)
Total – Including HST						**$17.8**
Working Capital as a Percentage of OM&A						**4.20%**

Table 5-2. HONI Transmission Working Capital Requirements (2028), Current Study

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
OM&A Expenses	35.90	40.72	(4.82)	(1.3%)	$634.5	($8.4)
Income Taxes	35.90	14.17	21.73	5.9%	$103.7	$6.2
Interest Expenses	35.90	(0.79)	36.70	10.0%	$442.1	$44.3
Asset Removals	35.90	43.60	(7.69)	(2.1%)	$71.2	($1.5)
Total					**$1,251.5**	**$40.6**
HST						($15.3)
Total – Including HST						**$25.3**
Working Capital as a Percentage of OM&A						**3.99%**

Table 5-3. HONI Transmission Working Capital Requirements (Current versus Prior)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
OM&A Expenses	1.38	11.99	(10.61)	(2.9%)	$214.0	($15.1)
Income Taxes	1.38	0.25	1.12	0.3%	$63.2	$3.9
Interest Expenses	1.38	(12.06)	13.45	3.6%	$111.7	$23.3
Asset Removals	1.38	13.83	(12.44)	(3.4%)	$10.0	($2.3)
Environmental Remediation	N/A	N/A	N/A	N/A	($7.6)	($0.1)
Total					**$391.2**	**$9.7**
HST						($2.2)
Total – Including HST						**$7.5**
Working Capital as a Percentage of OM&A						**(0.21%)**

Overall, HONI's transmission working capital requirement has decreased by 0.21 percentage points (as a percentage of OM&A plus cost of power) since the previous study. The principal drivers of this change are described below.

5.1.1 Revenue Lag

As shown in Table 5-3 above, the revenue lag in the current study has remained relatively consistent with the previous study. The overall revenue lag has increased by 1.38 days since the prior study, primarily driven by an increase in other revenue lag. Compared to the previous study, a greater percentage of the other revenue is collected less efficiently by HONI. Guidehouse has observed that Distribution collections lag has increased consistently across several Ontario utilities since the COVID-19 pandemic. It is possible that the increase in other revenue lag is related to this broader trend.

5.1.2 OM&A Expenses

OM&A expense lead days have increased by approximately 12 days since the previous study. This increase is primarily driven by an increase in expense lead days for Miscellaneous OM&A. In Table 5-4 below, the individual line items comprising the OM&A expense lead time are compared across the two study periods.

Table 5-4. OM&A Expense Lead Comparison

Description	Current Study			Prior Study		
	Lead Days	Expenses ($M)	Weighted Lead Days	Lead Days	Expenses ($M)	Weighted Lead Days
Payroll and Benefits	24.09	$826.4	12.48	26.33	$541.1	13.57
Property Tax	(31.17)	$55.0	(1.07)	(23.21)	$76.7	(1.70)
Lease Payments	(19.45)	$8.9	(0.11)	(14.20)	$7.6	(0.10)
Consulting and Contract Staff	44.20	$110.8	3.07	50.80	$41.9	2.03
Payments to Inergi	-	-	-	75.12	$60.1	4.30
Corporate Procurement Card	29.79	$28.9	0.54	30.09	$21.1	0.61
Miscellaneous OM&A	72.85	$565.1	25.81	34.94	$301.0	10.02
Total		**$1,595.0**	**40.72**		**$1,049.5**	**28.73**

The expense lead for OM&A expenses is higher than the revenue lag, meaning that HONI's transmission-related OM&A expenses have a net lead (-lag). OM&A Expenses are the most significant category of expenses for HONI's transmission business.

The Miscellaneous OM&A expense lead has increased from 34.94 days in the previous study to 72.85 days in the current study. HONI's accounts payable system does not record the service period for Miscellaneous OM&A transactions. Guidehouse therefore relies on assumptions informed by HONI's accounts payable department. The previous study assumed a typical service period of 30 days for Miscellaneous OM&A expenses. However, HONI's accounts payable team recommended Guidehouse assume a typical service period of 60 days for

Miscellaneous OM&A expenses, and a payment lead of 15 days for the current study. According to HONI's accounts payable team, these assumptions more appropriately represent Miscellaneous OM&A expenses HONI paid during TME 07/31/2025 and expected over 2028-2032.

Payroll & Benefits expense lead times are similar but slightly shorter in this study compared to the previous study. There are no major changes to Payroll or Benefits operations. Similarly, there have been no significant changes to the expense lead times for Lease Payments, Corporate Procurement Card, or Consulting and Contracting Services.

Property Taxes are another driver of the change in OM&A expenses. Property Tax payments are modelled on an annual service period, with the payment date as the variable factor. In the current study, property tax payments were more heavily distributed towards the first half of the year than in the previous study. This resulted in an increase to the expense lag (-lead) time of approximately 8 days.

The previous study had an OM&A expense category for Payments to Inergi. However, in 2021, employees from Inergi were insourced into HONI, eliminating the need for this category in the current study. Payments to Inergi had an expense lead time of 75.12 days, compared to 24.09 days for Payroll & Benefits in the current study. Eliminating Payments to Inergi therefore decreased the overall OM&A expense lead.

5.1.3 Income Taxes

The expense lead days for Income Taxes have remained consistent with the previous study as there were no true-up payments in this study or the prior study.

5.1.4 Interest Expense

Interest lead days have decreased compared the prior study. Interest payments are modelled on an annual service period, with the payment date as the variable factor. The driving factor behind this change is when interest payments were made throughout the year. Most interest payments are made twice per year, 6 months apart. As a result, loans requiring interest payments to be made in the first quarter have a net expense lag, because the second interest payment that year will occur in the third quarter. The expense lag for the first payment is greater than the expense lead for the second payment, resulting in a net lag. By contrast, loans requiring interest payments to be made in the second quarter have a net expense lead, because while the first payment has an expense lag, the second payment in the fourth quarter will have a greater expense lead.

In the previous study, HONI's interest payments were weighted towards the end of the year, resulting in an expense lead of 11.27 days. However, in TME 07/31/2025, HONI's transmission-related interest payments were distributed more evenly throughout the year than in the previous study and weighted slightly towards the start of the year, resulting in an expense lag (-lead) of 0.79 days.

5.1.5 Asset Removals

Asset Removals expense lead increased by approximately 14 days from the previous study. The expense lead calculations for Asset Removals is tied directly to Payroll & Benefits and

Miscellaneous OM&A. The increase in expense lead is therefore driven primarily by the increase to Miscellaneous OM&A described in section 5.1.2. After dollar-weighting all of the OM&A categories, the impact of this change is minimal on HONI's overall working capital requirements.

5.2 Comparison with the Prior Transmission Working Capital Study Using Constant Revenue Lag Days

As described in Section 5.1, Revenue Lag days were one of the most impactful changes since the prior study. To illustrate this, the table below examines the resulting working capital requirements if revenue lag from the prior study was used for the current study. Table 5-5 below shows that if the revenue lag days were held constant at the previous study results (34.52 days), the working capital requirement in 2028 would be approximately 3.52 percentage points higher (as a percentage of OM&A plus cost of power).

Table 5-5. Working Capital Requirements with 2021 Study Revenue Lag Days Held Constant (2023 from 2021 Study versus 2028 from Current Study)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
OM&A Expenses	34.52	40.72	(6.20)	(1.7%)	$634.5	($10.7)
Income Taxes	34.52	14.17	20.35	5.6%	$103.7	$5.8
Interest Expenses	34.52	(0.79)	35.31	9.6%	$442.1	$42.7
Asset Removals	34.52	43.60	(9.08)	(2.5%)	$71.2	($1.8)
Total					**$1,180.3**	**$37.7**
HST						($15.3)
Total – Including HST						**$22.3**
Working Capital as a Percentage of OM&A incl. Cost of Power						**3.52%**

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Guidehouse

Working Capital Requirements of Hydro One Networks Inc.'s Distribution Business

2028 to 2032

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Table of Contents

Disclaimer iii
Executive Summary 1
1. Introduction and Methodology 2
1.1 Key Concepts 2
1.1.1 Mid-Point Method 2
1.1.2 Statutory Approach 3
1.1.3 Revenue Lag Components 3
1.1.4 Expense Lead Components 3
1.1.5 Dollar Weighting 3
1.2 Methodology 4
2. Revenue Lags 5
2.1 Retail Revenue Lag 5
2.2 IESO Credits 6
2.3 Other Revenue Lags 6
3. Expense Leads 8
3.1 Cost of Power 8
3.2 Interest on Debt 9
3.3 Income Taxes 9
3.4 Operations, Maintenance and Administration ("OM&A") 10
3.4.1 Payroll and Benefits 11
3.4.2 Property Tax 12
3.4.3 Lease Payments 12
3.4.4 Consulting and Contract Staff 12
3.4.5 Corporate Procurement Card 12
3.4.6 Miscellaneous OM&A 12
3.5 Asset Removals 13
3.6 Harmonized Sales Tax 13
4. Working Capital Requirements 14
5. Findings and Conclusion 17
5.1 Comparison with Prior Distribution Study 17
5.1.1 Revenue Lag 18
5.1.2 Cost of Power 19
5.1.3 OM&A Expenses 19
5.1.4 Income Taxes 20
5.1.5 Interest Expense 20
5.1.6 Asset Removals 20

5.1.7 Environmental Remediation 21
5.2 Comparison with the Prior Distribution Working Capital Study Using Constant Revenue Lag Days 21

List of Tables

Table 1-1. HONI Distribution Summary of Working Capital Requirements 1
Table 1-2. HONI Distribution Net Lag Days by Expense Category (TME 7/31/2025) 1
Table 2-1. Summary of Retail Revenue Lag (TME 07/31/2025) 5
Table 2-2. Summary of IESO Credits (TME 07/31/2025) 6
Table 2-3. Summary of Other Revenue Lag (TME 07/31/2025) 7
Table 3-1. Cost of Power Expenses (TME 07/31/2025) 8
Table 3-2 IESO Cost of Power Expenses (TME 07/31/2025) 9
Table 3-3. Interest Expenses (TME 07/31/2025) 9
Table 3-4. Income Taxes Expenses (TME 07/31/2025) 10
Table 3-5. Summary of OM&A Expenses (TME 07/31/2025) 11
Table 3-6. Summary of Payroll & Benefits Expenses (TME 07/31/2025) 12
Table 3-7. Summary of HST Working Capital Amounts 13
Table 4-1. HONI Working Capital Requirements (2028) 14
Table 4-2. HONI Working Capital Requirements (2029) 14
Table 4-3. HONI Working Capital Requirements (2030) 15
Table 4-4. HONI Working Capital Requirements (2031) 15
Table 4-5. HONI Working Capital Requirements (2032) 16
Table 5-1. Prior Study – HONI Distribution Working Capital Requirements (2023) 17
Table 5-2. Current Study – HONI Distribution Working Capital Requirements (2028) 17
Table 5-3. HONI Distribution Working Capital Requirements (Current versus Prior) 18
Table 5-4. OM&A Expense Lead Comparison 19
Table 5-5. Working Capital Requirements with 2021 Study Revenue Lag Days Held Constant (2023 from 2021 Study versus 2028 from Current Study) 21

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This deliverable was prepared by Guidehouse Canada Inc. ("Guidehouse") pursuant to a client relationship exclusively with Hydro One Networks Inc. ("HONI"), for the sole purpose of HONI's rate application to the Ontario Energy Board. The work presented in this deliverable represents Guidehouse's professional judgement based on the information available at the time this report was prepared. Guidehouse is not responsible for a third party's use of, or reliance upon, the deliverable, nor any decisions based on the report. Readers of the report are advised that they assume all liabilities incurred by them, or third parties, as a result of their reliance on the report, or the data, information, findings and opinions contained in the report.

Executive Summary

Guidehouse Canada Inc. ("Guidehouse") was retained by Hydro One Networks Inc. ("HONI") to calculate the working capital requirements of HONI's distribution business using a lead-lag study.

Cash working capital is the amount of funding required to finance the day-to-day utility operations, and which are included as part of a rate base for ratemaking purposes. A lead/lag study is generally regarded as the most accurate basis for the determination of working capital and was used by Guidehouse for this purpose. The results of this study are provided in this report.

The lead/lag days calculated in this study are based on HONI's revenue and expense data from the twelve months ending July 31, 2025, or "TME 7/31/2025". The working capital requirement of HONI's distribution business is shown below in Table 1-1.

Table 1-1. HONI Distribution Summary of Working Capital Requirements

Description	2028	2029	2030	2031	2032
Percentage of OM&A and Cost of Power	8.45%	8.74%	8.96%	9.01%	8.93%
Working Capital Requirement ($M)	$497.6	$524.9	$548.6	$561.1	$568.5

The working capital requirements shown in Table 1-1 above are based upon the revenue lag and expense lead days shown in Table 1-2.

Table 1-2. HONI Distribution Net Lag Days by Expense Category (TME 7/31/2025)

Description	Revenue Lag Days	Expenses Lead Days	Net Lag Days
Cost of Power	58.89	37.17	21.72
OM&A Expenses	58.89	33.44	25.44
Income Taxes	58.89	14.17	44.72
Interest Expense	58.89	0.09	58.80
Asset Removals	58.89	38.50	20.39

1. Introduction and Methodology

Guidehouse Canada Inc. ("Guidehouse") was retained by Hydro One Networks Inc. ("HONI") to calculate the working capital requirements for HONI's distribution business. This report provides the results of the assessment and the working capital requirements of the distribution business.

Cash working capital is the amount of funds that are required to finance the day-to-day operations, and which are included as part of a rate base for ratemaking purposes. A lead-lag study is generally regarded as the most accurate basis for the determination of working capital and was used by Guidehouse for this purpose.

A lead-lag study analyzes the time between the date customers receive service and the date that customers' payments are available to HONI (or "revenue lag" or "lag") together with the time between the date HONI receives goods and services from its vendors and the date that HONI pays for them (or "expense lead" or "lead").

"Leads" and "Lags" are both measured in days and are dollar-weighted where appropriate. The dollar-weighted net lag (lag minus lead) days is then divided by 365 (or 366 for leap years) and then multiplied by the annual test year expenses to determine the amount of working capital required. The resulting amount of working capital is then included in HONI's rate base for the purpose of deriving revenue requirement.

HONI provided revenue and expense data to support the lead-lag study from the test year of twelve months ending July 31, 2025, or "TME 7/31/2025". Unless stated otherwise, Guidehouse leveraged the revenue and expense data for TME 7/31/2025 for it, as it was the most recent year of data provided.

1.1 Key Concepts

The following section outlines the key concepts used throughout this report to assess the working capital requirements of HONI's distribution business. This includes the mid-point method, statutory approach, revenue lag components, expense lead components and dollar weighting.

1.1.1 Mid-Point Method

When a service is provided to (or by) HONI over a period of time, the service is deemed to have been provided (or received) evenly over the period, unless specific information regarding the provision (or receipt) of that service indicates otherwise. If both the service end date ("Y") and the service start date ("X") are known, the mid-point of a service period can be calculated using Equation 1-1.

Equation 1-1

$$Mid - Point = \frac{(Y - X) + 1}{2}$$

When specific start and end dates are unknown, but it is known that a service is evenly distributed over the mid-point of a period, an alternative formula that is generally used is shown below. Equation 1-2 uses the number of days in a year ("A") and the number of periods in a year ("B"):

Equation 1-2

$$Mid - Point = \frac{A/B}{2}$$

1.1.2 Statutory Approach

In conjunction with the mid-point method, it is important to note that not all areas of this study may utilize dates on which actual payments were made to (or by) HONI. In some instances, the due dates for payments are established by statute or by regulation. In these instances, the due date established by statute has been used in lieu of when payments were made.

1.1.3 Revenue Lag Components

As used in this study, revenue lags are comprised of Retail Revenues and Other Revenues. Retail Revenues are defined to consist of three components:

- Service Lag component (the average time from the provision of electricity to a customer until the meter is read);
- Billing Lag component (the average time from when the meter is read to when the bill is generated and provided to customers); and,
- Collections Lag components (the average time from when a bill is provided to the customer until the customer's payment is available to the utility).

1.1.4 Expense Lead Components

As used in this study, expense leads are defined to consist of two components:

- Service Lead component (services are assumed to be provided to HONI evenly around the mid-point of the service period); and,
- Payment Lead component (the time period from the end of the service period to the time payment was made and when funds have left HONI's possession).

1.1.5 Dollar Weighting

Both leads and lags should be dollar-weighted where appropriate and where data is available to accurately reflect the flow of dollars. For example, suppose that a particular transaction has a lead time of 100 days and has a dollar value of $100. Further, suppose that another transaction has a lead time of 30 days with a dollar value of $1 million. A simple unweighted average of the two transactions would give us a lead time of 65 days ([100+30]/2). However, when these two transactions are dollar weighted, the resulting lead time would be closer to 30 days which is more representative of how the dollars flow.

1.2 Methodology

Performing a lead-lag study requires two key undertakings:

1. Developing an understanding of how the regulated distribution business operates in terms of products and services sold to customers/purchased from vendors, and the policies and procedures that govern such transactions; and,

2. Modeling such operations using data from a relevant period of time and a representative data set. It is important to ascertain and factor into the study whether (or not) there are known changes to existing business policies and procedures going forward. Where such changes are known, measurable, and material, they should be factored into the study.

To develop an understanding of HONI's distribution operations, interviews with personnel within HONI's Accounts Payable, Accounts Receivable, Real Estate, Wholesale Market Operations, Payroll, Customer Care, Benefits, Treasury, and Tax Departments were conducted. Key questions that were addressed during the interviews included:

1. What is being sold (or purchased)? If a service is provided to (or by) HONI, over what time period was this service provided?

2. Who are the buyers (or sellers)?

3. What are the terms for payment? Are the terms for payment driven by industry norms or by company policy? Is there flexibility in the terms for payment?

4. Are any changes to the terms for payment expected? Are these terms driven by industry or internally? What is the basis for any such changes?

5. Are there any new rules or regulations governing transactions relating to distribution operations that are expected to materialize over the time frame considered in this report?

6. How are payments made (or received)? Do payment types have different payment lead times (i.e., internet payments have shorter deposit times than cheque deposit times)?

2. Revenue Lags

This section of the report provides the revenue lag days for HONI's distribution business. A revenue lag represents the number of days from the date that a service is rendered by HONI until the date payments are received and funds are available to HONI.

HONI receives revenue from the following funding streams:

- Retail Revenue: a distribution utility providing service to its customers typically derives its revenues from bills paid for service by its customers.
- Independent Electricity System Operator ("IESO") Credits: HONI receives credits from IESO for programs such as Ontario Electricity Support Program ("OESP"), Ontario Electricity Rebate ("OER"), Rural or Remote Electricity Rate Protection ("RRRP"), First Nations Delivery Credit ("FNDC"), Distribution Rate Protection ("DRP"), Renewable Energy Standard Offer Program ("RESOP"), Feed-In Tariff ("FIT"), and Micro Feed-In Tariff ("MFIT"), among others.
- Other Revenue: HONI receives other revenue from a variety of sources.

A summary of the revenue lags for HONI's distribution business is shown below.

Table 2-1. Summary of Retail Revenue Lag (TME 07/31/2025)

Description	Amounts ($M)	Lag Time Days	Weighting Factor	Weighted Lag Time Days
Retail Revenue	$3,495.3	74.90	58.9%	44.08
IESO Credits	$2,407.6	35.46	40.5%	14.38
Other Revenue	$35.9	71.73	0.6%	0.43
Total	**$5,938.9**		**100.0%**	**58.89**

2.1 Retail Revenue Lag

Retail revenue lag consists of the following components:

- Service Lag;
- Billing Lag; and,
- Collections Lag.

Service Lag

The service lag is defined as the midpoint of the service period; the halfway point between the beginning of the service period and the end of the service period. The service period end is typically defined as the date the meter is read. All HONI customers are billed monthly or quarterly; the service lag is calculated to be 16.45 days.

Billing Lag

The billing lag is defined as the time period from period end (meter read) to the time that the customer's bill is generated in the customer information system. An analysis of HONI meter billing data indicated that HONI customers have an average billing lag of 6.69 days.

Collections Lag

The collections lag is defined as the time period from when the bill is generated in the customer information system to the time when the customer provides payment to HONI and when that payment is recorded in HONI's bank accounts. The collections lag is measured by analyzing the receivables aging data provided by HONI. HONI's collection lag was calculated to be 51.76 days.

2.2 IESO Credits

HONI Distribution collects revenue from IESO programs such as OESP, RESOP/MFIT/FIT, among others. Table 2-2 below summarizes the amounts and revenue lag times associated with each IESO program and the associated revenue lag.

Table 2-2. Summary of IESO Credits (TME 07/31/2025)

Description	Amounts ($M)	Lag Time Days	Weighting Factor	Weighted Lag Time Days
RESOP/MFIT/FIT	$1,068.8	35.62	44.4%	15.81
OER	$598.2	35.35	24.8%	8.78
DRP	$399.0	35.32	16.6%	5.85
RRRP	$255.1	35.32	10.6%	3.74
OESP	$35.0	35.33	1.5%	0.51
FNDC	$27.4	35.28	1.1%	0.40
Other	$24.1	35.24	1.0%	0.35
Total	**$2,407.6**		**100.0%**	**35.46**

2.3 Other Revenue Lags

HONI Distribution collects other revenues in addition to retail revenue and IESO credits which are discussed above. This revenue is related to a variety of services HONI provides, including new customer connection, distributed generation connection, leasing of facilities, among others. HONI staff provided monthly data and payment information for each component of the other revenue lag.

Table 2-3 below summarizes the amounts and revenue lag times associated with other revenue.

Table 2-3. Summary of Other Revenue Lag (TME 07/31/2025)

Description	Amounts ($M)	Lag Time Days	Weighting Factor	Weighted Lag Time Days
Other Revenue	$35.9	71.73	100.0%	71.73
Total	**$35.9**		**100.0%**	**71.73**

3. Expense Leads

The determination of working capital requires both a measurement of the lag in the collection of revenues for services provided by HONI, and the lead times associated with payments for services provided to HONI. Expense Leads are defined as the time period between when a service is provided to HONI and when payment is required for that service.

The following expense leads were calculated in this study:

- Cost of Power;
- Interest on HONI's debt;
- Income Taxes;
- Operations, Maintenance and Administration ("OM&A") expenses;
- Asset Removals; and,
- Harmonized Sales Tax ("HST").

3.1 Cost of Power

Cost of Power expenses consist of the following items:

- IESO Cost of Power Expenses;
- Payments to Non-Utility Generators; and,
- Distributed Generation Payments (includes MicroFIT and non-MicroFIT).

Expense lead times were calculated individually for each of the items listed above and dollar-weighted to derive the expense lead time of 37.17 days, as seen in Table 3-1 below.

Table 3-1. Cost of Power Expenses (TME 07/31/2025)

Description	Amounts ($M)	Expense Lead (Days)	Weighting Factor	Weighted Expense Lead (Days)
IESO Cost of Power	$3,841.3	35.26	72.0%	25.41
Non-MicroFIT Distributed Generation Payments	$1,364.1	43.75	25.6%	11.19
MicroFIT Payments	$126.1	23.98	2.4%	0.57
Total	**$5,331.6**		**100.0%**	**37.17**

Table 3-2 breaks down HONI's IESO Cost of Power Expenses and associated expense lead by month over TME 07/31/25.

Table 3-2 IESO Cost of Power Expenses (TME 07/31/2025)

Delivery Month	Amounts ($M)	Lead Time Days	Weighting Factor	Weighted Lead Time Days
Aug-24	$336.3	36.50	8.8%	3.20
Sept-24	$353.2	35.50	9.2%	3.26
Oct-24	$271.0	36.00	7.1%	2.54
Nov-24	$323.0	36.50	8.4%	3.07
Dec-24	$286.0	34.00	7.4%	2.53
Jan-25	$372.4	32.50	9.7%	3.15
Feb-25	$375.3	36.50	9.8%	3.57
Mar-25	$363.5	32.00	9.5%	3.03
Apr-25	$348.8	37.50	9.1%	3.41
May-25	$295.0	36.00	7.7%	2.76
Jun-25	$243.3	34.50	6.3%	2.19
July-25	$273.4	36.00	7.1%	2.56
Total	**$3,841.3**		**100.0%**	**35.26**

3.2 Interest on Debt

HONI makes interest payments on its long and short-term debt. Such payments are generally made twice a year. Considering the various bonds and other long-term debt instruments, a dollar-weighted expense lead time of 0.09 days was determined for TME 07/31/2025.

Table 3-3. Interest Expenses (TME 07/31/2025)

Description	Amounts ($M)	Lead Time Days	Weighting Factor	Weighted Lead Time Days
Interest Expense	$271.1	0.09	100.0%	0.09
Total	**$271.1**		**100.0%**	**0.09**

3.3 Income Taxes

HONI is liable to make payments to the relevant tax authorities. Typically, payments are made monthly by HONI, occurring close to the end of the calendar month. HONI therefore estimated its monthly distribution tax installments by dividing the distribution business's annual tax obligation evenly over the year, assuming equal payments once per month.

Table 3-4. Income Taxes Expenses (TME 07/31/2025)

Description	Amounts ($M)	Lead Time Days	Weighting Factor	Weighted Lead Time Days
Income Tax	$68.4	14.17	100.0%	14.17
Total	**$68.4**		**100.0%**	**14.17**

3.4 Operations, Maintenance and Administration ("OM&A")

The following expenses are included in the calculation of lead days for OM&A expenses:

- **Payroll and Benefits;** this line item includes basic payroll, payroll withholdings, and benefit expenses related to the regulated utility.
- **Property Tax;** this line item includes property tax payments to various municipalities or tax authorities in the Province of Ontario. These payments are made in the given year and are typically made in installments.
- **Lease Payments;** this line item includes payments made on the properties HONI uses for operations.
- **Consulting and Contracting Services;** this line item includes the provision of outside services to HONI.
- **Corporate Procurement Card**; this line item includes credit card expenses related to OM&A.
- **Miscellaneous OM&A;** this line item includes miscellaneous OM&A expenses non-related to the procurement of Outside Services.

Some of HONI's OM&A expenses are incurred jointly by the distribution and transmission businesses. HONI provided an allocation factor to assign costs to distribution and transmission respectively for all OM&A datasets that were not already disaggregated. These datasets included: Payroll and Benefits, Lease Payments, Consulting and Contracting Services, and Corporate Procurement Card.

Expense lead times were calculated individually for each of the items listed above and then dollar-weighted to derive a composite expense lead time of 33.44 days for OM&A expenses.

Table 3-5. Summary of OM&A Expenses (TME 07/31/2025)

Description	Amounts ($M)	Lead Time Days	Weighting Factor	Weighted Lead Time Days
Payroll & Benefits	$799.0	24.25	69.0%	16.74
Property Tax	$15.7	(24.56)	1.4%	(0.33)
Lease Payments	$8.5	(19.45)	0.7%	(0.14)
Consulting and Contract Staff	$106.3	44.20	9.2%	4.06
Corporate Procurement Card	$27.7	29.79	2.4%	0.71
Miscellaneous OM&A	$200.1	71.76	17.3%	12.41
Total	**$1,157.2**		**100.0%**	**33.44**

3.4.1 Payroll and Benefits

The following items were considered as expenses related to the payroll and benefits of HONI's distribution business:

1. Payroll for four groups of HONI employees including Basic & Management, Construction & Trades, Customer Service Operations, and Board of Directors;
2. Three types of payroll withholdings including the Canada Pension Plan, Employment Insurance, and Income Tax withholdings for each of the payroll groups;
3. Contributions made by HONI to the HONI Pension Plan;
4. Three types of benefits including payments made by Hydro One to the Worker Safety Improvement Board ("WSIB"), payments made by Hydro One for the Employer Health Tax ("EHT"), and Health and Dental Insurance related administrative fees and claims; and
5. Other Benefits, including Union Dues and Group Life Insurance related administrative fees and claims.

All payroll, withholdings and benefits were dollar-weighted using actual payment data. The weighted average expense lead time associated with payroll and benefits was determined to be 24.25 days as shown in Table 3-6 below.

Table 3-6. Summary of Payroll & Benefits Expenses (TME 07/31/2025)

Description	Amounts ($M)	Lead Time Days	Weighting Factor	Weighted Lead Time Days
Payroll	$446.6	21.04	55.9%	11.76
Payroll Withholdings	$233.4	30.11	29.2%	8.80
Pensions	$39.8	44.59	5.0%	2.22
Benefits	$69.1	15.29	8.6%	1.32
Other Benefits	$10.1	11.87	1.3%	0.15
Total	**$799.0**		**100.0%**	**24.25**

3.4.2 Property Tax

HONI executes property tax payments to various municipalities or taxing authorities in the Province of Ontario. These payments are made in the given year and are typically made in installments. A dollar-weighted expense lag (-lead) time of 24.56 was determined for TME 07/31/2025.

3.4.3 Lease Payments

HONI leases office space to support its ongoing distribution operations in several different locations. HONI typically makes lease payments at the end of the month preceding the month to which the payment applies. Taking this information into account and using actual invoices and payments for TME 07/31/2025, a dollar-weighted expense lag (-lead) time of 19.45 days was determined.

3.4.4 Consulting and Contract Staff

HONI engages consulting and contract staff to provide assistance in the areas of engineering, environmental services, receivables management, accounting, and general consulting. A dollar-weighted expense lead time of 44.20 days was determined based on a review of invoices rendered and payments made by HONI in TME 07/31/2025.

3.4.5 Corporate Procurement Card

Procurement (or charge) cards are used by the HONI's employees for a variety of company related reasons including, and not limited to, purchases of materials in the field, incidental expenses, and to settle charges for travel and accommodation. Based on actual invoices from the HONI's charge card provider and payments made by HONI, a dollar-weighted expense lead time of 29.79 days was determined.

3.4.6 Miscellaneous OM&A

This category of expense includes items such as product purchases, equipment rentals, travel expenses, and provision of general services to HONI. Based on transactions in HONI's accounts payable system under this category, a dollar-weighted expense lead time of 71.76 days was derived.

3.5 Asset Removals

HONI incurs costs when removing or replacing equipment from existing sites or right of ways. Costs relating to environmental remediation at these sites are sometimes also incurred, however these costs are expected to be immaterial over the 2028-2032 timeframe. While costs are required to be reported as a depreciation and amortization expense for accounting purposes, there is a cash flow impact associated with HONI's expenditures on such asset removal costs. Based upon discussions with and data provided by HONI staff, a dollar-weighted expense lead time of 38.50 days was determined for asset removal costs.

3.6 Harmonized Sales Tax

The expense lead times associated with the following items that attract HST were considered in HONI's distribution lead-lag study.

1. Revenues;
2. Cost of Power;
3. OM&A[1];
4. Asset Removals; and,
5. Capital

A summary of the expense lead times and working capital amounts associated with each of the above items is provided in Table 3-7. Note that the statutory approach described at the outset was used to determine the expense lead times associated with HONI's remittances and disbursements of HST (*i.e.,* both remittances and collections are generally on the last day of the month following the date of the applicable invoice).

Table 3-7. Summary of HST Working Capital Amounts

Description	HST Lead Time	2028 ($M)	2029 ($M)	2030 ($M)	2031 ($M)	2032 ($M)
Revenues	(9.46)	($25.3)	($26.7)	($27.9)	($28.5)	($29.3)
Cost of Power	45.90	$80.4	$82.1	$83.5	$84.7	$86.2
OM&A Expenses	44.15	$5.6	$5.8	$6.0	$6.2	$6.3
Asset Removals	43.36	$0.2	$0.3	$0.4	$0.3	$0.3
Capital	43.36	$14.9	$16.2	$19.3	$20.5	$18.9
Total		**$75.9**	**$77.7**	**$81.3**	**$83.2**	**$82.5**

[1] Costs within OM&A that attract HST include Lease Payments, Consulting and Contract Staff, Corporate Procurement Card and Miscellaneous OM&A.

4. Working Capital Requirements

Using the results described under the discussion of revenue lags and expense leads and applying them to HONI's proposed distribution expenses for the 2028 to 2032 test period, HONI's working capital requirements were determined.

Table 4-1 to Table 4-5 below summarize HONI's working capital requirements for 2028 to 2032.

Table 4-1. HONI Working Capital Requirements (2028)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
Cost of Power	58.89	37.17	21.72	5.9%	$4,930.9	$292.6
OM&A Expenses	58.89	33.44	25.44	7.0%	$957.8	$66.6
Income Taxes	58.89	14.17	44.72	12.2%	$47.5	$5.8
Interest Expenses	58.89	0.09	58.80	16.1%	$309.7	$49.7
Asset Removals	58.89	38.50	20.39	5.6%	$125.2	$7.0
Total					**$6,371.0**	**$421.7**
HST						$75.9
Total – Including HST						**$497.6**
Working Capital as a Percentage of OM&A incl. Cost of Power						**8.45%**

Table 4-2. HONI Working Capital Requirements (2029)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
Cost of Power	58.89	37.17	21.72	6.0%	$5,019.1	$298.7
OM&A Expenses	58.89	33.44	25.44	7.0%	$987.3	$68.8
Income Taxes	58.89	14.17	44.72	12.3%	$123.6	$15.1
Interest Expenses	58.89	0.09	58.80	16.1%	$342.6	$55.2
Asset Removals	58.89	38.50	20.39	5.6%	$167.8	$9.4
Total					**$6,640.4**	**$447.2**
HST						$77.7
Total – Including HST						**$524.9**
Working Capital as a Percentage of OM&A incl. Cost of Power						**8.74%**

Table 4-3. HONI Working Capital Requirements (2030)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
Cost of Power	58.89	37.17	21.72	6.0%	$5,105.4	$303.8
OM&A Expenses	58.89	33.44	25.44	7.0%	$1,017.7	$70.9
Income Taxes	58.89	14.17	44.72	12.3%	$161.9	$19.8
Interest Expenses	58.89	0.09	58.80	16.1%	$377.9	$60.9
Asset Removals	58.89	38.50	20.39	5.6%	$212.0	$11.8
Total					**$6,874.9**	**$467.3**
HST						$81.3
Total – Including HST						**$548.6**
Working Capital as a Percentage of OM&A incl. Cost of Power						**8.96%**

Table 4-4. HONI Working Capital Requirements (2031)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
Cost of Power	58.89	37.17	21.72	6.0%	$5,181.6	$308.4
OM&A Expenses	58.89	33.44	25.44	7.0%	$1,049.0	$73.1
Income Taxes	58.89	14.17	44.72	12.3%	$144.6	$17.7
Interest Expenses	58.89	0.09	58.80	16.1%	$424.3	$68.4
Asset Removals	58.89	38.50	20.39	5.6%	$185.8	$10.4
Total					**$6,985.5**	**$477.9**
HST						$83.2
Total – Including HST						**$561.1**
Working Capital as a Percentage of OM&A incl. Cost of Power						**9.01%**

Table 4-5. HONI Working Capital Requirements (2032)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
Cost of Power	58.89	37.17	21.72	5.9%	$5,285.3	$313.7
OM&A Expenses	58.89	33.44	25.44	7.0%	$1,081.4	$75.2
Income Taxes	58.89	14.17	44.72	12.2%	$88.2	$10.8
Interest Expenses	58.89	0.09	58.80	16.1%	$472.0	$75.8
Asset Removals	58.89	38.50	20.39	5.6%	$188.9	$10.5
Total					**$7,115.7**	**$486.0**
HST						$82.5
Total – Including HST						**$568.5**
Working Capital as a Percentage of OM&A incl. Cost of Power						**8.93%**

Guidehouse completed a 2021 working capital study for HONI's distribution business, to be used in HONI's rebasing proceeding filed with the Ontario Energy Board (EB-2021-0110). This prior study resulted in a working capital requirement of between $243.4 M and $254.5 M per year for the 2023 to 2027 test period. The working capital requirements represented between 6.1% and 6.3% of OM&A and Cost of Power.

As compared with the prior study, the total amount of working capital for the current study is higher (8.45% in the current study's 2028 year versus 6.05% in the prior study's 2023 year). Further details regarding the differences between the two studies are shown in section 5 below.

5. Findings and Conclusion

The purpose of this section is to compare the results from this study to HONI's prior working capital distribution study as per EB-2021-0110. In addition, this section demonstrates that the results from this study reflect the current operations of HONI.

5.1 Comparison with Prior Distribution Study

Table 5-1. Prior Study – HONI Distribution Working Capital Requirements (2023)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
Cost of Power	48.38	34.19	14.20	3.9%	$3,422.8	$133.1
OM&A Expenses	48.38	29.76	18.62	5.1%	$597.5	$30.5
Income Taxes	48.38	13.92	34.47	9.4%	$37.2	$3.5
Interest Expenses	48.38	7.21	41.18	11.3%	$213.6	$24.1
Asset Removals	48.38	28.09	20.29	5.6%	$79.2	$4.4
Environmental Remediation	48.38	30.04	18.34	5.0%	$5.5	$0.3
Total					**$4,355.8**	**$195.9**
HST						$47.5
Total – Including HST						**$243.4**
Working Capital as a Percentage of OM&A incl. Cost of Power						**6.05%**

Table 5-2. Current Study – HONI Distribution Working Capital Requirements (2028)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
Cost of Power	58.89	37.17	21.72	5.9%	$4,930.9	$292.6
OM&A Expenses	58.89	33.44	25.44	7.0%	$957.8	$66.6
Income Taxes	58.89	14.17	44.72	12.2%	$47.5	$5.8
Interest Expenses	58.89	0.09	58.80	16.1%	$309.7	$49.7
Asset Removals	58.89	38.50	20.39	5.6%	$125.2	$7.0
Total					**$6,371.0**	**$421.7**
HST						$75.9
Total – Including HST						**$497.6**
Working Capital as a Percentage of OM&A incl. Cost of Power						**8.45%**

Table 5-3. HONI Distribution Working Capital Requirements (Current versus Prior)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
Cost of Power	10.51	2.98	7.52	2.0%	$1,508.1	$159.5
OM&A Expenses	10.51	3.68	6.82	1.9%	$360.3	$36.1
Income Taxes	10.51	0.25	10.25	2.8%	$10.3	$2.3
Interest Expenses	10.51	(7.12)	17.62	4.8%	$96.1	$25.7
Asset Removals	10.51	10.41	0.10	0.0%	$46.0	$2.6
Environmental Remediation	N/A	N/A	N/A	N/A	($5.5)	($0.3)
Total					**$2,015.2**	**$225.8**
HST						$28.4
Total – Including HST						**$254.2**
Working Capital as a Percentage of OM&A incl. Cost of Power						**2.40%**

Overall, HONI's distribution working capital requirement has increased by 2.40 percentage points (as a percentage of OM&A plus Cost of Power) since the previous study. The principal drivers of this change are described below.

5.1.1 Revenue Lag

As shown in Table 5-3 above, the overall revenue lag in the current study has increased by 10.51 days since the prior study. Revenue lag has a large impact on the overall results of working capital studies, as it contributes to the working capital factor for all expense items. As such, minor variations in revenue lag can have large impacts on directional results.

The primary driver of change since the prior study is an increase in collections lag, reflecting shifts in the timing of when outstanding balances are collected. Guidehouse has performed lead-lag studies for many Ontario utilities over the last two decades and has consistently observed increases in collections lag since the COVID-19 pandemic. For the current study, Guidehouse collected multiple years of data from HONI to confirm that the collections lag during TME 07/31/2025 is representative of HONI's normal business operations.

In the previous study, distributed generation payments made by HONI were deducted from revenue. In the current study and with improved data granularity, Guidehouse has refined the approach by classifying these payments within the cost of power expense category. This updated treatment better reflects the nature of these transactions and represents a continued evolution and improvement in the study's methodology. The updated treatment of distributed generation payments led to a decrease in revenue lag.

5.1.2 Cost of Power

Cost of Power expense lead days have not changed significantly compared to the prior study. HONI distribution still procures power from the IESO monthly and pays the IESO approximately two weeks after the end of the prior service period (the middle of the following month).

As described in section 5.1.1, for the current study, Guidehouse has included distributed generation payments in the Cost of Power expenses category. Distributed generation payments have a slightly higher expense lead than IESO Cost of Power expenses, which contributes to an increase in Cost of Power expense lead of approximately 3 days from the previous study.

5.1.3 OM&A Expenses

OM&A expense lead days have increased by approximately 4 days since the previous study. This increase is primarily driven by an increase in expense lead days for Miscellaneous OM&A. In Table 5-4 below, the individual line items comprising the OM&A expense lead time are compared across the two study periods.

Table 5-4. OM&A Expense Lead Comparison

Description	Current Study			Prior Study		
	Lead Days	Expenses ($M)	Weighted Lead Days	Lead Days	Expenses ($M)	Weighted Lead Days
Payroll and Benefits	24.25	$799.0	16.74	26.11	$680.5	16.71
Property Tax	(24.56)	$15.7	(0.33)	(31.19)	$35.0	(1.03)
Lease Payments	(19.45)	$8.5	(0.14)	(14.20)	$9.7	(0.13)
Consulting and Contract Staff	44.20	$106.3	4.06	50.80	$53.3	2.55
Payments to Inergi	-	-	-	75.11	$72.4	5.12
Corporate Procurement Card	29.79	$27.7	0.71	30.09	$26.9	0.76
Miscellaneous OM&A	71.76	$200.1	12.41	33.19	$185.2	5.78
Total		**$1,157.2**	**33.44**		**$1,063.0**	**29.76**

The Miscellaneous OM&A expense lead has increased from 33.19 days in the previous study to 71.76 days in the current study. HONI's accounts payable system does not record the service period for Miscellaneous OM&A transactions. Guidehouse therefore relies on assumptions informed by HONI's accounts payable department. The previous study assumed a typical service period of 30 days for Miscellaneous OM&A expenses. However, HONI's accounts payable team recommended Guidehouse assume a typical service period of 60 days for Miscellaneous OM&A expenses, and a payment lead of 15 days for the current study. According to HONI's accounts payable team, these assumptions more appropriately represent Miscellaneous OM&A expenses HONI paid during TME 07/31/2025.

Payroll & Benefits expense lead times are similar but slightly shorter in this study compared to the previous study. There are no major changes to Payroll or Benefits operations. Similarly, there have been no significant changes to the expense lead times for Lease Payments, Corporate Procurement Card, or Consulting and Contracting Services.

Property Taxes are another driver of the change in OM&A expenses. Property Tax payments are modelled on an annual service period, with the payment date as the variable factor. In the prior study, more property tax payments were made in the first half of the year, which resulted in an expense lag (-lead) time instead of an expense lead time. This was true in the current study as well, although the Property Tax expense lag is approximately 7 days shorter than in the previous study.

The previous study had an OM&A expense category for Payments to Inergi. However, in 2021, employees from Inergi were insourced into HONI, eliminating the need for this category in the current study. Payments to Inergi had an expense lead time of 75.11 days, compared to 24.25 days for Payroll & Benefits in the current study. Eliminating Payments to Inergi therefore decreased the overall OM&A expense lead.

5.1.4 Income Taxes

The expense lead days for Income Taxes have remained consistent with the previous study as there were no true-up payments in this study or the prior study.

5.1.5 Interest Expense

Interest lead days have decreased compared the prior study. Interest payments are modelled on an annual service period, with the payment date as the variable factor. The driving factor behind this change is when interest payments were made throughout the year. Most interest payments are made twice per year, 6 months apart. As a result, loans requiring interest payments to be made in the first quarter have a net expense lag, because the second interest payment that year will occur in the third quarter. The expense lag for the first payment is greater than the expense lead for the second payment, resulting in a net lag. By contrast, loans requiring interest payments to be made in the second quarter have a net expense lead, because while the first payment has an expense lag, the second payment in the fourth quarter will have a greater expense lead.

In the previous study, HONI's interest payments were weighted slightly towards the end of the year, resulting in an expense lead of 7.21 days. However, in TME 07/31/2025, HONI's distribution-related interest payments were distributed more evenly throughout the year than in the previous study, resulting in an expense lead of 0.09 days.

5.1.6 Asset Removals

Asset Removals expense lead time increased by approximately 10 days from the previous study. The expense lead calculation for Asset Removals is tied directly to Payroll & Benefits and Miscellaneous OM&A. The increase in expense lead is therefore driven primarily by the increase to Miscellaneous OM&A described in section 5.1.3. After dollar-weighting all OM&A categories, the impact of this change is minimal on HONI's overall working capital requirements.

5.1.7 Environmental Remediation

Previous studies have included expenses for environmental remediation. However, all material expenses related to environmental remediation were complete by the end of 2025. This expense category is therefore not relevant over the period of 2028-2032 and was excluded from the current study.

5.2 Comparison with the Prior Distribution Working Capital Study Using Constant Revenue Lag Days

As described in section 5.1, Revenue Lag days were one of the most impactful changes since the prior study. To illustrate this, the table below examines the resulting working capital requirements if Revenue Lag from the prior study was used for the current study. Table 5-5 below shows that if the Revenue Lag days were held constant at the previous study results (48.38 days), the working capital requirement in 2028 would be approximately 5.34 percentage points (as a percentage of OM&A plus Cost of Power).

Table 5-5. Working Capital Requirements with 2021 Study Revenue Lag Days Held Constant (2023 from 2021 Study versus 2028 from Current Study)

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses ($M)	Working Capital Requirement ($M)
Cost of Power	48.38	37.17	11.21	3.1%	$4,930.9	$151.0
OM&A Expenses	48.38	33.44	14.94	4.1%	$957.8	$39.1
Income Taxes	48.38	14.17	34.21	9.3%	$47.5	$4.4
Interest Expenses	48.38	0.09	48.29	13.2%	$309.7	$40.9
Asset Removals	48.38	38.50	9.88	2.7%	$125.2	$3.4
Total					**$6,371.0**	**$238.8**
HST						$75.9
Total – Including HST						**$314.7**
Working Capital as a Percentage of OM&A incl. Cost of Power						**5.34%**

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STATEMENT OF WORKING CAPITAL TEST YEARS

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CHAPTER 2 APPENDIX 2-ZA: COMMODITY EXPENSE FORECAST AND APPENDIX 2-ZB: COST OF POWER APPLICATION

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WORKING CAPITAL – HOSSM

1.0 INTRODUCTION

Working capital represents the amount of funds required to finance the day-to-day operations of a regulated utility and is included as part of rate base for ratemaking purposes.

In August 2025, Hydro One commissioned Guidehouse Inc.[1] to prepare separate lead-lag studies for its Transmission and Distribution businesses. The studies determine the net cash working capital requirements for the 2028–2032 test period using updated financial and operational information and methodologies consistent with those used in Hydro One's previously approved lead-lag studies.

A separate lead-lag study was not prepared for HOSSM. Instead, HOSSM's working capital requirement was calculated by applying the annual net cash working capital percentages derived from the Hydro One Transmission lead-lag study (for further details, see Exhibit C-05-01, Attachment 1) to HOSSM's forecast OM&A expenses for each year of the 2028–2032 test period. This approach reflects the relationship between HOSSM's operations and the Transmission business and provides a reasonable basis for estimating HOSSM's working capital requirement. The applicable percentages are summarized below, and the resulting dollar amounts are presented in Attachment 1.

HOSSM Summary of Working Capital Requirements

	2027	2028	2029	2030	2031	2032
Percentage of OM&A	0.0%	4.0%	4.8%	6.1%	6.5%	5.3%

[1] Guidehouse is a leading global provider of consulting services to the public and commercial markets with broad capabilities in management, technology, and risk consulting. The local team in Toronto has been involved in the Ontario electricity sector for the past 20+ years with extensive knowledge in developing working capital lead lag studies for generation, transmission and distribution utilities and have had a team involved in developing lead lag studies in Ontario since 2009.

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STATEMENT OF WORKING CAPITAL FOR TEST YEARS – HOSSM

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MATERIALS AND SUPPLIES INVENTORY

1.0 OVERVIEW

Hydro One maintains and optimizes materials and supplies inventory in support of the company's reliability, system growth, and customer satisfaction objectives. Maintaining inventory reduces outage restoration time by ensuring that materials and supplies are available for storm events and trouble calls.

The Materials and Supplies strategy described within this exhibit is aligned with the Supply Chain Guiding Principle of Materials and Services Readiness, while the described activities and processes operationalize the Priority of Business Enablement (the Principles and Priorities are further described in Exhibit E-05-01, Section 2).

Hydro One has strengthened its inventory strategy to ensure materials are available at the right time, in the right quantity, and at the right location to support system reliability, customer service, and system growth, while managing cost and supply chain risk. A key enabler of this approach is the centralized Orillia warehouse, which became operational on March 2, 2026.

The warehouse serves as a hub to supply 88 field service centres, 30 station locations and 10 construction sites. The warehouse also facilitates shipments to 19 transportation and work equipment locations, Central Maintenance Services and Remotes. Together, these capabilities support a proactive, data driven inventory model that enables faster outage restoration, helps minimize project delays, and improves logistics efficiency.

Inventory levels forecast for 2028–2032 reflect anticipated increases in work program volumes, compressed execution timelines, weather driven volatility, growth in the asset base, and inflationary pressures. These challenges are partially mitigated by efficiency improvements including centralized logistics, improved forecasting, and strengthened vendor strategies.

This Exhibit discusses Hydro One's inventory management strategy, processes, expected outcomes and materials and supplies inventory levels. This Exhibit also explains the materials and supplies inventory allocation between Hydro One's Transmission and Distribution businesses.

Future Use Assets are not included in this exhibit. These are fixed assets and consist of electrical equipment that will be installed on the grid in the future, such as transformers, poles, and circuit breakers. Future Use Assets are recorded separately in accordance with OEB accounting requirements. This Exhibit focuses on materials and supplies which are part of the working capital used to support the installation and maintenance of those assets, such as safety equipment, tools, and consumables. A discussion of fixed assets can be found in Exhibit C-03-01 (Shared Asset Allocation).

Hydro One's Inventory Policy is attached to this exhibit. There have been no material updates to the Inventory Policy since the last rate application.

2.0 INVENTORY CATEGORIES AND SCOPE

Hydro One maintains two inventory categories. This evidence focuses on materials and supplies. The future use assets (which include meters and network equipment) is discussed in Exhibit C-03-01.

1. **Materials and Supplies (M&S)**
    - Definition: Consumables used to support work execution. They are not installed on the grid.
    - Examples: Personal Protective Equipment (PPE), cleaning supplies, chainsaw oil, commonly used tools, and general hardware such as fasteners. These items are standardized, high use consumables that support routine field operations.
2. **Future Use**
    - Definition: Materials and equipment intended for future installation on the grid.

- Examples: Wire, cable, insulators, distribution transformers, breakers and meters and network equipment.

3.0 INVENTORY MANAGEMENT STRATEGY

This section sets out Hydro One's inventory management strategy for materials and supplies.

During the previous rate period, Hydro One adopted a new materials and supplies inventory strategy to manage the challenges from growing work programs, compressed project and program execution timelines, more frequent and intense weather-related events, increased supply chain volatility, and external cost pressures.

Hydro One's updated inventory strategy ensures that materials and supplies are positioned where and when they are needed to support reliability, system expansion, maintenance, and customer service while maintaining prudent control over costs and supply chain risk. The strategy integrates long-term planning with procurement and logistics to proactively secure critical, long-lead equipment and optimize the movement and storage of materials across Transmission and Distribution.

As part of the inventory strategy Supply Chain annually reviews the investment plan in collaboration with the Lines of Business, and where it makes sense transitions frequently used materials from vendor directly to centralized stocking, and fulfillment (with consideration for vendor lead times) through the Orillia warehouse.

This facility was built for warehouse operations, with optimized layouts, zone-based picking and packing, and high-density storage that allows significantly more material to be stored per square foot compared to the former Barrie site. Four Vertical Lift Modules increase storage capacity while reducing the overall footprint, and climate-controlled hazardous material containers ensure full compliance with storage requirements. The co-location of cross dock and warehouse functions under one roof improves material flow and operational coordination, while enhanced network connectivity and a dedicated

backup generator support accurate picking, system reliability, and continuous operations during outages and severe weather events.

Weekly consolidated deliveries reduce transportation costs and improve schedule predictability, while supporting demand-aligned ordering that enhances inventory control and streamlines onsite handling.

Across both Transmission and Distribution, the new strategy combines centralized warehousing with improved processes and technology to optimize working capital and service levels: stock algorithms and seasonal reviews calibrate safety stock (i.e., planned inventory held to absorb demand variability and supply lead-time uncertainty) to actual consumption patterns; vendor managed programs reduce scrap and handling; and surplus materials are redeployed or recovered. Shared materials between Transmission and Distribution reduce duplicate orders and leverage economies of scale. Together, these measures support timely storm response, reduce project schedule risk, and enhance efficiency.

To further support emergency response readiness, Hydro One maintains dedicated storm preparedness inventories and monitoring processes. Fourteen storm restoration containers are strategically positioned at seven locations across the province. They are pre-stocked with high-risk materials commonly required during emergency restoration activities. These containers are only accessed with approval during storm events, ensuring controlled use while enabling rapid deployment when needed.

Storm events are actively monitored by the logistics team, with advance coordination undertaken with key vendors to ensure around-the-clock supply support ahead of anticipated outages. In addition, more than 300 storm related material items are subject to enhanced forecasting and optimized safety stock analysis, with regular monitoring to confirm availability during emergencies. The location of the Orillia warehouse—closer to areas most frequently affected by severe weather—further strengthens Hydro One’s ability

to mobilize materials quickly, reinforcing system resilience and timely restoration outcomes.

4.0 INVENTORY WORKSTREAMS

Hydro One employs the following workstreams to structure and manage its inventories:

Transmission

Transmission inventory planning and procurement are closely aligned with project execution timelines and long-term planning. Materials requirements are identified early in the planning based on project scope, sequencing, and technical specifications, allowing procurement strategies to be tailored to lead time and criticality. Materials and equipment for major capital works are primarily procured from vendors and delivered directly to site. Under the new strategy, common Transmission materials are increasingly supplied through the Orillia warehouse, improving coordination across planning and procurement activities while reducing lead-time risk and enhancing material availability.

Distribution

Distribution inventory supports routine maintenance, customer connections, and storm response. Inventory planning is informed by consumption trends, work program requirements, and supplier lead times to ensure materials are available when needed. Seasonal reviews determine safety stock levels at each location. Slow-moving items like transformers are re-allocated to regions with upcoming demand. Vendor managed submarine cable programs reduce scrap and handling. Most Distribution materials are now supplied through the Orillia warehouse, improving coordination between planning, procurement, and field delivery. This enables the use of system-driven materials requirement planning to ensure materials are available for scheduled work.

Shared Practices

Both Transmission and Distribution share materials where possible to minimize duplicate orders, optimize inventories, and leverage forecasting tools to better match supply with

demand. Centralized warehousing and consolidated deliveries improve material availability, control costs, and support timely work execution for both lines of business.

5.0 INVENTORY LEVELS: HISTORICAL AND FORECAST

Table 1 provides the actual and forecast year-end materials and supplies inventory levels for Hydro One Transmission and Distribution, respectively.

The forecast applies a two percent annual increase to materials and supplies inventory over the forecast period. This approach has been used consistently, as material and supplies inventory experiences minimal fluctuation.

Inventory levels for materials and supplies reflect historical consumption patterns, planned work requirements, and the transition to a centralized inventory model. The forecast shows a relatively modest increase over the 2028-2032 rate period, despite growth in the overall workplan. For example, incremental increases in everyday items such as gloves, safety glasses, and other safety supplies reflect gradual changes in usage rather than a large step change in demand. The forecast incorporates consumption history, program plans, supplier lead times, and manual adjustments to remove anomalies such as storm driven spikes. Balances are allocated between Transmission and Distribution based on expected usage.

The new Orillia facility allows Hydro One to shift from a vendor direct-delivery model to centralized stocking and delivery through its new warehouse. This shift enhances availability, supports consolidated weekly deliveries, and allows more precise materials management aligned with work requirements.

Overall, Hydro One's forecasting methodology balances readiness and cost efficiency, ensuring inventory levels support reliability, program execution, and emergency response.

Table 1 - Inventory Levels Materials and Supplies 2023- 2032 ($M)

Year	Historical			Bridge	Forecast					
Year End Balances ($M)	**2023 Actual**	**2024 Actual**	**2025 Actual**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**2030 Forecast**	**2031 Forecast**	**2032 Forecast**
Materials and Supplies	25.3*	25.6	26.1	26.7	27.2	28.4	29.6	30.8	32.0	33.2
Allocated to Transmission	16.9	17.1	17.4	17.8	18.1	19.2	20.2	21.2	22.2	23.2
Allocated to Distribution	8.4	8.5	8.7	8.9	9.1	9.2	9.4	9.6	9.8	10.0

** Inventory values have been normalized to exclude Broadband-related inventory values that were excluded in subsequent years.*

6.0 CUSTOMER, RELIABILITY, AND EFFICIENCY OUTCOMES

Hydro One's modernized inventory strategy improves customer service, reliability, and operational efficiency by ensuring consistent material availability for planned and unplanned work. Proactive procurement, centralized warehousing, and consolidated logistics enable timely delivery to field crews, reducing delays and supporting schedule adherence.

A centralized warehouse enhances readiness for severe weather by maintaining high turnover materials and shared assets that support rapid mobilization. For example, during the March 2025 ice storm, strong inventory positions enabled crews to access required materials immediately, resulting in no material related restoration delays. The strategy also enhances cost efficiency. Consolidated deliveries reduce transportation and handling costs; curated picking reduces waste tied to vendor minimum orders; and shared materials and bulk purchasing strengthen supply assurance.

Overall, Hydro One's inventory strategy is resilient, efficient, and aligned with growing system needs—supporting reliability, controlling cost pressures, and improving execution across the province.

7.0 ATTACHMENTS

Attachment	Description
1	Inventory Policy

SP 0732 R3

Inventory Policy

Purpose and Scope

The Inventory Policy provides the framework for inventory management, valuation, verification and accounting in order to preserve the integrity of our financial statements.

This policy applies to Hydro One Limited and its affiliates (collectively “Hydro One”) that are involved in the valuation, verification, management and accounting for inventory. Inventory as referred to in this policy includes both Hydro One owned assets classified as "materials and supplies" and "future use fixed assets" on the corporate balance sheet. It also includes consumable inventory, strategic parts/component inventory and other inventory (i.e. Acronym).

This policy does not apply to: free issues (items that are expensed immediately); operating spares that are classified as in-service major fixed assets; minor fixed assets; or Hydro One Remote Communities' fuel inventories.

Revision Statement

No material changes were made to the policy, and the intent, requirements, and governance remain consistent with the prior version.

Principles

- Hydro One inventory is managed, verified and valued in a manner consistent with sound business practices and accounting principles. To ensure the completeness, existence and the appropriate valuation of inventory, inventories are physically verified on a periodic basis. Accounting for inventories is consistent as appropriate to the context of a rate regulated industry.
- All inventories, including future use fixed assets, will be properly controlled and costed to ensure the accuracy of records for materials, work in progress, finished or partly finished new or used goods.
- All inventories will be managed, verified and valued for accuracy with the COSO assertions of ownership, valuation, existence and completeness.

Contents

1.0 Requirements
2.0 Definitions
3.0 References
4.0 Document Management
5.0 Appendices

1.0 Requirements

a. Physical inventory counts will be conducted on a periodic basis to verify the physical existence and completeness of Hydro One inventory.

b. Inventory classified as "materials and supplies" is to be valued at the lower of average cost and net realizable value (NRV). New items are recorded in the inventory system at cost automatically as a result of transaction steps in the supply process. There are times when due to a timing issue, the average cost is deemed incorrect and a correction has to be made through the inventory sub-ledger.

c. Inventory that has an NRV that is less than carrying value will be written down to the NRV. If the NRV subsequently recovers, the write-down should be reversed. Corporate Finance advice should be sought before writing assets down for declines in NRV and for any subsequent reversals.

d. All inventories must be managed in accordance with good business practices balancing the need to maintain an adequate supply of materials with appropriate cost considerations.

e. All inventories must be stored in a secure location where access is limited to personnel authorized by Hydro One.

Specific Circumstances

a. Hydro One will re-deploy or dispose of surplus material in a manner to maximize the return with emphasis on reuse and environmental protection consistent with the principles of the Hydro One Health, Safety and Environmental Management System.

b. Investment Recovery (IR) is the authority to sell items that have been declared surplus in accordance with Retirement/Surplus Reporting Procedures. (Refer to SP0855 Procedure for Disposal of Surplus Materials).

c. When exercising Local Sale of Surplus and disposing goods locally, responsibility for adhering to SP0855 Procedure for Disposal of Surplus Materials rests with the line of business (LOB).

2.0 Definitions

Term	Definition
Average Cost	For inventory items that are not interchangeable, specific costs are attributed to the specific individual items of inventory. For items that are interchangeable, Hydro One has adopted weighted average cost method to determine average cost of inventory.
Consumable Inventories	Inventories used primarily in the distribution or transmission business. These goods are kept in stock to support customer requirements. Items include: transformers, wire and cable, connectors, poles/line hardware, circuit breaker parts, insulators, surge arresters, fasteners, switches, supplies (i.e. safety, metering, construction, cleaning) and equipment (i.e. lighting, survey, hoisting).

Net Realizable Value (NRV)	Based on the regulatory principle of cost recovery, net realizable value is generally equal to carrying value for inventory used in Hydro One's regulated businesses. For inventory items available for sale, net realizable value is defined as the estimated selling price in the ordinary course of business less the estimated costs necessary to complete the sale.

3.0 References

1. SP0733 Inventory Procedure

2. SP0855 Procedure for Disposal of Surplus Materials

4.0 Document Management

Owner/Functional Responsibility	Director, Corporate Accounting & Reporting
Approver	VP, Corporate Controller
Approval Date	July 2021
Effective Date	July 2021
Last Reviewed Date	February 2026
Next Review Date	February 2028

5.0 Appendices

None

ECONOMIC EVALUATION TRUE-UPS/CCRA AND CCA

1.0 INTRODUCTION

Hydro One is required to perform certain load true-ups pursuant to the Transmission System Code (TSC) and Distribution System Code (DSC). This Exhibit describes the load true-up calculations that are required in respect of transmission assets for (a) Transmission connected customers, as completed by Hydro One Transmission[1], as well as (b) embedded Distributors and Large Customers > 5MW, as completed by Hydro One Transmission for Hydro One Distribution. The continuance of the Customer Connection and Cost Recovery Agreement True-up (CCRA) Variance Account (Transmission CCRA Variance Account) as well as the Distribution CCA Variance Account to track the impact of load true-ups on the Distribution revenue requirement, are each described in Exhibit G-01-03, sections 2.2 and 6.16, respectively.

2.0 TRUE-UP PROCEDURE FOR LOAD CUSTOMERS - TRANSMISSION

When a transmission customer requests new or modified connection facilities, the costs of the required investment are assigned to the benefiting customer(s). If there are multiple benefiting transmission customers, each is allocated costs on the basis of incremental capacity required. Hydro One Transmission determines whether the incremental load that the customer is committing to as part of the upgrade will be sufficient to pay for the incremental costs of providing the capacity that has been requested. If the load forecast indicates that the expected load will not be sufficient, Hydro One is required to collect a capital contribution to ensure that rate payers are not subsidizing the customer. This initial calculation, called the Initial Economic Evaluation (IEE) under the TSC, is detailed in the Customer Connection and Cost Recovery Agreement (CCRA) that Hydro One Transmission enters into with the customer. An individual CCRA is executed for each benefiting Transmission customer on each project, including where such customer is Hydro One Distribution.

[1] Includes Hydro One Sault Ste. Marie LP (HOSSM)

To ensure that Hydro One Transmission in fact recovers the costs of the investment over time without impacting transmission rate payers (through a combination of the initial capital contribution and transmission revenues associated with the incremental load from the project), Hydro One Transmission carries out true-up calculations, based on actual customer load, at specific true-up points prescribed by section 6.5.3 of the TSC:

1. for high-risk connections, at the end of each year of operation for five years;
2. for medium-high risk and medium-low risk connections, at the end of each of the third, fifth and tenth years of operation; and
3. for low-risk connections, at the end of each of the fifth and tenth years of operation, and at the end of the fifteenth year of operation if actual load is 20% higher or lower than the initial load forecast at the end of the tenth year of operation.[2]

For the true-up calculation, Hydro One Transmission uses the same methodology it uses to carry out the IEE, and the same inputs except for load, as per section 6.5.4 of the TSC and as detailed in section 2.5 of Hydro One's OEB-approved Transmission Connection Procedures. Hydro One Transmission carries out true-ups with Hydro One Distribution, as it does with any other customer with whom it has entered into a CCRA.

The load used in a true-up calculation is based on the actual load up to the true-up point and an updated load forecast from the customer for the remainder of the economic evaluation period.

Hydro One Transmission assesses whether the updated load forecast is reasonable prior to inclusion in the true-up calculations.

When the true-up calculation shows that the customer's actual load and updated load forecast is lower than the load in the initial load forecast, and therefore has not generated the initially forecast connection rate revenues, the customer is required to make a payment to make up the shortfall, adjusted appropriately to reflect the time value of money and net

[2] All Ontario Distributors are considered to be low risk.

of any previous capital contributions, including true-up payments, as per section 6.5.6 of the TSC. This additional capital contribution is credited against fixed assets and results in a reduction in rate base for Hydro One Transmission.

Where a true-up calculation shows that the customer's actual load and updated load forecast is higher than the load in the initial load forecast, and therefore has generated more than the initially forecast connection rate revenues, Hydro One applies this credit against any shortfall in subsequent true-up calculations (Notional Account, section 6.5.7 of TSC). After the final true-up calculation is completed, any credited amount is adjusted appropriately to reflect the time value of money and is rebated to the customer. The rebate amount will not exceed the capital contribution, adjusted to reflect the time value of money, previously paid by the customer, as per section 6.5.7 of the TSC. Once the rebate has been paid to the customer, Hydro One Transmission increases the net fixed assets of the connection facility, and thereby its rate base, by a corresponding amount.

When a load customer voluntarily and permanently disconnects its facilities from a Transmission facility prior to the last true-up point, Hydro One, at the time of disconnection, carries out a final true-up calculation in accordance with section 6.5.11 of the TSC.

3.0 TRUE-UP PROCEDURE FOR LOAD CUSTOMERS - DISTRIBUTION

As part of the Regional Planning and Cost Allocation Review (EB-2016-0003), the TSC and DSC were amended by the Ontario Energy Board, effective from December 18, 2018, to flow the impacts of economic evaluations that are carried out for transmission capital contributions down to any embedded distributors and distribution-connected large load customers with non-coincident peak demand exceeding 5 MW (large customers) that contribute to the need for a new or modified transmission facility.[3] The following true-up procedures are in accordance with requirements established by the Ontario Energy Board through the above-referenced amendments.

[3] See https://www.oeb.ca/industry/policy-initiatives-and-consultations/regional-planning-and-cost-allocation-review.

As per DSC section 3.6.1, Hydro One Distribution seeks capital contributions from embedded distributors and large customers for new or modified transmitter-owned connection facilities when Hydro One Distribution itself is required to provide a capital contribution to Hydro One Transmission.

Hydro One Distribution enters into Connection Cost Agreement (CCA) with each of its benefiting large customers or embedded distributors. Transmission costs that have been allocated to Hydro One Distribution are allocated under those CCAs to the benefiting embedded distributors and large customers according to each party's incremental capacity requirement (with the remainder being allocated to Hydro One Distribution based on its benefit). Each customer is assigned a risk classification in accordance with TSC Appendix 4. An IEE determining the required capital contribution from each party is completed by Hydro One Transmission on behalf of Hydro One Distribution (and on behalf of any other Ontario Distributors) utilizing the same methodology and process prescribed by TSC sections 6.3.2, 6.5 and Appendix 5. Any resulting capital contributions from embedded distributors or large customers are then paid to Hydro One Distribution.

The processes described in 2.0 and 3.0, above, are illustrated in Figure 1, below:

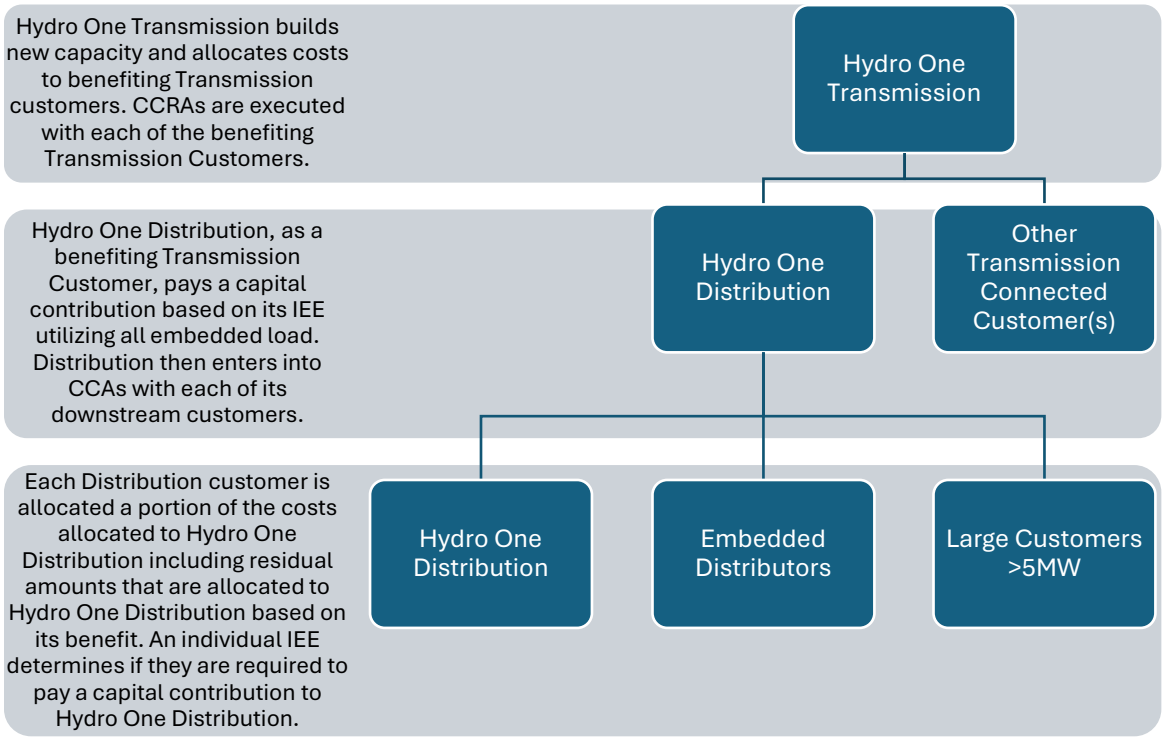

Figure 1: Visualization of True Up relationship between Transmission, Distribution and Various Customers

True ups are performed utilizing the same pre-determined intervals as used for Hydro One Transmission customers (TSC 6.3.2). Accordingly, Hydro One Transmission calculates and conducts the true up calculation in the same manner as for Transmission customers on behalf of Hydro One Distribution (and other Ontario Distributors when required) utilizing the same methodology and calculation used to carry out the IEE, and the same inputs except for load, as per section 6.5.4 of the TSC.

4.0 TRUE-UP IMPACTS ON REVENUE REQUIREMENT

Capital contributions when received by Hydro One Transmission (including through load true-ups) have the effect of lowering Revenue Requirement because they lower the amount of capital on which Hydro One Transmission requires a return, along with the related impacts on revenue requirement of the gross up for corporate income taxes and a lower depreciation expense. Capital contributions when refunded by Hydro One

Transmission have the opposite impact of increasing Revenue Requirement. For example, a capital contribution received by Hydro One Transmission from Hydro One Distribution would have the effect of reducing Transmission's revenue requirement and increasing Distribution's revenue requirement.

It is worth noting that capital contributions, including those resulting from CCRA load true-ups, have different income tax implications depending on when they are received. Generally, capital contributions received from customers are taxed as income at the corporate statutory tax rate (26.5%). However, if a capital contribution is received within the first three years after the related asset is put in-service, the *Income Tax Act* provides for an election whereby the capital contribution received can be treated either as taxable income at the above-noted rate or as a reduction against the tax basis of the assets (UCC Pool). Refunds to customers resulting from load true-ups are deductible and thereby result in a tax benefit.

Given the timing of the true-ups, as prescribed under the TSC and DSC, it is important to realize that Hydro One triggers a tax expense on receipt and a tax benefit when Hydro One refunds amounts to customers. Capital contributions resulting from true-ups, where received by Transmission from Distribution, would lower the regulatory taxes for Distribution ratepayers and increase the regulatory taxes for Transmission ratepayers.

5.0 CCRA TRUE-UP AND BYPASS FORECAST

This section summarizes CCRAs executed by Hydro One Transmission and HOSSM with Ontario rate-regulated distributors that are due to be reviewed during the 2028-2032 period as a result of reaching a fifth anniversary (or 10th or 15th).

Hydro One Transmission expects to review 37 CCRAs with Ontario rate-regulated distributors during the 2028-2032 period. Hydro One expects the current customer load forecasts to be accurate with no estimate of true-up contributions. When customers provide updated load forecast information at the time the true-up is performed, any

impacts will be recorded in the Transmission CCRA Variance Account. Hydro One has no active bypass agreements and thus no bypass proceeds.

HOSSM expects to review 0 CCRAs during the 2028-2032 period.

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INTEREST CAPITALIZED

Consistent with the OEB's Decision in EB-2008-0408, effective January 1, 2012, no allowance for funds used during construction (AFUDC) rate is specified for use by Hydro One. Hydro One was directed to base its interest capitalization rate on its embedded cost of debt used to finance capital expenditures. This is also consistent with Hydro One's adoption of United States Generally Accepted Accounting Principles (US GAAP) per the OEB's decision in EB-2011-0268 for Transmission and per OEB's decision in EB-2011-0399 for Distribution and US GAAP requirements for determination of interest capitalized. The rates used in calculating capitalized interest for the bridge and test years represent the effective rate of Hydro One Transmission and Distribution's forecasted average debt portfolio during the year.

Capitalized interest costs are calculated using the Company's weighted average effective cost of debt. Capitalized interest is included in the capital expenditures shown in the Transmission System Plan (the TSP), Distribution System Plan (the DSP) and the General Plant System Plan (the GSP). These expenditures are recovered through Revenue Requirement once they become in-service additions to Rate Base.

Table 1 below summarizes the capitalized Interest for Transmission, Table 2 below summarizes the capitalized interest for HOSSM and Table 3 below summarizes the capitalized Interest for Distribution. The amount capitalized for Transmission is usually greater than Distribution as a larger proportion of Transmission capital work qualifies for interest due to the generally longer duration of Transmission projects.

Table 1 - Capitalized Interest - Transmission

Year	Capitalization Rate	Transmission Capitalized Interest ($M)
2023	4.2%	56.2
2024	4.4%	69.7
2025	4.4%	87.0
2026 Forecast	4.3%	76.2
2027 Forecast	4.2%	82.6
2028 Forecast	4.2%	110.2
2029 Forecast	4.2%	140.5
2030 Forecast	4.1%	148.3
2031 Forecast	4.1%	178.6
2032 Forecast	4.2%	171.6

Table 2 - Capitalized Interest - HOSSM

Year	Capitalization Rate	Transmission Capitalized Interest ($M)
2023	6.1%	1.2
2024	5.5%	3.5
2025	5.5%	5.0
2026 Forecast	4.2%	3.8
2027 Forecast	4.2%	2.8
2028 Forecast	4.2%	3.0
2029 Forecast	4.2%	3.0
2030 Forecast	4.1%	1.4
2031 Forecast	4.1%	1.7
2032 Forecast	4.1%	1.2

1 **Table 3 - Capitalized Interest - Distribution**

Year	Capitalization Rate	Distribution Capitalized Interest ($M)
2023	4.2%	13.2
2024	4.3%	15.6
2025	4.2%	16.8
2026 Forecast	4.2%	13.1
2027 Forecast	4.2%	15.8
2028 Forecast	4.2%	16.5
2029 Forecast	4.2%	17.9
2030 Forecast	4.2%	23.5
2031 Forecast	4.2%	25.4
2032 Forecast	4.2%	19.6

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OVERHEAD CAPITALIZATION RATE

1.0 INTRODUCTION

This Exhibit describes the methodology that Hydro One uses to allocate its overhead costs to capital work for the Transmission and Distribution businesses (the Overhead Capitalization Methodology). Generally, these costs are allocated through the application of an Overhead Capitalization Rate (OCR), which is a calculated percentage representing the amount of overhead costs that are required to support capital projects in a given year. A distinct OCR applies to each of Transmission and Distribution, as a result of applying the proposed Overhead Capitalization Methodology.

In addition, this Exhibit describes the Early Contractor Involvement Engineering Procurement and Construction Delivery Model (herein referred to as “ECI-EPC Model”) and the ratepayer benefits and avoided cost duplication from use of the ECI-EPC methodology, in response to prior directives from the OEB in the Waasigan Leave To Construct decision in EB-2023-0198.

For each of Transmission and Distribution, capitalized overhead costs represent the portion of their allocated common corporate costs that have been incurred to support capital expenditures and which are therefore capitalized along with the costs directly attributable to capital work. As such, to ensure that capital work reflects all of the costs incurred to enable assets to be placed into service and to operate for their intended use, Hydro One (a) capitalizes costs that are directly attributable to capital work, such as the purchase price for materials and equipment, and costs directly incurred to bring materials and equipment to work sites and to install and otherwise make them ready for service, and (b) capitalizes those of its common corporate costs, or ‘overheads’, that relate to its capital work. By including the portion of its overheads that relates to capital work in rate base, Hydro One aligns the recovery of its costs for capital-related work with the expected useful lives of the underlying assets, during which those assets are expected to provide benefits to customers. The methodology to allocate the overheads to Transmission, Distribution, and its affiliates, is described in Exhibit E-04-08.

2.0 OVERHEAD CAPITALIZATION METHODOLOGY

The Overhead Capitalization Methodology currently used by Hydro One was developed by Atrium Economics (Atrium) and is founded on the overhead capitalization methodology originally developed for Hydro One and first presented in the report *Distribution Overhead Capitalization Rate Method* dated May 20, 2005, which was accepted by the OEB in the Distribution application for 2006 Distribution Rates.[1] The methodology has subsequently been accepted by the OEB in both Transmission and Distribution proceedings,[2] including the 2023 to 2027 Custom IR rebasing application in EB-2021-0110.

Hydro One selected Atrium based on its expertise in utility cost allocation and regulatory matters, as well as its familiarity with Hydro One's operations and regulatory framework, to conduct an independent assessment of (i) Hydro One's Common Corporate Cost Allocation Methodology (discussed in Exhibit E-04-08); (ii) the methodology used to allocate Shared Asset costs among regulated business units and affiliates (discussed in Exhibit C-03-01); and (iii) the Overhead Capitalization Methodology (herein referred to as "2028 Atrium Study").

Based on Atrium's detailed review of Hydro One's Overhead Capitalization Methodology, it was concluded that the existing Overhead Capitalization Methodology continues to be appropriate because it is accurate and transparent, fairly attributes to and recovers appropriate overhead costs from capital work, and ascertains which activities have a causal link between overhead costs and capital activity. Atrium's consolidated report entitled 2028 Corporate Cost Allocation Review addressing all aspects of its review, including the Overhead Capitalization Methodology, is provided in Exhibit E-04-08, Attachment 1.

In summary, Atrium describes the Overhead Capitalization Methodology as follows:

> The general methodology employed is first to review Shared Service activities to ascertain whether the activity directly supports OM&A, directly supports capital, or supports both capital and OM&A. Second, costs that support both capital and OM&A are split between OM&A and capital. Third, the resulting capitalized common corporate costs are used by Hydro One

to calculate the Overhead Capitalization Rate applied to capital expenditures.[1]

Using this established methodology, Hydro One reviews its OCRs monthly to determine if the rates need to be updated to reflect in-year changes in capital spending and the associated support costs. At year-end, capitalized overheads are trued-up to reflect actuals. This results in a better alignment of overhead costs with the capital work that those costs support. Although the actual overhead capitalization rates may fluctuate from month to month, the methodology that is applied each month remains consistent with that which has been accepted by the OEB in the relevant prior rate proceeding.

The Overhead Capitalization Methodology, as reviewed and set out in the 2028 Atrium Study for purposes of this Application, presents a reasonable and appropriate method for allocating overhead costs to capital work for each of the Transmission and Distribution businesses. Hydro One has applied the Overhead Capitalization Methodology recommended by the 2028 Atrium Study to calculate the revenue requirements requested in this Application.

The 2028 Atrium study determined the appropriate allocation of common corporate overhead costs between OM&A and capital activities based on forecast business activity levels. Table 1 below outlines the overhead capitalization rates and amounts, as calculated using the methodology recommended by Atrium, for each of the Transmission and Distribution businesses.

[1] Exhibit E-04-08, Attachment 1, 2028 Atrium Study, Section 1.3.2

Table 1 - Overhead Capitalization Rates and Amounts for Transmission and Distribution

Overhead Cost Category	Test Period (%)					Test Period ($M)				
	2028	2029	2030	2031	2032	2028	2029	2030	2031	2032
Transmission	7%	6%	5%	4%	5%	202.0	206.9	216.8	237.0	236.6
Distribution	9%	9%	8%	8%	9%	146.1	168.1	190.2	196.3	198.9

Under this methodology, as shown above, the resulting Transmission overhead capitalization rate declines modestly over the test period, while the Distribution overhead capitalization rate remains relatively stable. The Transmission capitalization rates are lower than those established under the previous study, while the Distribution capitalization rates are generally consistent with the rates established under the previously approved common corporate cost allocation study (in EB-2021-0110).

The overhead costs capitalized increase over the test period as capital investment levels grow, reflecting both the growth in capital expenditures and the application of the methodology developed as part of the 2028 Atrium Study.

3.0 ECI-EPC OVERHEAD CAPITALIZATION RATE

To execute large discrete projects, HONI has implemented the Early Contractor Involvement Engineering Procurement and Construction Delivery Model. The ECI-EPC Model engages the services of an external Owner's Engineer (OE) and the services of Engineering, Procurement, and Construction (EPC) contractors. This initiative allows the ECI-EPC contractors to be engaged at an earlier stage of development (typically at a preliminary budgetary estimate stage rather than near the end of detailed estimating or at construction initiation). As such, the ECI-EPC contractors perform many of the development functions that under the standard HONI delivery model would be performed internally by Hydro One.

In Atrium's Report entitled 'Overhead Capitalization Methodology for ECI-EPC Contracted Projects', dated August 9, 2023, their review concluded that these projects differ materially

from Hydro One's standard transmission capital delivery model due to the significantly higher reliance on external contractors and the corresponding reduction in the level of internal Hydro One shared service support required per dollar of capital expenditure.[2]

As such, Atrium recommended that HONI use a blended overhead rate that would be determined by the weighted average portion of a project's type/source of costs, specifically the two differentiated types of project costs being:

- A reduced OCR applicable to the externally contracted portion of ECI-EPC project costs; and
- Hydro One's standard transmission OCR applied to the internally managed portion of project costs.

Atrium recommends a blended rate calculated using the OCR for costs associated with external contractor payments weighted at 79.5% and the standard delivery Transmission overhead capitalization rate weighted at 20.5% relating to internal Hydro One incurred costs.[3] The refined overhead rate used for transmission affiliate projects takes into consideration the project specific execution model, ECI-EPC, and a lower reliance on HONI's corporate supporting functions in developing its rates.

Based on updated inputs, Hydro One updated its calculation of the blended OCR for ECI-EPC projects to be applied beginning in 2028:

Table 2 - Blended OCR for ECI-EPC Contracted Projects

	2024	2025	2026	2027	2028	5 Year Avg	Rounded
Blended Overhead Rate	2.02%	1.95%	2.10%	2.26%	2.37%	2.14%	**2.0%**

Consistent with the recommendations from the Atrium Economics Report, the overhead capitalization rates for projects utilizing the ECI-EPC Model are reviewed and updated annually as part of the annual integrated business planning process.

[2] Exhibit E-04-08, Attachment 1, 2028 Atrium Study, Section 7
[3] Exhibit E-04-08, Attachment 1, 2028 Atrium Study, Appendix C

3.1 RATEPAYER BENEFITS AND AVOIDED COST DUPLICATION

In the Waasigan Leave To Construct (LTC) decision (EB-2023-0198), the OEB directed the following:

> At the appropriate future proceeding, Hydro One should demonstrate how adopting the ECI-EPC model benefited ratepayers and how overhead functions were reassessed to avoid cost duplication.[4]

Consistent with the Chatham x Lakeshore (CLLP) 2025-2029 revenue requirement application approved by the OEB[5], Hydro One confirms that the ECI-EPC Model has provided benefits to ratepayers including increased cost certainty, appropriate allocation of risk and appropriate allocation of common corporate costs to the project.

By having a third-party constructor engaged early in the project, the project proponent is able to evaluate EPC contractors prior to entering into a construction contract, which enables the tailoring of contract terms appropriately (and at a time that is advantageous to the project cost, scope and schedule). Hydro One's procurement process for the ECI-EPC projects allows EPC contractors to obtain competitive market pricing from their suppliers and to identify and evaluate, engineering, procurement, construction, risks and opportunities during the development of their respective offers.

Further, with a significant portion of the early scope of project work being performed by the constructor instead of internally by HONI, HONI is able to avoid expanding its' internal corporate resources that would otherwise perform this service to meet demand for the large number of new transmission line projects.

In summary, Hydro One's ECI-EPC overhead capitalization methodology is designed to ensure both cost causation and the avoidance of duplicate cost allocation. Common corporate costs attributable to ECI-EPC projects are identified and allocated through a distinct phase of the methodology before the calculation of the standard transmission OCR.

[4] EB-2023-0198, Waasigan Leave To Construct (LTC) decision, p. 19
[5] EB-2024-0216, Decision and Order, Schedule A, Settlement Proposal, p. 21: The Parties accepted the refined methodology for overhead capitalization rates for Early Contractor Involvement Engineering Procurement and Construction Delivery ("ECI-EPC") projects.

As a result, these costs are removed from the pool of common corporate costs used to determine the OCR applicable to conventionally delivered capital projects. The application of a blended OCR to ECI-EPC projects further reflects the lower level of Hydro One shared corporate support associated with externally delivered project activities. This approach ensures that common corporate costs are allocated once to the projects that benefit from those services, while avoiding the attribution of costs associated with functions performed through contracted services.

4.0 CAPITALIZATION POLICY

Hydro One's Capitalization Policy has been updated since the last rebasing application submitted to the OEB (EB-2021-0110). The revised Capitalization Policy - SP 0777 R7 is filed as Exhibit C-08-02, Attachment 2. The revision reflects targeted enhancements to address evolving accounting requirements and technological developments, while maintaining consistency with the prior version. It provides expanded guidance on software-related costs, including cloud computing arrangements, by clarifying the distinction between capitalizable software and service-based costs (section 1.6.2.2), enhancing direction for complex, multi-element arrangements (section 1.6.2.2), and introducing a reduced software capitalization threshold that better aligns with current investment practices (section 1.1.1).

These updates are intended to improve clarity, consistency, and transparency in application. The underlying capitalization principles remain unchanged, with the refinements supporting alignment with current standards and business practices.

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CHAPTER 2 APPENDIX 2-D (OVERHEAD EXPENSE)

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SP 0777 R7

Capitalization Policy

Purpose and Scope

This policy is applicable to account for the costs of Property, Plant and Equipment (PP&E), internally developed and externally acquired information technology hardware and software, cloud computing arrangements and eligible project costs. It sets out the general principles to be followed in determining the types of expenditure that may be capitalized.

Costs capitalized in accordance with United States Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 980, Regulated Operations, are not in the scope of this policy (i.e. this policy does not apply to regulated assets). For entities subject to rate regulation, all or part of an incurred cost that would otherwise be charged to expense under this Capitalization Policy may be eligible for capitalization within the regulatory accounts. The scope and criteria for capitalization pursuant to ASC 980 must be met. Please see SP0783 Accounting for the Effects of Certain Types of Regulation and contact the Corporate Accounting and Reporting group.

Revision Statement

This Capitalization Policy was updated for the following:

- Updated references in Sections 1.5.3 and 1.5.4
- Minor updates and edits, including moving the Thresholds table in section 1.2.1 for readability

This policy was previously revised in 2025 to decrease the capitalization threshold for software and to update for changes in accounting for cloud computing arrangements.

Principles

The purpose of this policy is to establish general guidelines and procedures for the capitalization of PP&E, internally developed and externally acquired information technology hardware and software, cloud computing arrangements, and eligible project costs.

This policy is in accordance with the principles set out in the FASB's ASC that sets out generally accepted accounting Principles (GAAP) for entities that utilize United States (US) GAAP.

This policy addresses the situations that are most relevant to Hydro One and is applicable to all Hydro One entities that utilize US GAAP as their basis of accounting. This policy is not meant to replace the applicable FASB ASC topics noted in Section 3.0.

Contents

1.0 Requirements

2.0 Definitions

3.0 References

4.0 Document Management

5.0 Appendices

1.0 Requirements

1.0 PP&E Recognition – When Does Capitalization Commence?

1.0.1 Expenditures Requiring Individual Board Approval

For those projects or programs that require individual Board approval and which are funded separately from the approved investment plan, all internal and external costs incurred should be expensed until the projector program has progressed to the stage at which the criteria for capitalization set out below have been met. For purposes of this policy, project expenditures may be capitalized when all of the following criteria, supported by internal and external documentary evidence (e.g. approved minutes of Board meetings and Approved Business Cases), have been satisfied and the project is probable of being constructed:

- A Memorandum of Understanding (MOU) or other agreement with a customer committing them to the project is in place or is being developed which demonstrates the existence of a market for the output(s) of the project (if applicable);
- The Board or Senior Leadership Team members with the appropriate delegated authority have approved the project;
- Significant legal, regulatory and operational requirements related to the project have been met or are reasonably expected to be met; and
- Adequate technical, financial and other resources necessary to complete the project are available or have been obtained.

Prior to meeting the criteria set out above, no costs may be capitalized. Once a project meets the criteria for capitalization, prior period expenses will not be re-classed to capital. Any subsequent recovery of external third-party costs previously expensed would be included in earnings as a reduction of costs in the period in which the recovery was realized.

The diagram below depicts the life cycle of a typical capital project, including when costs are either capitalized or expensed in relation to the project stage:

Pre-Operating Period		Operating Period
Pre-Approval stage	After approval "activities"	Asset in Service
Example of activities: Determine performance requirements Explore alternatives Select a vendor	Example of activities: **Pre-construction** – technical drawings and specifications, process of obtaining required permits from governmental authorities, etc. **Construction activities** – physical construction of the asset and all steps required to prepare the asset for its intended use Unforeseen obstacles during this stage such as technical problems, labour disputes or litigation, etc.	Asset is in the location and condition necessary for it to operate in the manner intended
Expense	**Capitalize**	Expense (or if costs fall under trailing costs definition- (S.1.8.2), then capitalize)

1.0.2 Projects and Programs Funded Through the Annual Capital Budget

Projects and Programs included in the annual capital budget (investment plan) that do not require the support of a specific customer or individual approval by the Board, such as pole replacement programs, tower coating, insulator replacement, core maintenance (Tx and Dx) and major overhauls, are authorized by the Board through its approval of the capital budget. Expenditures on these projects may be capitalized subject to the criteria included in this policy.

1.1 PP&E Recognition – Capital VS Expense Overview

It is important to determine which costs may or may not be capitalized in order to properly state Hydro One's financial position and to ensure appropriate allocation between Operating, Maintenance and Administration (OM&A) and Capital costs for purposes of establishing rate base. Capital assets are shown on the balance sheet. Costs, which may not be capitalized, are expensed in the period in which they are incurred. Accordingly, an expenditure that is incurred in one period but which is anticipated to result in economic benefits over a number of years in the future and which meets the definition of an asset is capitalized. The cost of the usage of that asset in the earnings process (i.e. using up the future benefit) is recognized through an annual depreciation charge.

ASC 360-10-05-3 states that PP&E typically consists of tangible long-lived assets used to create and distribute an entity's products and services and typically includes land and land improvements, buildings, machinery and equipment, and furniture and fixtures. For Hydro One, typical PP&E also includes transmission towers, transmission stations, distribution stations, transformers, poles and transmission and distribution lines.

ASC 360-10-30-1 states that the historic cost of acquiring or constructing an asset includes all costs necessary to bring the asset to the location and condition necessary for its intended use. There is no formal accounting guidance on how to

determine if the asset is ready for its intended use. It is a point in time at which management decides that all significant testing and commissioning for the asset have been completed and the asset is deemed available for operation. The only exception to this is if Hydro One has external third-party conditions imposed on the in-servicing of assets (e.g. the Independent Electricity System Operator - “IESO”).

If an asset is expected to take 6 months or more to carry out the activities necessary to bring it to that location and condition, the interest cost, or allowance for interest during construction ("AIDC") incurred during that period as a result of expenditures made to construct the asset is included in the cost of the asset as per ASC 835-20-05-1. Additionally, regulators may permit the capitalization of an allowance for the cost of equity used during construction ("AEDC") as part of the rate base. Section 1.3.3 provides more detail on the capitalization of interest and equity during construction.

The ASC Master Glossary states that the term "activities" be interpreted broadly and encompasses the physical construction of the asset in addition to all steps required to prepare the asset for its intended use. This includes administrative and technical activities during the pre-construction phase, such as the development of plans including initial technical drawings and specifications, etc. and the process of obtaining required permits from governmental authorities. It also includes activities undertaken after construction has begun in order to overcome unforeseen obstacles such as technical problems, labour disputes or litigation, and costs incurred after the asset is placed in service to finalize incomplete items, in addition to other expenditures that may be required subsequent to the in-service date (see Section 1.8.2 -Trailing Costs for more guidance).

US GAAP does not provide specific guidance regarding the nature of expenditures that can be capitalized as part of PP&E. As a result, the decision as to whether a particular expenditure may be capitalized is determined to a considerable extent by the definition of an asset set out in FASB Statement of Financial Accounting Concepts 6

, wherein assets are defined *as*

" … probable future economic benefits obtained or controlled by a *particular entity as a result of past transactions or events."* Accordingly, if an expenditure is expected to result in a probable (i.e. likely to occur) future economic benefit to Hydro One, it is eligible for capitalization.

In the event that there is uncertainty whether expenditures are expected to result in a probable future economic benefit to Hydro One, please consult with the Corporate Accounting and Reporting Group for guidance.

Capitalization of Costs related to PP&E is presented as follows:

- Project construction - Section 1.3
- Improvements and replacements - Section 1.4
- Other: contributions in aid of construction and assets not owned by Hydro One - Section 1.5
- Information Technology Hardware and Internal Use Software and Cloud Computing Arrangements - Section 1.7

1.1.1 Capitalization Thresholds

Expenditures for individual items of PP&E with a cost greater than or equal to the amounts per the attached table are eligible for capitalization. The capitalization threshold applies to an asset at a single physical location. Splitting or aggregating asset expenditures for multiple purchases at a single location or an asset at multiple locations in order to circumvent the capitalization threshold is not allowed (this does not apply to programs where the individual cost is below

the threshold, but where the entire program cost exceeds the capitalization threshold – e.g. tower coating).

Costs incurred to meet regulatory requirements typically should be eligible for capitalization, provided they have future economic benefit or are recoverable from customers in future rates – in these situations please consult with the Corporate Accounting and Reporting group.

Capitalization Thresholds	
Category	**Dollar Threshold**
Transmission stations	$ 25,000
Transmission line sections	$ 25,000
Communication line sections, stations or systems	$ 10,000
Distributing stations or line sections	$ 5,000
Administrative or service buildings	$ 5,000
Minor fixed assets	$ 2,000
Software	$ 100,000

In certain cases, and only as stipulated, such as for Minor Fixed Assets, a number of assets that individually cost less than $2,000 may be purchased together at one location or pooled for capitalization. The entire cost of the purchase must be capitalized as a single asset. Examples of this are:

- Computer equipment/peripherals
- Office furniture and equipment
- Tools and miscellaneous service equipment
- Metering equipment

1.2 PP&E Recognition – Project Construction Including New Builds, Additions and Extensions,

If a project is eligible for capitalization based on the assessment carried out in Section 1.1, all expenditures coded to a capital project or group of capital projects must meet the criteria for capitalization. Any expenditure incurred which is directly attributable and necessary to bring the asset to the location and condition for its intended use may be capitalized under ASC 360-10-30. For Hydro One, directly attributable costs are defined as expenditures incurred by Hydro One that are directly related to a particular capital program or project such that if that project had not been undertaken, those costs would not have been incurred. For clarity, and to ensure consistency in the capitalization of costs enterprise-wide, the following identifies specific categories of costs that are eligible for capitalization and costs that are ineligible for capitalization.

1.2.1 Directly Attributable Costs Inclusions

Directly attributable costs include, but are not limited to:

1.2.1.1 Labour and Employee Benefits

Labour costs and benefits for those employees working directly on the construction or acquisition of the item of PP&E. Premium labour costs incurred in performing work during an emergency will be classified as capital or expense, based on the type of work being performed (replacement vs. repairs). Classification of employee costs as direct must be supported by timesheets. Effective January 1, 2018 only the current service cost of Pension and Post- Retirement Benefits are eligible for capitalization to PP&E.

1.2.1.2 Materials and Supplies

This includes the purchase price of materials and supplies including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. Note that for purposes of capitalization, materials and supplies consist of articles consumed during construction or an acquired asset that will form part of a completed project, but does not include office supplies or incidental items.

1.2.1.3 Other Related Costs

Ad valorem taxes (i.e. taxes based on the value of imported goods), inspection costs, insurance and transportation costs (i.e. costs of transporting workers, equipment and material and supplies used for construction purposes).

1.2.1.4 Special Machine and Heavy Work Equipment Service

The cost of labour, material, supplies and other costs incurred in maintaining and operating special machinery and heavy work equipment, and any amounts paid to others for rent, operation and maintenance of such equipment when used to construct capital assets.

1.2.1.5 Contract Work

Amounts paid for work performed under contract by other companies and individuals related to the approved scope of the project - except for those costs related to work described in Section 1.3.2.

1.2.1.6 Engineering Services and Professional Fees

Any amount paid to third parties including other companies, firms or individuals engaged by Hydro One to plan, design, prepare estimates, supervise, inspect or give general advice and assistance in connection with a project.

1.2.1.7 Rents

Amounts paid for the use of temporary housing and office space occupied by project management personnel and construction crews and other incremental rental costs such as equipment rentals incurred specifically in relation to a capital project. Rental costs incurred to accommodate staff temporarily relocated while their offices or facilities undergo renovations (i.e. swing space) should be charged to expense as the property is for Hydro One's own use and is not incremental and directly related to a project.

1.2.1.8 Project Management

Project management costs directly related to the construction activity.

1.2.1.9 Site Preparation

Costs of site preparation including costs incurred in disposing of excavated material (other than contaminated soil; see Section 1.3.2.7).

1.2.1.10 Permit and License Fees

Costs incurred to obtain the necessary permits or licenses from governmental and regulatory bodies related to the acquisition or construction of PP&E.

1.2.1.11 Costs of Testing

Costs incurred while testing whether the asset is functioning properly, after deducting any proceeds generated while bringing the asset to its intended use.

1.2.1.12 AIDC and AEDC

AIDC and AEDC on qualifying assets (refer to Section 1.3.3).

1.2.1.13 Plant Retirement Units (PRUs)

Replacements of asset components that qualify as PRUs are treated as capital transactions. The cost of the replacement component is capitalized, and the replaced component is retired. Any fixed asset removal costs for the replaced component are charged to depreciation expense on an as incurred basis, unless the disposal is included as an Asset Retirement Obligation (ARO). In such cases, the disposal cost is applied against the ARO provision

Expenditures to replace a component that is not a PRU, a component part of a PRU, or for the removal or relocation of a PRU, is expensed to current operations as incurred.

1.2.1.14 Insurance, Injuries and Damages

Insurance proceeds recovered or recoverable from premiums paid during construction, covering risks such as fire, willful destruction of PP&E, and, injuries to persons, damage to property of others and damage to plant incidental to construction shall be credited against the cost incurred as a result of the insured event.

1.2.1.15 Privileges

Compensation paid for the temporary use of public and private property in connection with a construction project.

1.2.1.16 Safety and Environmental Costs

Capital expenditures required to meet Hydro One's safety and environmental standards or conditions imposed as a stipulation of a permit may be capitalized when they contribute to assets with lives spanning more than one year. The following are some categories of environmental costs that may be capitalized and the method of capitalization for each:

- Environmental restoration costs required to bring the project into service may be capitalized, provided that these costs have not been previously provided for (e.g. preparing newly acquired land for construction).
- Costs associated with the development of post construction environmental monitoring and remediation plans that are necessary in order to satisfy regulatory and stakeholder requirements are capitalized. Environmental remediation work that is performed 2 years after the project has gone into service is considered maintenance work and therefore is expensed.

1.2.1.17 Development of Manuals

The initial development costs of manuals and operating procedures, including IT and operational manuals, are considered capital expenditures during the process of creating a capital asset, subject to the following:

All of the following criteria must be met for these costs to be eligible for capitalization:

- A new manual or set of operating procedures is created that is related to a new capital asset, or improvements to an asset treated as capital;
- The manuals/operating procedures are required for the provision of services or the maintenance of capital assets;
- There is the intention to use the new manuals/procedures on a continual basis; and
- There is no intention to sell the manuals/procedures in the ordinary course of business.

Costs incurred to update or revise manuals and operating procedures subsequent to their creation, including the costs of developing only portions of a manual or of revisions and additions to a manual, are expensed.

1.2.1.18 Representation Costs

Representation costs are defined as expenditures incurred in making a representation for the purpose of obtaining a license or permit relating to the capital project. For the costs to be eligible for capitalization, they must relate to representations to a government or government agency that has the authority to make rules, regulations or bylaws related to company operations. These costs would include the costs of preparing or processing applications, hearing costs and related legal costs.

1.2.1.19 Drawings

Drawing costs for projects are incurred for both design and documentation of projects. These are termed design drawings and as-built drawings, respectively. The cost of preparing initial drawings or of updating drawings to current standards is a necessary expenditure to construct the asset, and is accordingly capitalized through a direct charge to the project.

1.2.1.20 Land and Land Rights

Capitalized land costs include direct purchase costs, including legal and appraisal costs, fees, commissions, surveys, title search and registration, and clearance costs of unwanted buildings and structures (net of recoveries). Costs for initial clearing and land preparation costs specifically related to construction and installation of facilities are ultimately capitalized as part of the cost of fixed assets constructed on the land, rather than as cost of the land.

Capitalized land rights also include Hydro One's cost of acquiring finite or indefinite term rights, interests, easements and privileges in land owned by others.

1.2.1.21 Major Reserve Equipment

The cost of specific major reserve equipment purchased as power system operating spares shall be treated as if the equipment is placed in service at the time it is delivered to a storage site. In the case where the major reserve equipment requires certain activities to be completed in order for the asset to be in location and condition of its intended use, such assets shall be treated as in service at the later of completion of such activities or delivery to a storage site. The cost of major reserve equipment to be installed at a construction site shall be transferred to the project capital work order at the time the equipment is delivered to work site.

The cost of major equipment acquired for a future construction project shall be treated as future use assets, similar to other significant plant components.

1.2.1.22 Mobile Distribution Station Equipment

The service costs, including depreciation, rental, connection and disconnection, and moving costs of such mobile distribution equipment, shall be charged to the related capital project in cases where the equipment is used to maintain service to customers during extensive re-arrangements of Hydro One distribution stations.

The service costs of mobile equipment used for other purposes shall be charged to current operations.

1.2.1.23 Overhead-Related Costs

Overhead is capitalized as:

- Part of the standard rates:
  - Standard rates are developed by the organization and include all costs the organization incurs, including costs for direct and indirect employees. The indirect employees (overhead) include supervisors and support staff that provide support to the direct employees who execute the work program. The standard rates are the same for both capital and OM&A projects and the overheads are capitalized based on the direct employees' timesheets charged to capital work.
  - Payroll burdens (STIP, CPP and EI, pension, OPEB, stock-based compensation and other benefit related expenses) are included in the standard rate employee benefit cost for all direct and indirect employees. Only the current service cost portion of Pension and OPEB costs are eligible for capitalization to PP&E.
- Departmental charges (Common Costs):
  - These are costs not included in the G&A burden but are charged to the project and capitalized as part of the overhead capitalization process. Hydro One's capital program requires significant support from all areas of

the Company, including engineering, management, and administration and infrastructure resources. These resources support both capital and OM&A activities.

- Hydro One's methodology first screens allocated costs to determine whether or not they contribute to such assets. Certain expenditure types that are clearly not causally or beneficially linked to the acquisition of assets are removed from the overhead capitalization pool and disqualified from potential capitalization. This occurs as a first step in developing the capitalization rate. Secondly, if allocated shared costs can be associated with capital programs or projects, such costs are directly assigned to the pool of eligible capital expenditures even if they are not directly charged. Thirdly, a causality and benefit-based model is used to develop the capitalization rate. This rate is reviewed and validated by an external third party and is based on methodology that has been approved by the regulator. This rate is revisited throughout the year and adjusted as required to ensure that in-year variances are trued-up appropriately, as underlying factors change.

1.2.1.24 Spare Parts and Surplus Parts and Equipment

Spare parts are individual parts of a larger asset such as a transmission or distribution station that require periodic replacement over the life of the asset. They can be broken down into four separate categories: commissioning, operational, salvaged spares, and surplus parts and equipment.

1.2.1.24.1 Commissioning Spares

Commissioning spares are intended for use during the process of preparing the new facility for operational use and the cost of such spares is accordingly capitalized as part of the cost of new construction. These spares may be intended for replacement of equipment that has a possibility of being damaged, or to ensure that faulty equipment does not impact the start-up schedule. All costs for commissioning spares are legitimate project costs, and as such are capitalized.

1.2.1.24.2 Operational Spares

Operational spares are units of equipment that are deemed essential to the operation of the asset.

Determination of which equipment meets these criteria (i.e. specialized equipment, equipment with long lead times to order) is made through Operations' periodic review. Operational spares are capitalized and depreciated. Operational spares should be periodically evaluated to assess obsolescence.

1.2.1.24.3 Salvaged (Used) Spares

Salvaged spares are spares that have been previously used. The duration for which the item has been used is not relevant, only the fact that it was a part of operating (or operable) plant. When equipment of this type is removed from service, it is retired from PP&E and an equal amount is removed from accumulated depreciation. If it is removed temporarily for refurbishment, it remains capitalized as part of PP&E until it is sold or retired. When sold or retired, it is declared Surplus and retired via the Surplus Declaration. Additionally, some are decommissioned and put back in inventory at $1 because they can be redeployed at another location.

1.2.1.24.4 Surplus Parts and Equipment

Surplus parts and equipment are those that remain uninstalled after the completion of a project but have benefit of future use on other projects. They may be the result of a change in scope, a change in design, or ordering more parts and equipment than were utilized. The accounting treatment of surplus parts and equipment is dependent on whether the item is operating or capital in nature.

1.2.1.25 Transaction Costs for Asset Acquisitions

Costs incurred to facilitate transactions for asset acquisitions are capitalized in accordance with ASC 805-50-30-1.

1.2.1.26 Vegetation Management

Vegetation management work that is directly attributable and necessary to bring an item of PP&E into service may be capitalized. This is only for vegetation management work required for PP&E construction, acquisition and replacement.

1.2.1.27 Impact and Benefit Agreements (IBA)

An IBA is a formal contract outlining the impacts of the project, the commitment and responsibilities of both parties, and how the associated First Nation community will share in benefits of the operation through employment and economic development. The costs and benefits associated with the IBA may be eligible for capitalization, providing that there is regulatory approval to recover the costs from customers. Given the complex nature of IBAs please consult with the Corporate Accounting and Reporting Group.

1.2.2 Directly Attributable Cost Exclusions

Directly attributable cost exclusions are expensed and included, but are not limited, to:

1.2.2.1 General and Administrative Costs Not Directly Attributable to Capital Projects

General and administrative costs not directly attributable to capital projects are expensed as incurred. This would include items such as office support services, human resources, IT, accounting and legal and executive costs, which are not chargeable to a capital project. For clarity, general and administrative costs may only be capitalized in accordance with Section 1.3.1.23.

1.2.2.2 Initial Operating Losses

Losses incurred during the period after the asset is available and in the condition necessary for its intended use, but before it reaches its commercial operation date, are recognized in net income in the period they are incurred.

1.2.2.3 Costs of Training Employees or Consultants

Training costs are expensed as incurred, subject to Section 1.3.1.17.

1.2.2.4 Start-up Costs and Expenditures for Commencing New Operations

Start-up costs such as advertising, organization costs, including governmental charges and legal and professional fees relating to acquiring or establishing a corporate charter or other form of legal organization are expensed under ASC 720-15-25-1.

1.2.2.5 Business Process Re-engineering Costs per ASC 720-45-25-1

See discussion in Section 1.7.2.5 Information Technology and Internal-Use Software.

1.2.2.6 Charitable Donations and/or Sponsorships Paid to Support a Project

These costs are a goodwill gesture or community investment and accordingly should be expensed as incurred. In certain rare instances community investment contributions may be eligible for capitalization; in these instances, please consult with the Corporate Accounting and Reporting Group to ensure appropriate treatment.

1.2.2.7 Contaminated Soils Cleanup

The costs incurred to clean up contaminated soils encountered during demolition and deactivation activities are not considered capital. These costs should be expensed as incurred, or if an environmental provision has been setup for this land, the costs should be charged against this provision.

1.2.2.8 Equipment Tagging and Data

Equipment tagging uses a Hydro One-specific label that is attached to each identifiable piece of equipment. This serves the function of a serial number, whereby information on that piece of equipment can be pulled up and reviewed by Operations for maintenance purposes. Equipment data is the actual vendor-specific information entered into the maintenance management system.

If the equipment tagging is performed as part of a capital project, the costs are eligible for capitalization, otherwise these costs are viewed as ongoing record management for maintenance of the capital assets, and the costs are expensed.

1.2.2.9 Pension and Post-Retirement & Post-Employment Benefits

Only the service cost component is eligible for capitalization where applicable.

1.2.3 Allowance for Funds Used During Construction (AFUDC)

1.2.3.1 AIDC

Interest may be capitalized on capital projects if they meet the general criteria for capitalization set out in Section 1.1. As per ASC 835-20-25-3, the capitalization period begins when all three of the following conditions are present:

- Expenditures for the asset have been made;
- Activities that are necessary to get the asset ready for its intended use are in progress; and
- Interest cost is being incurred

Interest capitalization continues as long as these conditions are present. Interest capitalization ceases if Hydro One suspends substantially all activities related to the acquisition or construction of the asset until such activities are resumed, subject to the conditions in Section 1.8.3. However, brief interruptions in construction activities, interruptions that are externally imposed, and delays that are inherent in the asset acquisition or construction process do not require cessation of interest capitalization. There may be unique circumstances whereby an externally imposed interruption may result in the cessation of interest capitalization, as directed by the regulator – these are evaluated on a case-by-case basis.

Interest is capitalized as follows:

- The interest cost capitalized is based on the actual weighted average effective rate of all of the entity's outstanding debt that is applicable in the period where such costs are capitalized. Such capitalized interest costs are added to major property, plant and equipment or intangible asset expenditures included in construction in progress (i.e. assets under construction).
- When specific debt is issued to finance a particular capital project or program, the interest cost to be capitalized shall be the actual effective interest cost related to that specific debt.
- Capitalization of interest costs will cease once the asset is declared in-service or ready for service (Exception - see policy for "Cancelled Capital Projects and Capital Projects with Rescheduled In-Service Dates").
- If the rate regulator specifies an AFUDC be capitalized in place of interest cost, the AFUDC is capitalized at the regulator's approved rate.

1.2.3.2 AEDC

For entities that satisfy the criteria for rate-regulated accounting under ASC 980, an AEDC may be capitalized to PP&E during construction under ASC 980-835-30-1 if permitted or required by a regulator. For guidance on capitalizing the cost of equity, refer to the Regulated Operations policy (SP0783 Accounting for the Effects of Certain Types of Regulation).

1.2.4 Dismantlement and Removal Costs

1.2.4.1 Asset Retirement Obligations (ARO)

An ARO is only provided for assets with a legal obligation related to asset retirement and for which a settlement date or range of settlement dates for the liability can be determined with sufficient accuracy to permit a reasonable estimate of the fair value of the ARO to be made.

For assets with an ARO, the present value of the initial estimate of the cost of dismantling and removing the capital item(s) and restoring the site on which it is located is capitalized as part of PP&E. This obligation is recorded by Hydro One when the item is constructed or acquired. The capitalized amount is adjusted for changes in the estimated ARO liability under ASC 410-20-35-8. Dismantlement costs are charged against the ARO liability when incurred. The calculation to estimate the cost of dismantling and restoration costs is dealt with specifically in ASC 410-20: *Asset Retirement Obligations.*

1.2.5 Accounting for the Receipt of Liquidated Damages

Liquidated damages are made to compensate a party to a contract for the failure of another party to the contract to perform as promised. Cash received as liquidated damages in situations where a project has not been completed or a milestone has not been met by the scheduled date should be accounted for as a reduction of the cost of the project. Such receipts do not represent revenue as no activities were performed in order to earn revenue. Instead, they represent compensation for delays in project completion and are properly accounted for as reductions of capital costs, since they effectively reduce the cost of the project to the entity.

However, if liquidated damages are received subsequent to the in-service date for a project resulting from a triggering event that is not related to the construction or installation of a project, such as the operational performance of equipment falling below the level guaranteed by the supplier, the liquidated damages paid should be recorded as revenue.

1.3 PP&E Recognition – Improvements or Replacements of Existing Assets

The basic principle in determining whether to capitalize or expense is that expenditures which are expected to result in an extension of the useful life or an increase in the efficiency or functionality of an asset are capitalized, whereas expenditures which serve to maintain the asset's useful life or service potential are considered maintenance and charged to expense.

Expenditures that are expected to result in an extension of an asset's useful life or an increase in its functionality are broadly categorized as improvements and replacements as defined below.

Improvements

Improvement means an alteration to or a change in the structural design of an item of PP&E that results in increased service life or efficiency from its original state at the time of installation. Service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, associated operating costs are lowered, the useful life of the asset is extended, or the quality of output is improved. Since the improvement results in future benefit, improvements are capitalized.

Replacements

Replacements (only applies if a PRU) are substitutions of a part or unit of property with a new part or unit of property. Costs of replacements of existing property are accounted for as follows:

Generally, the carrying amount of items replaced is retired and charged to gain/loss on disposition and the cost of the replacement is capitalized. In cases where the cost of an individual asset that forms part of a larger group of similar assets is not tracked separately, the carrying amount of the asset to be replaced may be reasonably estimated.

Where PP&E is depreciated on a Group Method basis, the gross cost of the replaced asset is reversed from PP&E and accumulated depreciation. A pro-rata allocation or other method may be used to estimate the carrying amount of the retired asset when the group method is used.

1.3.1 Inspections

Costs incurred for the maintenance of the service potential of an item of PP&E constitute repairs and not improvements. Accordingly, the following inspection costs are expensed as incurred:

- Assessment activities (internal investigation costs) related to locating transmission or distribution system defects via inspections, fault monitoring, etc.
- The costs of preparing plans to develop and implement transmission and distribution system integrity management programs, identify high consequence areas and record keeping.

1.3.2 Overhauls

A major overhaul is an improvement of an item of PP&E when it is expected to extend (as opposed to maintain) the useful life or enhance the service potential of the asset.

These programs may have been initiated as a result of issues identified during inspection programs conducted across Hydro One and include scheduled major overhauls for tanks, compressors and pumps (for diesel generating assets). The cost of such a major overhaul is capitalized and amortized over the period until the next scheduled major overhaul in accordance with ASC 908-360-35-6, at which time any remaining balance of the overhaul costs would be expensed, unless group depreciation is applied, in which case the cost would be recorded to accumulated depreciation. The cost of the new overhaul would be capitalized.

Examples of costs included in the amount capitalized for a major overhaul include:

- Internal and external labour costs directly attributable to a major overhaul of a specific asset.
- Internal and external material costs attributable to the overhaul, such as replacement parts, valves and fittings, recoating and relining.

1.3.3 Refurbishment and Periodic Single Repairs

Refurbishment

Refurbishment work is capital in nature and involves either the replacement of components representing a PRU or a betterment of an asset.

System Investment reviews assets in service to ensure key components are operational and in good working order, based on a Technical/Financial evaluation prepared by the System Investment Planner. The results of this evaluation will determine whether or not the asset should be repaired (expensed) or refurbished (expensed or capitalized based on nature of the work). See Refurbishment Decision Tree for more details.

Periodic Single Repairs

Assessment activities (internal investigation costs) related to locating defects and areas requiring remediation are maintenance items and are expensed as incurred.

Periodic single repairs that are not associated with a refurbishment project should be expensed because they are performed to maintain, as opposed to extend the useful life of the asset.

1.3.4 Spill Cleanup and Environmental Remediation Costs

Expenditures incurred because of equipment failure and subsequent oil spill are charged to expense as incurred or to the environmental provision (if the asset in question has been provided for), as these expenditures do not generate any future economic benefits to Hydro One. Costs incurred in relation to environmental remediation related to a spill (past or present) are also expensed or charged to the provision (as applicable). However, an exception to this general rule may be made where equipment is replaced because of a spill. In that case, the cost of the replacement (provided that the asset components qualify as a PRU) is capitalized and the replaced asset is retired in accordance with the relevant provisions in this policy. If group depreciation is applicable, the replaced asset will be retired at the acquisition cost and net book value will remain in the asset group as part of accumulated depreciation. Any cleanup and remediation costs would be expensed

as incurred.

1.4 PP&E Recognition - Other

1.4.1 Contributions in Aid of Construction (CIAC)

Fixed assets funded, in whole or in part, by customers or other external parties are capitalized at gross cost to Hydro One. Any contributions received from external parties should be recorded in capital accounts as a specific asset contra account (i.e. credit account) offsetting the gross asset cost.

Contributions made by Hydro One to other regulated businesses (whether related or not) shall be capitalized as an intangible asset if they meet the definition of an asset. If in doubt, such cases should be referred to the Corporate Accounting and Reporting Group for guidance given the high degree of accounting judgment to be applied in determining whether or not asset recognition criteria are met.

1.4.2 Assets Not Owned by Hydro One

Expenditures made by Hydro One on assets not ultimately owned by Hydro One, but meet the definition of an asset through the continued provision of future economic benefits, shall be capitalized provided there is assurance that the asset's future economic benefits will continue to accrue to Hydro One (i.e. asset can be included in rate base).

1.4.3 Emergency Restoration

An event that qualifies as an emergency is defined in Network Management Business Process Document - Reporting of Customer Notifications, Health & Safety and Environmental Incidents ("BPD-7002-R32.2"). Sections 3.3 and 4.3 of BPD-7002-R32.2 outline the criteria for Levels 1, 2 and 3 emergencies for Transmission and Distribution respectively.

There is an underlying assumption that all costs incurred in an emergency restoration are primarily efforts to rebuild or replace damaged assets as a result of levels 1, 2, or 3 emergencies. Collectively, these are referred to as storm restoration costs and are capitalized in accordance with this policy (section 1.2). The rationale for capitalization is that the rebuilding or replacement of assets results in a betterment in the form of an extension to the useful life of the asset.

Costs incurred to repair a damaged asset to its original state are treated as OM&A, which is consistent with the treatment in normal course of business. Costs associated with activities that may be carried out at the same time as storm restoration to achieve efficiencies but that do not directly relate to the emergency should not be treated as part of storm restoration costs and must be assessed on their own merit.

1.4.4 Trouble Calls

Trouble calls are expenditures made by Hydro One on emergency restoration of power that is not classified as either a Level 1, 2 or 3 emergency as per sections 3.3 and 4.3 of BPD-7002-R32.2. The costs associated with this work are treated as either capital or OM&A, depending on the nature. Costs would be capitalized if assets are replaced or bettered (old assets to be retired). Costs would be expensed if assets are repaired or if the nature of the work is maintenance.

1.5 Measurement at Recognition

Capitalized costs are initially recorded at cost, which is measured as the fair value of the consideration paid at the acquisition date.

1.5.1 Deferred Payment for Asset

Where payment is deferred for an asset beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is recognized in the carrying amount of the item in accordance with ASC 835-20-05-1.

1.5.2 Transfers of Assets Between Hydro One Entities

Under ASC 805-50-30-5, transfers of assets between entities under common control are recorded at the carrying amount of the asset in the records of the selling entity, unless another basis of accounting is stipulated by a regulator. Any difference between carrying value and consideration paid is recorded to equity.

1.6 Information Technology Hardware and Internal Use of Software

The Information Technology category includes both hardware and software purchases, as well as internally developed software, which is defined as software developed, acquired or modified by Hydro One to meet its own internal requirements, as opposed to software purchased from a third-party vendor.

1.6.1 Hardware Purchases

Hardware purchases and the associated implementation costs are considered capital.

1.6.2 Software Purchases

1.6.2.1 Third Party Purchases

Software purchases from a third party are considered capital. The first-year license costs are normally capitalized as part of the project.

License Fees for internal-use software paid at the inception of the license agreement shall be capitalized as an intangible asset. Software licensing fees that are not paid on or before the acquisition date of the license can be included as the cost of acquiring the intangible asset, with a liability set up to recognize the future payment obligation per ASC 350-40-25-17. Prior to setting up of a liability to recognize future obligation, guidance and approval should be sought from Corporate Finance.

1.6.2.2 Cloud Computing Arrangement

ASC 350-40 provides guidance to customers about whether a CCA includes a software license[1]. Examples of CCAs include software as a service (SaaS), platform as a service (PaaS), infrastructure as a service (IaaS) and other hosting arrangements.

A hosting arrangement contains a software license when the following two criteria are met:

a) The customer has the contractual right to take possession of the software at any time during the CCA period without significant penalty[2]; and

b) It is feasible for the customer to run the software on its own hardware (or to contract with another party to host the software.

If a CCA includes a software license related to internal-use software, then the software license is accounted for as an intangible asset separate from any service contract in the hosting arrangement. Cost from activities relating to developing and acquiring the software license may be capitalized as part of the software (intangible asset). Per ASC 350-40-25-17, the present value of paid and unpaid license fees on and before the acquisition date can be capitalized as an intangible asset. A liability must be recorded for the unpaid portion to recognize the obligation.

If a CCA does not include a software license, the software is part of the arrangement and should be accounted for as a service contract, which means that the fees associated with the hosting service are expensed to OM&A as incurred. Subscription fees paid upfront for subsequent years are to be recorded as a prepaid expense and amortized over the duration of the agreement to OM&A.

CCAs often incur upfront costs to implement a solution. Implementation costs of a hosting arrangement that is a service contract, generally include the following activities:

- Interfacing: Development of a new interface between old and new software
- Configuration: Changing default settings of the vendor's environment
- Customization: Modifying the existing software code or writing new code to change or create additional functionalities
- Testing: Determining whether the asset is functioning as intended
- Training
- Data conversion and migration: Conversion of old data to the new system
- Business process re-engineering: Changes to the Company's internal processes

[1] Effective January 1, 2016

[2] Interpretation of "significant penalty" as provided by the guidance is the ability to take delivery of the underlying software without significant cost and to use that software separately without a significant reduction in value would indicate there is not a significant penalty

The nature of the implementation activity and the project stage during which the costs are incurred affect the accounting treatment. Implementation costs of a hosting arrangement incurred during the Preliminary Project Stage and Post Implementation/Operation Stage are expensed to OM&A as incurred. Implementation costs incurred during the Application Development Stage are treated as follows:

Implementation Activities	Accounting Treatment
Interfacing, Configuration, Customization, and Testing	Cost is deferred and recorded as an asset on the balance sheet under Prepaid Expenses, and expensed over the term of the hosting arrangement[3].
Training, Data conversion and migration, and Business process re-engineering	Expensed as incurred.

Some implementation activities may create independent internal-use software or PP&E assets. In those cases, the entity should follow US GAAP applicable for the type of asset created per ASC 350-40 or ASC 360.

1.6.2.3 Internally Developed Software

Internal use software is acquired, internally developed or modified solely to meet the entity's internal needs. In addition, no substantive plan exists to market the software externally.

Internally developed software projects are subject to the most evaluation, as individual tasks undertaken within these projects must be classified as either capital or expense in nature. Guidance for the accounting treatment for these projects is outlined in ASC 350-40.

In some cases, the purchase price of third-party software includes multiple elements, such as training, maintenance fees for routine maintenance performed by the vendor, and rights to future upgrades or enhancements. In these cases, the cost of the software must be allocated to the individual elements of the contract based on objective evidence of the relative fair values of the different elements in the contract, which is not necessarily the same as the separate prices stated in the contract for each element.

Software projects frequently impact associated business processes, and as a part of the implementation, business processes are often evaluated and reworked. These re-engineering costs are not capital in nature, and are expensed as period costs as required by ASC 720-45-25-1 (see Section 1.7.2.5).

The following describes the typical stages of project development and provides guidance on accounting for the costs incurred during each stage:

[3] The term of the hosting arrangement is the non-cancellable plus the period covering (1) option to extend the arrangement if the customer is reasonably certain to exercise that option; (2) option to terminate arrangement if the customer is reasonably certain not to exercise the termination option; and (3) option to extend or not to terminate the arrangement in which exercise the option is in the control of the vendor.

1.6.2.3.1 Preliminary Project Stage

All expenditures incurred at this stage are expensed per ASC 350-40-25-1. Additionally, costs of consultants and Hydro One internal staff (i.e., payroll and labour burden) are charged to expense during this stage. Project activities undertaken at this stage include:

- Current state assessment: This is where strategic decisions are made in order to allocate resources between alternative projects at a given point in time.
- Preliminary design activities: High-level information gathering to determine software and system requirements. Performance requirements and system requirements for the project are analyzed.
- Vendor demonstrations: Vendors are invited to perform demonstrations of how their software will fulfill Hydro One's needs. At this stage, Hydro One can explore alternative means of achieving specified performance requirements.
- Determining what technology is needed in order to achieve performance requirements, and if it exists.
- Selection of vendors and/or consultants: Selection of vendors if Hydro One chooses to obtain software or selection of consultants to assist in the development or installation of the software. Expenditures incurred at this stage may include costs of preparing a Request for Proposal ("RFP"), vendor analysis, procurement of hardware and software, and salary and benefit costs of staff involved in these activities.

1.6.2.3.2 Application Development Stage

This stage commences when Management with the relevant authority authorizes and commits to funding the defined project, and it is probable that the project will be completed and the software will be used to perform the function intended. Internal and external costs incurred to develop internally developed software during the application development stage are accounted for as follows according to the guidance set out in ASC 350-40-25-2 to 25-5:

Costs that are normally capitalized include:

- Costs to purchase software.
- External direct costs of materials and services consumed in developing or obtaining internal use software, such as fees paid to third parties to develop software and travel expenses incurred by employees directly involved in software development.
- Payroll and labour burden costs including benefits, human resources and IT-related components applied to the salary costs of employees who work on developing or obtaining software to the extent their time is spent working directly on the project. Examples would be detailed design of IT applications, coding, programming and testing costs related to the "build" phase and testing of data conversion software.
- Costs to develop or obtain software that allows for access or conversion of old data by new systems.
- Interest costs incurred while developing internal use computer software. These costs are capitalized in accordance with the provisions of ASC 835-20.

Costs incurred in this stage that are considered expenses include:

- Data conversion (other than software costs as discussed above). The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new/additional data, and conversion of old data to the new system.
- Training costs are not a capital activity and consequently are expensed as a period cost in the appropriate cost center. This would include travel costs for the trainer and end-user to attend training courses, the value of their time spent while training, the cost of developing training courses and the cost of the facilities and equipment used for training. The cost of the initial development of training materials is eligible for capitalization in accordance with Section 1.3.1.17.
- Software maintenance and unspecified upgrade agreements are frequently entered into at the time of initial purchase but should not be considered part of the capital cost of the project. These costs are expensed in the period in which they are incurred. Agreements that provide support in future fiscal years should be treated as a prepaid expense, which is amortized to expense over the term of the agreement.
- Costs incurred after the point at which a computer software project is complete and ready for its intended use (i.e., after all substantial testing is complete) are expensed.
- General and administrative and overhead costs, such as office services, finance and accounting, legal, and executive and similar costs are charged to expense as required by ASC 350-40-30-3, subject to Section 1.3.1.23 Overhead Related Costs, which allows for a portion of overhead costs to be capitalized.

1.6.2.3.3 Post Implementation/Operation Stage

Internal and external training and maintenance costs are expensed as incurred per ASC 350-40-25-6.

1.6.2.4 Upgrades and Enhancements

The cost of upgrades and enhancements to existing internally developed software may be capitalized in accordance with the guidance specified in the application development stage above if it is probable that those expenditures will result in additional functionality under ASC 350-40-25-7. These modifications must enable the software to perform tasks that it was previously incapable of performing in order to be eligible for capitalization. Upgrades and enhancements normally require new software specifications and may require a change to all or part of the existing software specifications (which would result in the original software being retired.)

Internal costs related to upgrades or enhancements may only be capitalized to the extent allowable under the rules applicable to the application development stage outlined above. If internal costs cannot be segregated on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements, those costs shall be expensed.

External costs incurred under agreements related to specified upgrades and enhancements shall be expensed or capitalized in accordance with the guidance applicable to each of the three project stages as set out above.

If maintenance is combined with specified upgrades and enhancements in a single contract, the cost must be allocated between the elements as discussed under the guidance applicable to software agreements containing multiple elements set out above. In these cases, the maintenance costs are expensed over the contract period.

1.6.2.5 Business Process Reengineering

ASC 720-45-25-1 specifies that the costs of business process reengineering activities, whether performed internally or by third parties, are to be expensed as incurred. Costs related to the business process reengineering component of a project to acquire, develop, or implement internally developed software (see discussion under Information Technology Hardware and Internal Use Software above) or the acquisition of property and equipment are expensed.

Business process reengineering costs that are expensed include:

- Preparation of a request for proposal.
- Current state assessment - the process of documenting the entity's current business processes. This activity is sometimes called mapping, developing an as-is baseline, flow charting, and determining current business process structure.
- Process reengineering - the effort to reengineer business processes to increase efficiency and effectiveness.
- Restructuring the workforce - the effort to determine what employee composition is necessary to operate the reengineered business processes.

1.6.2.6 Agile Project Development

Under agile project development, software development is undertaken as an iterative process during which software is created, and versions are released to production on a continuous basis. As a result, certain activities that would take place during the preliminary project phase, such as analysis and planning, are incorporated into each iterative step in the development life cycle. Consequently, it is necessary to categorize the costs incurred during the iterations into the three project phases utilized in ASC 350-40-25 in order to determine the costs which may be capitalized.

Activities consisting of analysis, preliminary design and determination of system and software requirements should be expensed as set out above. The costs that may be capitalized under agile development are those that pertain to the software build phase that involves the actual creation of software and includes such tasks as detailed design coding, and testing. Costs incurred which are related to activities that are expected to be carried out continuously over the life of a project, such as correcting software bugs, should be considered maintenance and charged to expense.

1.7 Cessation of Capitalization

Recognition of capital costs for a project ceases (including the capitalization of interest, discussed in Section 1.3.3.1) when substantially all construction, acquisition or development are completed and the project is in the location and condition necessary for it to be operating in the manner intended, which is generally attained at the in-service date of the capital project (i.e. the asset is used and useful). If declaration of in-service has been delayed by external factors outside management's control, capitalization of carrying charges shall continue until the externally imposed delay has been resolved. For multiple phase projects, each identifiable phase capable of functioning independently will cease capitalization when it is ready for its intended use.

For large capital projects that involve a significant cost and time to complete, a phased in approach to capitalization may be appropriate. If the phases are discrete in nature, whereby the completion of one phase results in an asset that can operate in the manner intended by management, exclusive of the completion of the next phase, the cessation of capitalization and commencement of depreciation can be assessed by phase, such that each phase has a distinct in-service date. Typically, these large capital projects are planned and constructed in phases and the related business case reflects

the distinct phases and related costs (in which case there may not be a need to allocate costs as this is already reflected in the business case). There are instances where a capital project was planned to go into service all at once, however due to circumstances it is now to be in-serviced in phases.

In the event that there is a change in how a capital project is to be in-serviced (i.e. moving from in-servicing all at once to a phased approach or from one phased approach to another phased approach) the allocation of costs to each phase and asset(s) should be reasonably distributed such that the cost assigned follows cost causation. Cost causation means that there is a causal relationship between the basis used to allocate a cost, and the cost that has been incurred. The chosen allocation method should be reasonable, defensible and transparent such that there is a basis for understanding the incurrence of the cost and its relationship to the asset. There may be different ways of appropriately allocating costs, and no one method fits all. Some common examples of cost allocation methods are included in Appendix 5.2 for illustrative purposes. Capitalization of subsequent phases should reflect the methodology that is most reasonable and transparent at that time.

1.7.1 In-Service Date

The date on which an asset is considered ready for its intended purpose is often referred to as the placed-in-service date (In-service date). The intended purpose of an asset is typically determined at inception of the project in the planning phase and approved by management.

For accounting purposes, the in-service date is important because it is the point in time at which the Company begins to record depreciation expense and ceases capitalizing any further costs (including interest) with the exception of trailing costs (see Section 1.8.2).

There is no formal accounting guidance under US GAAP on how to determine the appropriate in-service date. Hydro One's policy follows customary regulatory industry practice whereby the in-service date is when an asset is declared to be "used and useful". This is the point at which all activities, including testing and commissioning of the asset have been completed and customers (ratepayers) start to benefit from the use of that asset. The concept of being "used and useful" should be reviewed on a case-by-case basis. An asset is declared to be "used and useful" and in-serviced when the intended purpose of the asset has been fully met. As such, the decision to in-service an asset is based on meeting the "used and useful" criteria and is not discretionary.

It is very important to clearly define and understand Management's intention with respect to the use of the asset as determined upon the approval of the project. Management's intention with respect to the use of the asset is a key determinant in when an asset can be declared in-service. As such, when an asset is evaluated for in-service, sufficient support must be available to illustrate that the asset has fully met Management's intended use. Please refer to Appendix 5 for some examples that demonstrate how to determine the appropriate in-service date for various scenarios.

Where there is uncertainty in determining the appropriate in-service date of an asset or component of a project, please refer to the in-service checklist in Appendix 5.1. A completed checklist can be submitted to the Corporate Accounting and Reporting group for review and further guidance. Included as well in Appendix 5.1 are links to the appropriate in-service packages to be used by the Line-of-Business when in-servicing assets. In order to be in compliance with the Capitalization policy, the 'Approval Form' worksheet must be completed, and for any partial in-servicing the 'Partial ISA Checklist' worksheet must also be completed.

1.7.2 Trailing Costs

Hydro One undertakes large capital projects that may incur costs for several years after the asset has gone into service. Some of these expenditures may be necessary for successful completion of the project and should be capitalized as part of the cost of the asset. For example, in order to obtain rights of way, Hydro One agrees to do post construction environmental work on disturbed lands as deemed necessary after the asset is in operation (i.e. beautification). Additionally, the timing of certain tasks necessary to complete a project may be dependent on factors such as outages, weather or the availability of contractors or equipment.

Accordingly, expenditures incurred after a project has gone into service may be capitalized as part of the overall project costs if the project could not go into service (typically due to regulatory, permitting or contractual requirements) without incurring those costs. In circumstances where Hydro One has a contractual obligation to incur, for example, cleanup costs arising from the project subsequent to the in-service date of a project, the costs should be reasonably estimated and accrued to the project costs at the project completion date and a corresponding obligation should be set up as well. Situations involving long-term capital expenditure commitments or unusual circumstances may need to be assessed on a case-by-case basis. An example would be the use of temporary roads when constructing transmission lines. Hydro One incurs the cost of building the roads (capital) and would also have to incur the cost of removing the temporary roads subsequent to the completion of the project.

1.7.3 Cancelled Capital Projects

Carrying charges shall be charged to current operations during the period (when such period is expected to last at least 6 months) when substantially all construction, acquisition or development activities related to a project are suspended (i.e. "tools are put down").

EXCEPTIONS

- Carrying charges shall continue to be capitalized when the suspension of work is due to external factors beyond the control of management, provided that a reasonable expectation of completion remains;
- In cases where the OEB orders a specific regulatory treatment for carrying charges, Corporate Finance will be asked to review or determine the appropriate accounting treatment to be used to conform to the order of the regulator and to GAAP.

1.7.4 Suspension of Activities

When the construction, acquisition or development activities related to a project are suspended and there is no longer a reasonable expectation of completion, all project costs shall be written off to current period results of operations (i.e. OM&A).

EXCEPTION

- Capitalized project costs with residual value or use to other existing or probable future capital projects may be transferred to those project accounts if those costs are reasonably related to those projects, qualify as assets under GAAP, and are expected to be recoverable in rates. Prior to any such transfer, advice and approval should be sought from Corporate Finance.

1.8 Depreciation

1.8.1 Major Fixed Assets

1.8.1.1 General Requirements

The straight-line method shall be used to depreciate or amortize all classes of major property, plant and equipment and intangible assets. The depreciation system used by Hydro One and its subsidiaries is the straight-line method, vintage group procedure, and the remaining life technique.

Depreciation rates are periodically reviewed by an external independent fixed asset actuary and changes in depreciation rates are reflected for accounting purposes prospectively, consistent with their inclusion in electricity rates. Regulatory approval may also be required for such changes.

In certain special cases as directed by the regulator it may be appropriate for a specific asset or group of assets to be depreciated over a period that differs from that used for the rest of the group of like assets. A deviation from the standard depreciation rates recommended by the external advisor must be justified and explicitly approved by the Corporate Accounting and Reporting Group.

Future asset removal costs and site restoration costs that are required by law or regulation may result in recognition of an ARO. AROs are accounted for in conformance with US GAAP ASC-410 “Asset Retirement and Environmental Obligations.” See section 1.3.4.1 for further information. All other asset removal and site restoration costs are charged to current operations as incurred and such costs are disclosed as an element of depreciation expense.

1.8.1.2 Retirements of Property, Plant and Equipment and Intangible Assets

All retirements of major property, plant and equipment and intangible assets (with the exception of those arising from sales) will be recorded as "normal" retirements unless a specific exception is made by the Corporate Accounting and Reporting Group. For all assets that follow group depreciation, there is no gain or loss on retirement, rather the cost of the asset is removed from PP&E and Accumulated Depreciation. All asset retirements must be reported to Fixed Asset Accounting in Finance Business Services Group.

1.8.2 Minor Fixed Assets

1.8.2.1 General Requirements

A straight-line amortization method (remaining service life technique) shall be used to amortize the carrying value of all classes of minor fixed assets.

Under this method, the acquisition cost of acquired assets within each major category of minor assets is capitalized annually as a single pool. Additions to the pool shall be made net of any sales proceeds received for disposals of assets from that pool in the year.

1.8.2.2 Exception

Transport and work equipment (T&WE) shall continue to be depreciated using the declining balance method so that the book value of these assets most closely approximates the consumption of service potential and more closely aligns with expected resale market value of the used equipment upon disposal. Gains and losses on sales of T&WE are recorded based on a comparison of actual net proceeds to the carrying amount.

1.8.3 Land and Land Associated Assets

1.8.3.1 General Requirements

Depreciation shall not be applied to the purchase price and acquisition costs of owned land used for stations (transformer and distribution), transmission and distribution lines, and administration and service buildings classes of capital.

Easements, rights of way, and associated assets shall be depreciated using either the group depreciation rate applicable to the asset class or an appropriate rate based on the term of the agreement.

2.0 Definitions

This part provides key definitions for applicable items from the authoritative guidance and the company.

Allowance for Funds Used During Construction (AFUDC)	AFUDC represents an allowance for financing costs attributable to the construction or acquisition of a rate-regulated capital asset. The allowance, which must be approved by the rate regulator, mandates a cost of financing that is capitalized as an integral cost of the asset.
Asset	Economic resources controlled by an enterprise with three essential characteristics: (1) they embody future economic benefits; (2) the enterprise can control access to the benefits, and (3) the transaction giving rise to the future economic benefits has already occurred.
Betterment	Expenditure made to enhance the service potential of a capital asset beyond its original specification. This can be accomplished by an increase in service life, an increase in output, a reduction in operating costs, etc. A betterment does not exist unless the original expectations of service potential are exceeded. Potential betterments shall be referred to Corporate Accounting and Reporting for accounting concurrence.
Capital Asset	Tangible or intangible assets meeting all three of the following criteria: (1) held for the production or supply of goods or services, for rental, for administrative purposes, or for the development, construction, maintenance or repair of other capital assets; (2) acquired, constructed or developed with the intention of being used on a continuing basis; and (3) not intended for resale in the usual course of business.
Carrying Amount	The amount of an item as displayed in the financial statements. In the case of PP&E, it is the net book value (i.e., gross cost less accumulated depreciation).
Carrying Charges	Carrying charges are recurring costs associated with the possession or ownership of property. They include such costs as interest, utilities, security, insurance, payments in lieu of property taxes, and storage costs.
Commissioning (or Testing)	The need for commissioning or testing work can occur whenever an asset is constructed or extensively modified. Commissioning work includes pre-start checks and inspections, start-up of equipment and systems, functional tests, identification and resolution of problems, and bringing the unit up to full capacity with an acceptable operating reliability. The commissioning or testing period for an asset unit normally starts prior to the end of construction and continues to the in-service date.
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the lime of its acquisition or construction.

Depreciable Amount	The gross cost of the asset reduced by its estimated salvage value.
Depreciation	The systematic and rational allocation of the depreciable amount of an asset over its estimated useful life.
Directly Attributable Costs	Incremental costs incurred by Hydro One that are linked to its capital program such that if the capital program ceased, those costs would not have been incurred. Includes applicable overhead (see Section 1.3.1 above).
Fair Value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Financing Costs (or Interest)	Financing costs are interest costs over time that are directly or indirectly attributable to expenditures made on a capital project or program.
Future economic benefits	Future economic benefits are generally evidenced by an increase in net cash inflows. Increased revenues, reduced operating costs, or some combination of the two can give rise to such benefits.
Future Use Asset	An asset is a future use asset when it is acquired for future use in either a capital or OM&A project. Financing costs are not capitalized on future use assets. Nor are they depreciated or amortized. Major capital spare parts and certain lands make up the majority of this asset class.
Group Method of Depreciation	A method of depreciation where similar assets with comparable useful lives are grouped and depreciated as a pool. When those assets are retired or otherwise disposed of, gains and losses are not reflected in earnings, but are booked as an adjustment to accumulated depreciation.
Hosting Arrangement (Cloud Computing Arrangement)	In connection with accessing and using software products, an arrangement in which the customer of the software does not currently have possession of the software; rather, the customer accesses and uses the software on an as-needed basis.
In-service Asset	An asset is declared in-service when it is in the location and condition to meet the use that management intended by constructing, developing or acquiring the asset. In a regulatory context, the asset must also meet the test of being "used and useful" to be included in rate base. Generally, this point is evidenced by the commencement of the asset's contribution of net service benefits to customers and net economic benefits to the enterprise. Capitalization of financing costs ceases at the in-service date and depreciation or amortization commences.
In-Service Date	The date on which a project is considered to be complete and ready to begin operating as intended by the project's sponsor.

Intangible asset	An intangible asset is an identifiable non-monetary asset without physical substance. Examples include most types of computer applications software and contributions provided to other rate regulated entities and included in the contributor's rate base.
Major Property, Plant and Equipment and Intangible Assets	Major property, plant and equipment and intangible assets comprise power system facilities for transmission, transformation and distribution, communications, remote electrical generation, and administrative and service assets.
Maintenance	The ongoing cost of keeping a capital asset in good operating condition
Material	The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.
Materiality Limit	For the purposes of classifying expenditures as either capital additions or OM&A, Corporate Finance maintains specific quantitative limits to guide decision-making. Expenditures in excess of these pre-set limits, and which meet the criteria to be considered capital assets, are capitalized. All other expenditures are charged to current operations as incurred. Dollar materiality limits are not used in classifying asset component replacements as capital or OM&A (see PRUs).
Minor Fixed Assets	Generally low value capital assets (including T&WE) that are generally portable and which generally contribute indirect service potential to the corporation. Minor fixed assets do not include computer software.
Normal Retirement	Under group depreciation practice, short living assets are expected to be offset by those that should survive past the group average. To reflect this, when an asset is normally retired, its original capital cost is retired from the balance sheet and an equal amount of accumulated depreciation is similarly retired. As such, no loss is recorded upon the retirement of the asset.
Plant Retirement Units (PRUs)	The smallest unit of capital asset that will result in a capital replacement transaction being recorded in the accounts. When an asset component that is a PRU is replaced, the old PRU is retired and the new one is capitalized. The cost of replacement components that are not PRUs is expensed and no retirement transaction is recorded.

Program	A specific body of work where the type of work is repetitive and recurs year-over-year. The extent of the work executed in any particular year, may change from year to year depending on its ranking in the prioritized Programs and the overall availability of funds. Alternative approaches do not exist to achieve the objective. An example of a Program would be Pole Replacements.
Project	A specific body of work that is a one-time event that occurs during a specific time period. This period may cover more than one fiscal year. Alternative approaches can be taken to achieve the objective and there is a greater level of risk. An example of a Project would be refurbishment of a Transmission Station.
Project Development Costs (or 'Pre-engineering Costs')	Costs incurred during the early planning and approval phases of a capital project, prior to detailed design and construction. Such costs are expensed as incurred.
Ready for Service Asset	An asset is ready for service when construction activity has ceased and the asset is capable of providing net economic benefits but it is constrained in some manner from making this contribution. Capitalization of financing costs ceases when the asset becomes ready for service and when an in-service declaration is deferred by management. Capitalization of financing costs continues when the asset becomes ready for service but an in-service declaration is delayed by external factors. Depreciation or amortization does not commence until the asset is actually in-service.
Repair	The cost of corrective action required to return a capital asset to its former good operating condition.
Replacement	The act of replacing one capital asset, asset component or PRU with another.
Recoverable Amount	Current worth of the net amount of cash expected to be recoverable from the use or sale of an asset.
Residual Value	The estimated fair value of an asset at the end of its useful life to the entity, less any disposal costs.
Temporary Operating Plant	Plant constructed specifically to provide or to maintain service to customers and which will eventually be replaced or made unnecessary by permanent facilities. Temporary plant is built to provide immediate relief to the operating system until permanent facilities are warranted or otherwise made available.
Temporary Facility	A facility built, used, and dismantled during the progress of a Hydro One capital construction project. A temporary facility is required to assist construction or extensive re-arrangements to operating plant. An example is a temporary sub-station or a temporary road.

Useful Life	The period over which an asset is expected to contribute directly or indirectly to future cash flows.

3.0 References

Applicable US GAAP

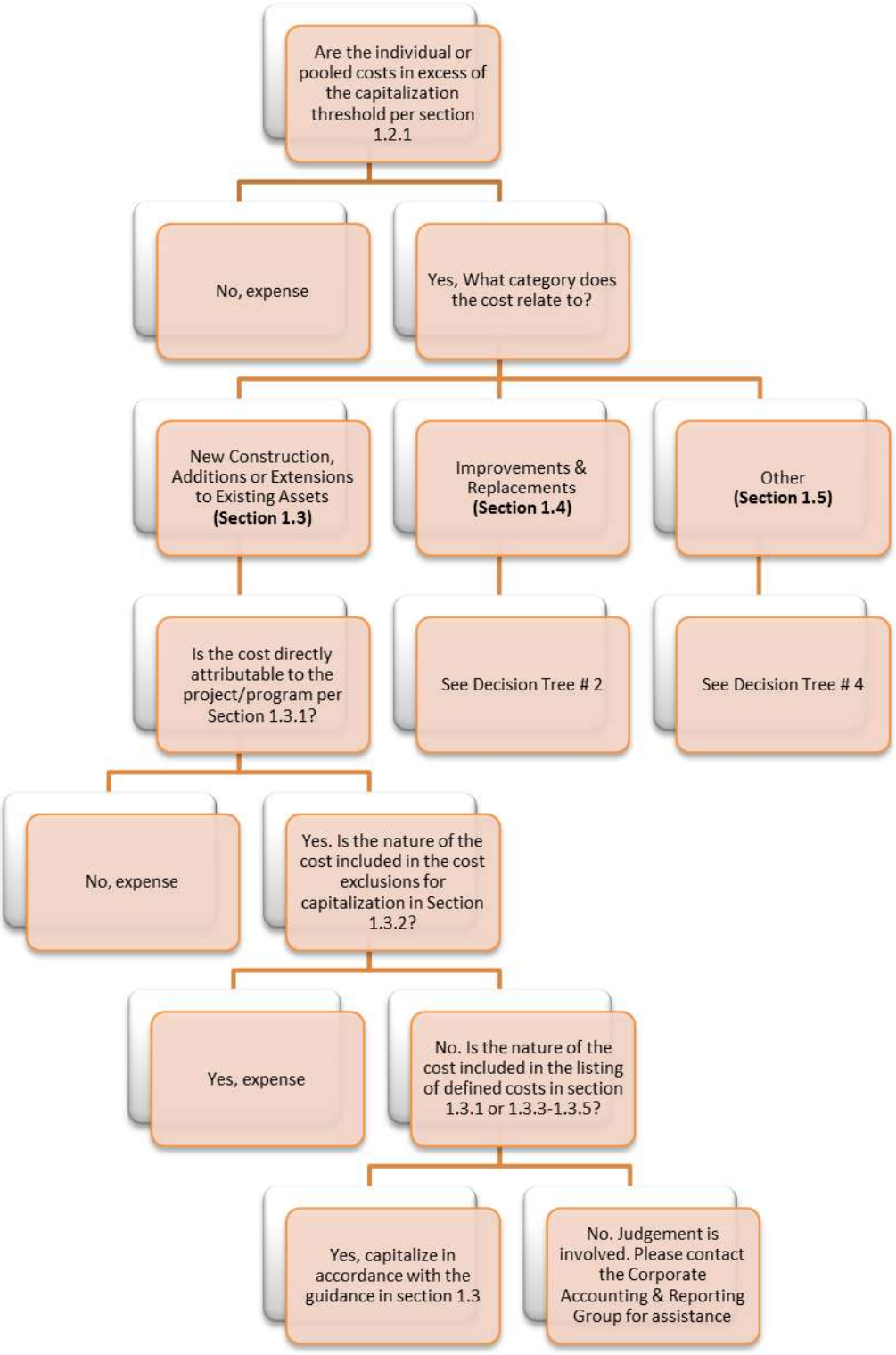
ASC 340 Other Assets and Deferred Costs
ASC 350 Intangibles- Goodwill and other
ASC 360 Property Plant & Equipment
ASC 410 Asset Retirement and Environmental Obligations
ASC 720 Other Expenses
ASC 805 Business Combinations
ASC 835 Interest
ASC 845 Nonmonetary Transactions
ASC 908 Airlines
ASC 970 Real Estate - General
ASC 980 Regulated Operations

4.0 Document Management

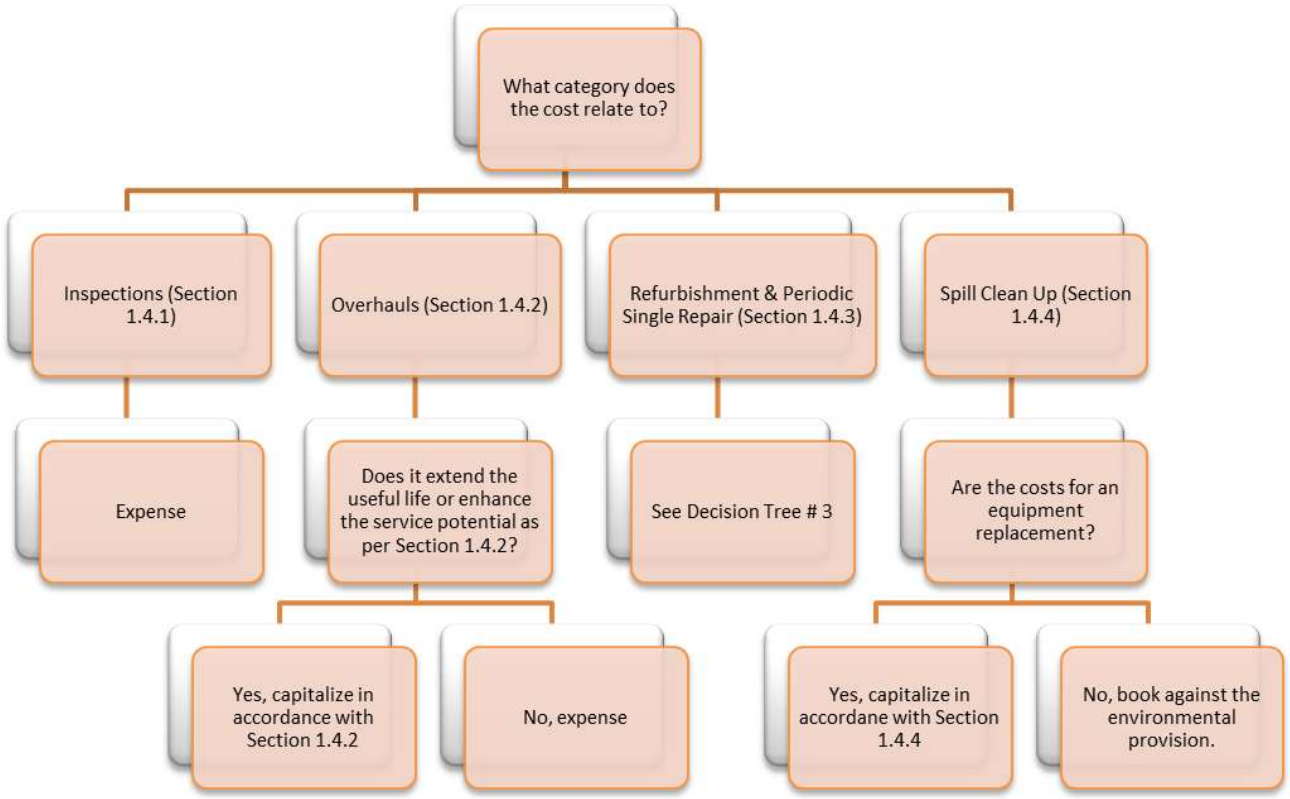
Owner/Functional Responsibility	Director, Corporate Accounting and Reporting
Approver	VP, Corporate Controller
Approval Date	February 2026
Effective Date	February 2026
Last Reviewed Date	February 2026
Next Review Date	December 2027

5.0 Appendices

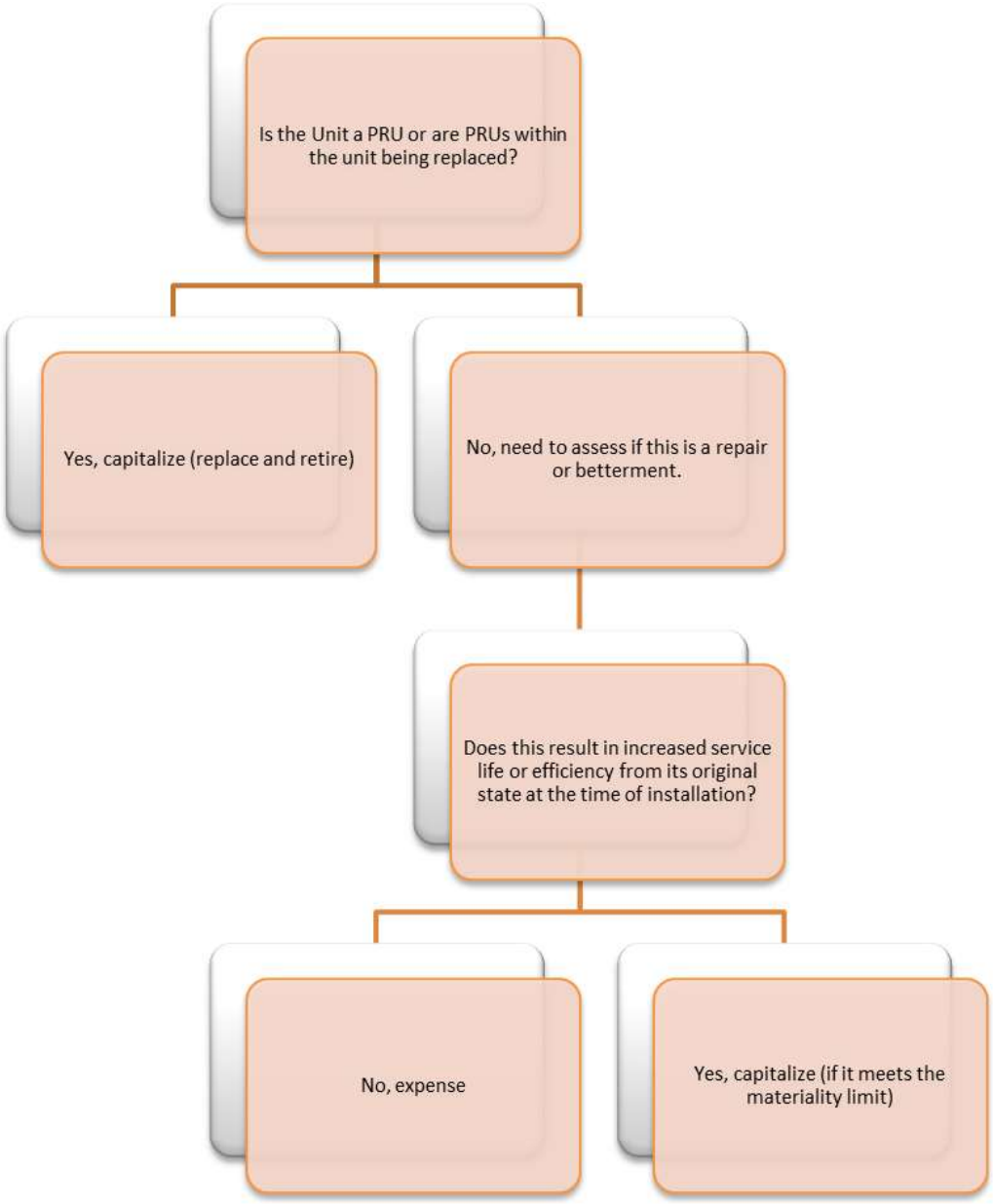
Appendix 1: Decision Tree for Capitalization



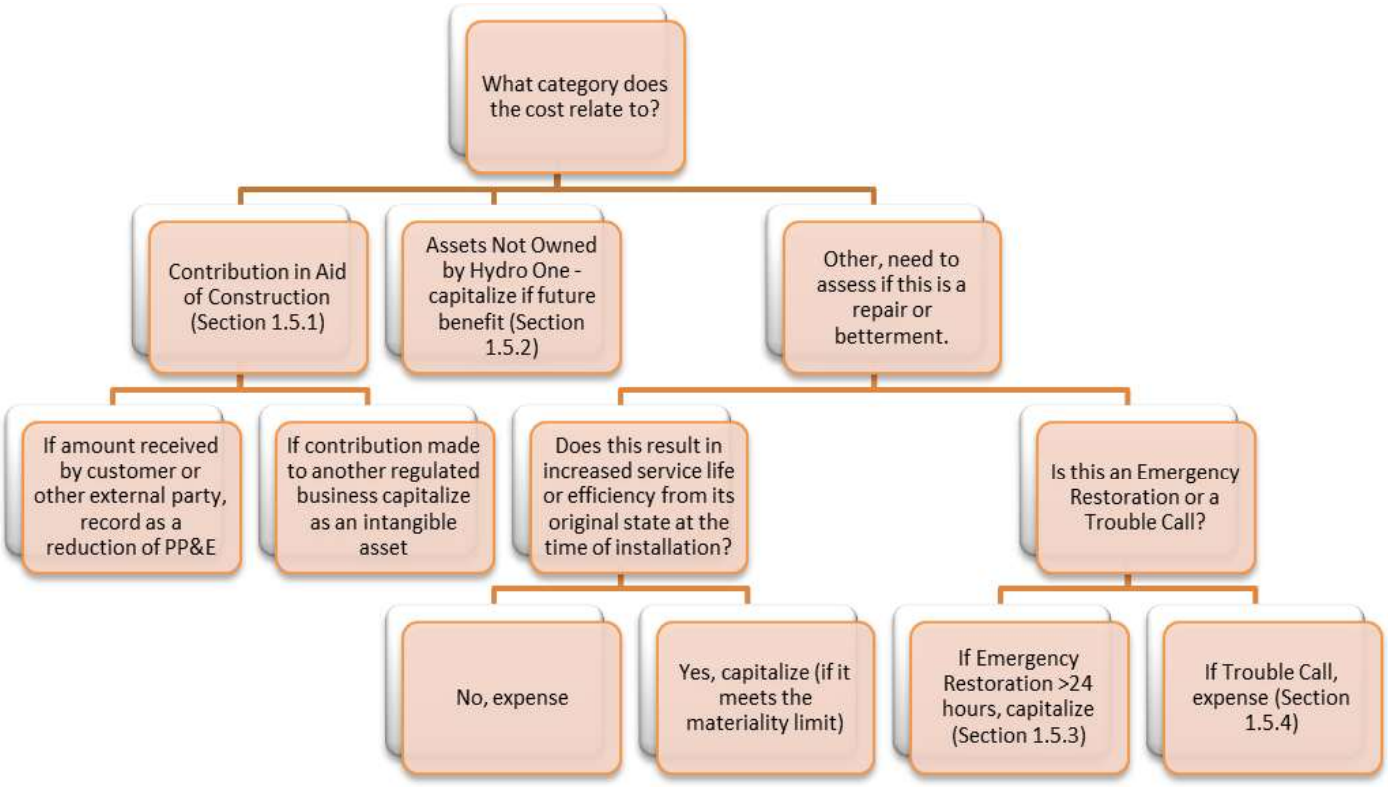
Appendix 2: Decision Tree for Improvements or Replacements of Existing Assets



Appendix 3: Decision Tree for Refurbishment and Periodic Single Repairs



Appendix 4: Decision Tree for Capitalization of Other Expenditures



Appendix 5: Examples - Determining the Appropriate In-Service Date

Example 1: Construction completion date vs. In-service date

Scenario 1: A distribution station is built to replace an old distribution station that has reached its end-of-life. Customers connected to the old distribution station will be migrated to the new distribution station to continue to be served.

The construction of the distribution station has been completed, but due to weather conditions, customers cannot be migrated to the new distribution station until the following year and therefore, the distribution station has not been energized.

Analysis: The new distribution station cannot be in-serviced at the point in time that construction is complete as it has not met the criteria of being "used and useful". Although the construction is completed, Management's intention was to replace the old distribution station and connect and serve customers through the new distribution station. Given that no customers are connected to the new distribution station, it would be deemed to not have met the conditions of being "used and useful".

Example 2: In-service dates for multiple deliverables within a project

Scenario 2: A new transmission station, which consists of multiple assets, is to be built and subsequently placed in-service. Management's intention upon approval of the project is to service customers by connecting them to the station assets. Due to unforeseen delays in the project, construction of certain assets has been completed and while there are other assets that remain under construction.

Analysis: Similar to Example 1, although the construction of some of the assets within the project is completed, the "used and useful" criteria needs to be assessed to determine if the completed assets qualify to be in-serviced. Given that management's intention is to connect and serve customers, the following questions should be considered:

- Has management's intention with respect to the use of the assets been met? For example, will any customers be connected and served as a result of the completed assets?
    - If the completed assets are able to connect and serve customers as Management intended, the criteria to in-service these assets may be met.
- Are all testing and commissioning activities of the assets completed? Is the full commissioning of these assets dependent on the remaining assets that are still under construction? For example, all of the assets must operate together in order to achieve their intended purpose.
    - If the completed assets can operate as Management intended without the completion of the remaining assets, the criteria to in-service may be met for the completed assets.

Scenario 2.1: In addition to Scenario 2 described above, assume that *all* construction related to one of two transformers in the station has been completed with the remaining transformer to be completed during the following year.

Analysis: Management's intention is to connect and serve existing and new customers. In order for the completed transformer to satisfy Management's intended use, all construction work, including *all* testing and commissioning of the transformer, should be completed. Additionally, the transformer would need to be energized and connected to customers.

Once the transformer is placed in-service, any further costs incurred in relation to this transformer cannot be treated as capital. The rationale is that only work incurred to get the asset ready to be used and useful can be capitalized. As such, it is crucial to ensure that all work necessary to get the asset to the point of being used and useful is completed. Work incurred after the in-service date would be expensed with the exception of trailing costs (see Section 1.8.2).

Scenario 2.2: In addition to Scenario 2.1 described above, assume that the testing and commissioning of the completed transformer must occur with the testing and commissioning of the second uncompleted transformer.

Analysis: In this scenario, Management's intended use is not met as the testing and commissioning of the completed transformer is not complete and therefore customers cannot be connected. This scenario would be similar to Example 1.

Example 3: In-service of Software

Scenario 3: A new software is to be implemented for all users of Hydro One enterprise wide. However, the software will first only be available to a select group of users. These users may test the software or assist in planning and executing the full enterprise roll out to minimize issues. After all testing has been completed, the software will be rolled out to all users of Hydro One.

Analysis: Management's intended use of the software was to implement the software to all users of Hydro One (enterprise-wide). When the initial select group of users are using the software, the purpose of their use is to either test for any issues that can be mitigated prior to the full roll out or to educate the plan for the full roll-out of the software. At this point, the software has not met the used and useful criteria as potentially the testing of the software has not been completed and not all users are using the software as management had intended. As such, the software can be in-serviced only when it has been fully rolled out to the enterprise and perform all functions intended by Management.

Appendix 5.1: In-Service Packages and Checklist

For the purpose of in-servicing assets, please use one of the following packages corresponding to the Line-of-Business:

- For projects managed by Capital Project Delivery and Station Services, please use: https://hydroone.sharepoint.com/sites/HODS/HODS/info/documents/graphics/sp0777ac.xlsx
- For projects managed by Distribution, please use: https://hydroone.sharepoint.com/sites/HODS/HODS/info/documents/graphics/sp0777ab.xlsx
- For projects managed by Digital Transformation Solutions, please use: https://hydroone.sharepoint.com/sites/HODS/HODS/info/documents/graphics/sp0777aa.xlsx

Please note for policy compliance purpose, the **'Approval Form'** worksheet must be completed for all in-service additions, and the **'Partial** ISA **Checklist'** worksheet must also be completed for any partial in-service additions. All other worksheets in the package are for project reference only and the Line-of-Business has the flexibility to add/remove project specific worksheets as required.

Appendix 5.2 Partial In Service – Cost Allocation

Scenario - Two transformers at the same transmission station are at end of life and require replacement. All construction, testing and commissioning has been completed and the first transformer fulfills management's intention with respect for the use of the asset, with the remaining transformer to be completed during the following year. Assume that the transformers are the same type and the circumstances of their build are not significantly different. The transformers are constructed simultaneously.

Method 1 – Costs incurred to date

The project has estimated costs of $22M and has incurred $14.6M in costs so far. Dividing the costs of $14.6M into total estimated costs of $22M, gives a percentage of completion of 66%. Under this method, 66% of the total project costs is recognized.

Method 2 – Units completed

In the scenario above, it may be more appropriate to allocate based on units completed. Because one out of the two transformers has been completed, 50% or $11M of the project costs can be recognized.

Method 3 – Labour hours

The project will take approximately three years. Total estimated labour hours are 100,000 over the course of the project. The labour estimates for the first three years are as follows:

Total estimated labor hours: 100,000

- Labour hours for year one: 30,000
- Labour hours for year two: 50,000
- Labour hours for year three: 20,000

The first transformer is completed at the end of year two. To determine the percentage of completion, divide labour hours incurred to date by total estimated labor hours, which is 80% (30,000 + 50,000 = 80,000/100,000). Multiply the total estimated costs to be capitalized by the percentage of completion, which is $22 million multiplied by 80%, or $17.6 million.

Recommended method: If the costs incurred to date include planning and other costs related to the build of the second transformer, the application of method 1 will cause some of the costs for transformer 2 to be in serviced with transformer 1. This is the same with method 3, where the allocation by labour will cause some of the costs relating to transformer 2 to be in serviced with transformer 1. The recommended approach would be to apply method 2 for the in service of the first transformer since it would be reasonable and defensible to assume that constructing the same asset would yield similar costs.

COSTING OF WORK

1.0 OVERVIEW

Hydro One Transmission, Hydro One Sault Ste. Marie LP (HOSSM) and Distribution capital work is bundled into packages of work identified as programs or projects. Programs are recurring investments characterized by largely similar work while projects are typically one-time investments that include unique combinations of elements related to the work to be executed and site conditions. Program and project costs are comprised primarily of labour, equipment and purchased materials. This Exhibit as well as Exhibit C-09-02 (Costing of Work: Labour Rate), Exhibit C-09-03 (Costing of Work: Fleet Rate), Exhibit C-09-04 (Costing of Work: Materials Surcharge) detail each of these three cost activities, and how the costs are allocated across programs and projects. The costing approach is consistent with the requirements of US Generally Accepted Accounting Principles (US GAAP).

Hydro One categorizes its costs into two major classifications: Common Corporate Costs (discussed in Exhibit E-04-08) and direct costs. The focus of this Exhibit is to describe the allocation of direct costs to programs and projects.

Direct costs are charged to work orders as the cost is incurred, and includes labour (comprised of salaries, benefits and pension costs), materials, fleet and supply chain costs. Labour costs are calculated as a product of actual time multiplied by the standard labour rate. Material costs are charged directly to the program or project. Fleet costs are charged using a fleet rate. Supply chain costs are charged via a material surcharge. The labour rate, fleet rate and material surcharge are described in detail in Exhibits C-09-02 to C-09-04.

2.0 OTHER PROGRAM AND PROJECT COSTS

Capital work also receives a monthly charge for its share of interest and overhead costs. The composition of these two cost categories and the annual calculation are explained in Exhibit C-08-01 (Interest Capitalized) and Exhibit C-08-02 (Overhead Capitalization Rate).

3.0 STANDARD RATES

Hydro One uses standard rates as a method to assign costs to work program. Standard Rates are further discussed in Exhibits C-09-02 to C-09-04.

COSTING OF WORK – LABOUR RATE

1.0 LABOUR RATE

Labour costs for Hydro One's work execution functions are distributed directly to benefiting programs and projects by using timesheets, consistent with common industry practice. Standard hourly labour rates are used to allocate costs to Hydro One's work programs and projects. This Exhibit outlines Hydro One's methodology in deriving the labour rate and provides an example of a typical rate and its components. The methodology for costing of work applies to both Transmission[1] and Distribution.

The labour rate is fully loaded to ensure that all associated support costs required to deploy resources and equipment are accurately distributed. Hydro One's workforce planning and employee compensation strategies are discussed in Exhibit E-06-01 and E-06-02 which outline the total costs of compensation estimated in the Hydro One Transmission and Distribution forecast, including, but not limited to, the components of payroll obligations such as base pay, overtime, burdens, pension and OPEB and other costs like short-term incentive payments for management staff.

On an annual basis, the standard labour rates are derived based on information gathered through the annual budgeting process. The total estimated payroll and expense costs along with an assignment of support activity costs is divided by the forecast of billable hours to create the standard labour rate for each role across the Distribution and Transmission businesses. Table 1 below shows an example of the composition of a standard labour rate for one category, the Regional Maintainer Electrical Stations – Regular Staff over the 2023-2032 period.

[1] Includes Hydro One Sault Ste. Marie LP (HOSSM)

Table 1 - Standard Hourly Labour Rate Composition

Regional Maintainer Electrical (Stations) - Regular Staff ($ per hour)

	Historical				Bridge	Test				
	2023 Actual	**2024 Actual**	**2025 Actual**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**2030 Forecast**	**2031 Forecast**	**2032 Forecast**
Payroll Obligations	90	92	97	102	105	108	111	114	117	120
Contractual time away from work	10	10	10	11	11	11	12	12	12	13
Time not directly benefiting a specific Program or Project	11	11	12	13	13	13	14	14	15	15
Field Supervision and Technical Support	21	22	23	24	25	26	26	27	28	28
Support Activities	17	17	18	19	20	21	21	22	22	23
Hourly Rate	**149**	**152**	**160**	**169**	**174**	**179**	**184**	**189**	**194**	**199**

The cost elements embedded in the standard labour rate as illustrated in Table 1 above are explained in this Exhibit, using the position of Regional Maintainer Electrical Stations – Regular Staff and its 2028 cost composition, as an example. Over the test period, an average escalation of $5 per hour is assumed which encompasses the estimated wage increase and inflation increase on other costs. When new collective agreements are reached, planning assumptions are adjusted.

1.1 PAYROLL OBLIGATIONS ($108)

A brief description of the cost elements included in this position category is provided below. Hydro One's compensation, wages and benefits costs are more fully explained in Exhibit E-06-01.

a) Base Labour and Payroll Allowances (67% of Payroll Obligations)

Base pay is contractually negotiated and reflected in wage schedules. Payroll allowances are also contractually negotiated and stated in collective agreements. Regular staff (e.g., PWU) is entitled to travel, footwear, and on-call allowances. Casual trades are entitled to board and travel allowances where circumstances require it.

b) Company Benefits (24% of Payroll Obligations)

For regular staff, this is comprised of pension and current and post-employment benefits and health, dental, etc. For non-regular staff (for example, casual trades), this is comprised of pension and welfare contributions made on behalf of the non-regular employee.

c) Government Obligations (9% of Payroll Obligations)

This consists of Canada Pension Plan, Employment Insurance, Employee Health Tax and Workplace Safety and Insurance Board contributions.

1.2 CONTRACTUAL TIME AWAY FROM WORK ($11)

This category consists primarily of employee vacation and statutory holidays, and all are established and identified in the relevant collective agreements. Sickness and accident costs are also included and are based on historical trends.

1.3 TIME NOT DIRECTLY BENEFITING A SPECIFIC PROGRAM OR PROJECT ($13)

This category includes time for attendance of safety meetings, housekeeping and downtime often created due to inclement weather. These estimates are based primarily on historical trends.

1.4 FIELD SUPERVISION AND TECHNICAL SUPPORT ($26)

This category includes the costs associated with field trades supervision and other management and technical staff providing support services to manage and monitor the status of the assigned programs and projects.

1.5 SUPPORT ACTIVITIES ($21)

a) Administrative Expenses and Support (74% of Support Activities)

These costs include administrative expenses such as travel costs, cell-phones and other miscellaneous expenses that cannot be specifically attributed to a particular program or project. Also included is an assignment of costs for clerical

support activities and other centralized support to facilitate work management system requirements.

b) Workforce Acquisition Support (1% of Support Activities)

These are costs to coordinate the casual trades staffing levels across the company, to ensure each line of business can maintain operational efficiency, and achieve their work program goals. Costs are assigned based on the forecast consumption of these services as agreed to by the Workforce Acquisition group and the service recipient.

c) Health and Safety Support (25% of Support Activities)

These are costs to design, develop, update, maintain and deliver health and safety practices primarily for staff working in field locations. Costs are assigned based on the forecast consumption of these services as agreed to by the Health and Safety function and the service recipient.

COSTING OF WORK: FLEET AND AVIATION RATE

1.0 OVERVIEW: FLEET AND AVIATION SERVICES COSTS

This Exhibit describes the fleet hourly equipment rates and the aviation rates that Hydro One uses to allocate the cost of Fleet Services and Aviation Services to the Distribution and Transmission lines of business.

This section provides an overview of Hydro One's Fleet Services and Aviation Services costs and notable historical trends in these costs. Section 2 summarizes the process by which the hourly fleet and aviation rates are calculated. Section 3 summarizes the cost components that comprise the rates.

Hydro One owns approximately 8,000 Transport and Work Equipment (TWE) assets, 1,000 small off-road equipment assets and 10 helicopters to support the Company's various work programs. These assets are used for both Distribution and Transmission work and are strategically located across Hydro One's service territory.

When work programs temporarily increase, Hydro One satisfies the increased demand for fleet equipment by redeploying existing equipment, renting equipment, or acquiring new assets, as appropriate. To prudently manage costs, Hydro One tries to satisfy demand increases through redeployment of existing fleet assets prior to renting or purchasing additional equipment (refer to GSP Section 4.2.2 for additional details).

Table 1 provides total expenditures for each component of the hourly fleet rate for the historical, bridge and test years for Fleet Services.

Table 1 - Fleet Services ($M)[1]

Description	Historical				Bridge	Test
	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast
Operations and Repairs	100.6	110.8	112.0	122.8	128.5	131.3
Fuel Costs	34.2	33.0	29.3	32.2	34.8	34.9
Depreciation	40.4	44.0	44.4	43.7	46.1	48.1
Subtotal	**175.1**	**187.8**	**185.6**	**198.7**	**209.4**	**214.3**
Rentals	6.1	6.1	3.5	1.0	1.0	1.0
Totals	**181.2**	**193.8**	**189.2**	**199.7**	**210.4**	**215.3**

Fleet Services expenditures increased by 7% in 2024 relative to 2023 due to higher operations and repair costs resulting from increases in external labour rates and parts costs. This increase was partially offset by lower fuel prices in 2024.

The 2% reduction from 2024 to 2025 was driven by a decrease in rentals and fuel costs as Hydro One optimized its fleet size after the COVID-19 pandemic. During the pandemic, additional rentals were acquired to support physical distancing and safer working conditions for employees.

For 2026 through to 2027, the increases are primarily due to inflation which is forecasted to impact fuel costs and operations and repairs, including external labour rates and parts costs. There are also forecasted increases in depreciation, partially offset by the cost savings realized in 2025 from fleet optimization. Depreciation costs are expected to increase for 2026 onwards due to the replacement of older, fully depreciated equipment with new asset acquisitions included in the equipment replacement strategy (refer to GSP Section 4.10.2 for additional details). In addition, ongoing global market uncertainty creates a risk of fuel supply disruptions and price volatility, which may require Hydro One to implement measures to manage the associated impacts.

[1] Figures presented in the tables may not sum to the totals shown due to rounding.

In 2028, the increase in operations and repair costs is labour associated with the additional mechanics to support the Growth Investment Plan, detailed in GSP Section 4.11, G-GP-01, which is partially offset by anticipated savings from the modernization and consolidation of Fleet telematics systems. The improvements are expected to enhance Hydro One's operational efficiency through advanced technology and reporting capabilities. For more information on the telematics system, please refer to GSP Section 4.2.2.2.

Table 2 provides total expenditures for each component of the hourly fleet rate for the historical, bridge and test years for Aviation Services.

Table 2 - Aviation Services ($M)[2]

Description	Historical				Bridge	Test
	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast
Operations and Repairs	8.1	9.5	9.1	10.5	10.8	11.2
Fuel Costs	1.3	1.2	1.2	1.3	1.3	1.4
Depreciation	3.0	2.5	0.8	3.1	3.2	2.7
Subtotal	**12.5**	**13.2**	**11.1**	**14.7**	**15.1**	**14.9**
Rentals	0.0	0.0	0.0	0.0	0.0	0.0
Totals	**12.5**	**13.2**	**11.1**	**14.9**	**15.3**	**15.2**

There is a 16% decrease from 2024 to 2025 due to a reduction in depreciation as the result of a helicopter sale. The forecasted increase in 2026 is primarily due to an increase in depreciation costs as a result of new helicopter purchases (refer to GSP Section 4.11, G-GP-02 Section 2.1 for additional details).

2.0 CALCULATING FLEET AND AVIATION RATES

This section summarizes the process that Hydro One uses to calculate an hourly fleet rate for each class of fleet asset.

[2] Figures presented in the tables may not sum to the totals shown due to rounding.

Hydro One's fleet assets consist of 17 classes of equipment (not including helicopters, which have their own rate, as discussed below). The Company calculates an hourly fleet rate for each class of equipment. The lines of business will charge the hourly use of the equipment against work programs and projects by using these hourly fleet rates. The resulting costs are recorded on timesheets for each work program or project.

Each rate is calculated by dividing the annual forecast cost of each component by the annual forecast utilization hours[3] of the applicable equipment class (i.e., the hours the equipment is expected to operate). Utilization hours are forecasted based on a review of historical trends and an annual review of the upcoming work program. As an example, Table 3 illustrates the composition of the hourly fleet rate for a Radial Boom Derrick, which is a line maintenance truck and one of the common classes of equipment used by Hydro One.

Table 3 - Radial Boom Derrick Hourly Fleet Rate ($ per hour)[4]

Description	Historical				Bridge	Test
	2023	2024	2025	2026	2027	2028
Operations and Repairs	37.5	63.3	69.5	73.3	59.8	59.8
Fuel Costs	17.6	13.8	11.9	10.0	11.0	11.0
Depreciation	15.9	15.9	16.1	14.2	27.3	27.3
Hourly Rate	**71.0**	**93.0**	**97.5**	**97.5**	**98.0**	**98.0**

The rate increase shown in Table 3 from 2023 to 2024 was due to an increase in operational costs associated with major repairs that needed to be conducted on the aging radial boom derrick fleet. In 2027, there is an increase in depreciation and reduction in operating and repair costs due to the purchase of new units.

[3] Utilization hours are defined as the hours the equipment is allocated to the work program or project.
[4] Figures presented in the tables may not sum to the totals shown due to rounding.

The hourly rates for aviation (Aviation Rates) are calculated using a similar process but with discrete cost components for aircraft, pilot costs and Remotely Piloted Aircraft System (RPAS). The Aviation Rates consist of five unique rates: Aircraft Hourly Rate and pilot cost, as well as three RPAS rates. Similarly, RPAS rates are broken down by third-party costs, Hydro One Coordinator rate, and Hydro One Person in Charge (PIC) rate. As an example, Table 3 illustrates the composition of the Aircraft Hourly Rate.

Table 4 - Aircraft Hourly Rate ($ per hour)

Description	Historical				Bridge	Test
	2023	2024	2025	2026	2027	2028
Operations and Repairs	1,792	1,375	1,460	1,721	1,801	1,876
Fuel Costs	301	362	395	356	370	384
Depreciation	490	669	750	860	903	742
Hourly Rate	**2,583**	**2,405**	**2,605**	**2,937**	**3,074**	**3,002**

3.0 FLEET AND AVIATION RATE COMPONENTS

This section describes the cost components that make up the hourly fleet rates and aviation rates.

3.1 OPERATIONS AND REPAIRS

For Fleet Services, Operations and Repair costs are the largest single cost component for fleet assets. This cost component primarily consists of repair costs (external and internal labour and parts). It also includes operational costs associated with fleet assets, as described below. Forecast Operations and Repairs costs are based on the annual maintenance schedules for each piece of equipment, with consideration given to age and performance history. Throughout the year, repair costs are charged directly to each piece of equipment. Operations costs also include administration staff and their allocated share of central service support costs, as explained in this Exhibit, Section 3.1.1 (Fleet Management Services) and 3.1.2 (Fleet Management System).

For Aviation Services, Operations and Repair costs include the maintenance and operation of the aircraft based on maintenance schedules determined by the aircraft manufacturer and Transport Canada. Maintenance schedules follow both calendar and use requirements; some inspections must be completed on a calendar basis regardless of aircraft usage and others are completed based on hours flown since previous inspection or overhaul. Major components and calendar inspections such as the 12-year overhaul are capitalized.

In addition, Hydro One employs RPAS, also known as drones, as an asset management tool to survey both Transmission and Distribution infrastructure. RPAS will be used for line patrols, aerial inspection, vegetation management programs, storm damage assessment as well as specific asset inspection tasks such as insulator and pole mount transformer inspections as detailed in TSP Section 2.2.5 and GSP Section 4.11, G-GP-08.

3.1.1 FLEET MANAGEMENT SERVICES

The Fleet Management Services function provides essential fleet services that include maintenance, administration, vehicle replacement and disposal. Fleet Management Services also helps ensure that environmental impacts are minimized and lines of business operate efficiently by minimizing downtime and travel time, and by optimizing new technologies, such as electric and hybrid components and vehicles.

For Aviation Services, these costs include maintenance and overhaul programs, and the provision of all staff and pilots. Aviation Services provides the Company's lines of business with dedicated resources for moving personnel and material and for supporting both transmission and distribution lines during storm or outage responses.

3.1.2 FLEET MANAGEMENT SYSTEM

Fleet Management System (FMS) is an automated system that utilizes a single credit card for each vehicle to capture operating costs including fuel, parts and repairs through the Garage Management System (excluding Aviation Services). The FMS can also manage contracts, such as tender agreements with Hydro One's vendors, and prescribes spending

approval guidelines and negotiated discounts. Hydro One's FMS measures a variety of targets that reconcile approved purchase orders, estimates versus actuals, and vendor-related expenditures, discounts and compliance on maintenance/inspection requirements. Hydro One has a contract with Holman to support the FMS, and Holman was selected through a competitive bidding process.

Due to the nature of the aviation industry, Transport Canada Compliance and the number of helicopters owned by Hydro One, SAP is used to manage maintenance and repairs, invoices, requisitions, and approvals and an aviation maintenance tracking system called Traxxall.

3.2 DEPRECIATION

The depreciation expense for each fleet asset class is calculated based on Hydro One's depreciation policies, the current composition of the fleet, and the annual forecast of fleet asset additions and retirements.

The depreciation cost for the helicopter fleet is calculated using a 15-year straight line depreciation method. Major capital components and milestone calendar inspections are capitalized over the expected life of the expenditure.

3.3 FUEL COST

The fuel cost is calculated for each class of equipment based on historical consumption, current market projections, and the current composition of the class. The addition of electric vehicle assets into the fleet and the reduction of fuel spend through the optimization of the equipment in 2025, have been included in the calculation of fuel costs through the planning period. Throughout the year, fuel costs are charged directly to the piece of equipment consuming the fuel. Fuel costs incurred by helicopter usage are tracked and included in the operating costs used to set the overall helicopter rate. In effect, lines of business are charged a standard rate that includes fuel costs.

3.4 EXTERNAL FLEET RENTALS

Due to the seasonal nature of the work programs and fluctuations in temporary workforce headcount, Hydro One uses externally owned rental equipment to meet demand peaks. For example, from 2020 to 2024, external rentals were utilized to support safe working conditions during the COVID-19 pandemic. Rental equipment is also used to address unexpected maintenance incidents. Consistent with Hydro One-owned fleet assets, standard rates are calculated, and the costs are charged to Transmission and Distribution programs and projects.

COSTING OF WORK: MATERIALS SURCHARGE

1.0 OVERVIEW

This Exhibit describes the materials surcharge that Hydro One uses to allocate supply chain costs to the company's work programs. The methodology for calculating the surcharge is unchanged from Hydro One's last rate application.

This overview section summarizes the materials surcharge calculation. Section 2 describes Hydro One's Supply Chain costs, which are primarily recovered through the materials surcharge, as well as other direct annual allocations to non-Transmission and Distribution organizations (e.g. DTS, Fleet, etc.). Section 3 summarizes the cost management programs that Hydro One has implemented to manage the costs recovered through the surcharge.

Hydro One applies a standard materials surcharge to capture applicable supply chain costs. Material costs charged to a project or program are based on the issue cost, which is either the "moving average price" or the direct-shipped purchase order price. Material costs are surcharged with a fixed percentage to recover costs associated with the net Supply Chain costs (functional cost less savings from cost management programs and other direct allocations). This methodology applies to both Transmission and Distribution.

The Supply Chain costs recovered in the materials surcharge include all Source-to-Pay functions (e.g. sourcing, purchasing, contract management, accounts payable etc.), as well as Logistics (warehouse, transportation of materials and stock keeping).

All of Supply Chain's activities are governed by Hydro One's Supply Chain Policy. Details on this policy are provided in Exhibit E-05-01-01.

2.0 SUPPLY CHAIN

This Section describes the budgeted costs for Supply Chain.

Table 1 - Supply Chain ($M)

Year	Historic				Bridge	Forecast Period (Planned)				
	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028	2029	2030	2031	2032
Supply Chain Cost (A)	38	44	48	58	59	59	61	63	65	68
Spend Under Management (B)	2,445	2,866	3,008	3,188	4,145	4,642	4,735	4,972	5,071	4,426
Cost to Spend Ratio* (B/A)	64	65	62	55	70	79	78	79	78	65
Adjusted Cost to Spend Ratio**	57	58	57	55	70	79	78	79	78	65

** Cost to Spend Ratio is Spend Under Management divided by Supply Chain Cost.*

*** Adjusted Cost to Spend Ratio includes $4.9M adjustment to 2023-2025 Supply Chain costs to normalize new cost allocations for 2026 and beyond*

Supply Chain is accountable for over $3 billion in procurement spend annually. Spend Under Management is defined as expenditures on materials and services that flow through procurement processes. It excludes direct payments for governmental or regulatory permits and fees. On a normalized basis, the adjusted cost to spend ratio improves from 57x in 2023 to approximately 76x by 2029 to 2031. This reflects the ability of the Supply Chain organization to absorb significant growth in Spend Under Management while maintaining disciplined cost growth and improving operating efficiency.

In 2026, Supply Chain costs have increased compared to past year due to a combination of strategic cost reallocations, organizational changes, and market-driven inflationary pressures. Approximately $2.5M of costs, for the management of hoists, was allocated to Supply Chain. This cost had previously been charged directly to the Distribution work program. In addition, transportation costs also rose by over $5M due to higher fuel prices and increased material demand, which drove higher freight costs and logistics expenses across the network. Furthermore, several activities and responsibilities were shifted from the Transmission and Distribution businesses into Supply Chain to leverage centralized

expertise, standardize processes, and improve operational efficiency. While this increased the Supply Chain cost base, it reflects the consolidation of work under a specialized function designed to deliver greater value and enterprise-wide efficiencies over time.

This cost management discipline will be achieved through targeted use of technology to improve inventory visibility and warehouse productivity, and streamlined and standardized processes that reduce handling time and duplication. Together with an organizational design built to scale alongside the work program, these efficiencies allow higher volumes of materials to be managed without a proportional increase in cost or resources.

Supply Chain is continuously improving the processes and technologies it uses. Today, tools such as SAP Ariba, SAP Fieldglass, and SAP Spend Visibility enhance the effectiveness of Supply Chains strategic sourcing, contract management and accounts payable services.

As part of Hydro One's company-wide modernization of core business systems, SAP S/4HANA will be introduced as an integrated digital platform. For Supply Chain, the application is expected to support core processes such as sourcing, contract lifecycle management, accounts payable, inventory management, and warehouse activities, with further scope and capabilities being refined as part of the ongoing exploring phase. The program will be focused on establishing a standardized and scalable foundation that will enable future potential process improvements and better integration across the organization. The application is currently planned to be in place by the end of 2027.

2.1 CATEGORY MANAGEMENT FOR MATERIALS AND SERVICES

Hydro One manages its procurement and supply base by using a Category Management approach for the acquisition of goods and services. Category Management is a strategic business process for purchasing goods and services on a company-wide basis using cross-functional teams to manage the supply base as a valued resource.

Hydro One's Category Management Program is summarized in Exhibit E-05-01 section 3.0.

2.2 INSPECTION SERVICES

Hydro One's inspection services include supplier qualification, quality assurance, and operations execution support for critical equipment.

- Under the Supplier Qualification process, Hydro One audits supplier facilities to ensure that they have the capability, capacity, expertise, and quality management systems to supply the subject material & equipment.
- The Supplier Quality Assurance process focusses on individual project/order support with suppliers of critical equipment. Under this process, inspectors, in collaboration with engineering and project teams, ensure that the equipment is being manufactured in accordance with the project schedule and Hydro One's specifications. This process provides oversight and support throughout the entire project/order lifecycle and ensures that suppliers meet all requirements and acceptance criteria established by Hydro One prior to shipping.
- Additionally, the inspectors perform routine and ad-hoc inspections in supplier's facilities, to support issue identification while coordinating and monitoring non-conformance resolutions and performance issues with supplier's plants and operations.

2.3 STORAGE AND DISTRIBUTION OF MATERIALS – LOGISTICS

Hydro One's central warehouse in Orillia is responsible for the storage and distribution of materials. This central warehouse serves as a hub to supply the company's 88 field service centres, 30 station locations, and 10 construction sites. The central warehouse also facilitates shipments to 19 transportation and work equipment locations, Central Maintenance Services, and Remotes.

A consolidated warehouse operation provides efficiencies by:

- Improving receipting efficiency by integrating with the contracted transportation company to provide visibility into the status and scheduling of the inbound shipment;
- Centralizing the warehouse including a Crossdock facility hub where large supplier shipments are sorted and distributed to all field locations;

- Minimizing and/or consolidating order quantities to leverage discounts with suppliers;
- Consolidating freight to minimize the frequency and cost of deliveries;
- Managing and coordinating the delivery of materials to service centres to ensure that field operations receive the right materials at the right time;
- Ensuring the accuracy of the received materials through the OSD&D process (Over, Short, Discrepant, and Damaged);
- Providing storage for quarantined materials and equipment associated with warranty claims;
- Ensuring safe storage for specialty products such as servers and control panels that require a temperature-controlled environment, drastically reducing off site storage costs; and,
- Increasing warehouse capacity (new Orillia facility) to support the inventory program and maximize the utilization of floor space.

2.4 TRANSPORTATION

Transportation Services are critical to the execution of Hydro One's operations. Hydro One manages its inbound and outbound transportation of materials through third-party contracts, ensuring reliable delivery across the province with a 99.1% on-time performance rate. In some instances, material is shipped directly from the supplier to the job site, allowing for greater efficiency.

While overall transportation costs have increased in recent years, this growth is primarily driven by higher material volumes associated with the work program. External pricing pressures have also contributed, including annual carrier rate increases of 2%, fluctuating fuel surcharges (up to 15% in some cases over the last two years), and rising storm response costs. Despite these cost pressures, the transportation model continues to deliver strong efficiencies by optimizing routing, improving load utilization, and leveraging scale across the network.

2.5 STOCK KEEPING

Hydro One's Stock Keepers receive material and maintain inventory at field Operations Centres. They also perform monthly inventory cycle counts on behalf of the Orillia warehouse. Key benefits of this organizational structure include the standardization of training processes across field staff, centralized accountability for inventory financials and stewardship, and clearly defined local points of contact for after-hours requirements, ultimately supporting more efficient and responsive outage management.

2.6 WARRANTY CLAIMS & MANAGEMENT

Through its Warranty & Claims Management Process, Hydro One manages warranty issues and claims for equipment and services that do not meet contractual performance requirements. Hydro One's Warranty Claims program is summarized in Exhibit E-05-01, section 3.3.2.

3.0 COST MANAGEMENT

This section summarizes cost management programs that Hydro One has implemented to mitigate the cost of Supply Chain. These cost management programs include Investment Recovery, Early Pay Discounts, and Volume Discounts. These savings listed below are included in productivity initiatives as listed in SPF 1.4, Section 1.4.3 and attachment 1.

All other cost savings initiatives driven by Supply Chain functions are described in Exhibit E-05-01, section 2.1.1 as the financial savings do not accrue to Supply Chain cost centers. The savings from all initiatives are reflected in the investment plan.

- Investment Recovery: The final step of the supply chain is the disposal and investment recovery of end of life assets. This recovery is typically in the range of $1.4M per year and primarily involves vehicle and scrap metal sales. Value is maximized through competitive auctions, timing sales to favorable market conditions, proper asset maintenance prior to sale, and accurate asset grading.

Hydro One continues to focus on applying these mechanisms to extract the maximum value possible from the sale of these assets.

- Hydro One disposes of its vehicles and miscellaneous items (e.g., tools) through auction sales. Revenue generated for vehicles sales reduces Fleet's OM&A costs while most of the revenue generated from miscellaneous sales reduces the materials surcharge.

- For scrap metal, Hydro One's scrap supplier picks up materials from various sites, weighs it, and issues payment less their fee. Where the site revenue exceeds $10,000, the revenue is posted to the project while residual revenue is posted to Supply Chain thus reducing the materials surcharge.

- Early Pay Discounts: Supply Chain Services uses Taulia, an e-Invoicing software, where suppliers electronically upload their invoices. In this system, suppliers can opt for early payment in exchange for a discount ahead of standard payment terms. The value realized through early pay discounts reflects a combination of these Taulia-based discounts and additional discounts negotiated directly in supplier contracts. Since 2021, Hydro One has realized an average of $2.8M per year in combined early payment and contractual discounts, totaling $13.9M.

- Volume Discounts: As part of the sourcing and negotiation process, suppliers are asked to include tiered volume discount structures in their proposals. These arrangements provide Hydro One with rebates when defined annual spend thresholds are achieved, with payments typically issued through electronic transfer, cheque, or credit. The value captured reflects a combination of consistent sourcing practices and increasing spend levels over time. Since 2021, Hydro One has realized an average of approximately $6.1M per year in volume discounts, totaling to approximately $30.5M.

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