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

BY COURIER

August 20, 2019

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

Dear Ms. Walli,

EB-2018-0275/276/0277 - Application for Niagara Reinforcement Limited Partnership ("NRLP") and Hydro One Networks Inc. approvals for the Niagara Reinforcement Project

Please find attached an application submitted by Hydro One Networks Inc. ("HONI") on behalf of a newly created transmission company called Niagara Reinforcement Limited Partnership ("NRLP"). NRLP is a partnership formed to own certain assets related to HONI's Niagara Reinforcement Project. The Project was originally approved by the Ontario Energy Board on July 8, 2005 pursuant to EB-2004-0476 but construction was halted in 2006 until earlier this year due to a third-party land dispute. The project has now resumed construction and is expected to be completed on September 1, 2019.

Ultimately, HONI intends to sell equity interests in NRLP to two separate First Nations communities who were instrumental in allowing the project to go forward and are supporting the project to completion.

This submission seeks OEB approval on three interrelated applications.

- Approval to secure an electricity transmission licence for NRLP (EB-2018-0277)
- Approval for HONI to sell to Niagara Reinforcement Project assets to NRLP (EB-2018-0276); and
- Approval to establish a deferral to record NRLP's revenue requirement prior to its inclusion in the Uniform Transmission Rates (EB-2018-0275). Additionally, NRLP plans to file a 5-year revenue requirement application in October 2019 under the same docket number.

Appendices 1 and 2 referred to in the Joint Submission has been filed with OEB under confidentiality protocol and have been removed from this application. Additionally, information on page 15 of the Joint Submission as well as Appendix 3 have been redacted.

Hydro One respectfully requests that the Board review and consider the attached application at its earliest convenience. Hydro one, recognizing different responsibilities at the OEB, will also file EB-2018-0275 as a separate application.

Should you have any questions on this, please contact Joanne Richardson at (416) 345-5393 or via email at regulatory@HydroOne.com.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

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BY COURIER

August 1, 2019

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

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ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

ONTARIO ENERGY BOARD

JOINT SUBMISSION

IN THE MATTER OF sections 21, 60, 70, 74, 78, and 86 of the *Ontario Energy Board Act* 1998, S.O, ("**Act**").

AND IN THE MATTER OF an application made by Hydro One Networks Inc. and Niagara Reinforcement Limited Partnership for approvals to transfer transmission assets from Hydro One Networks Inc., to Niagara Reinforcement Limited Partnership in 2019.

AND IN THE MATTER OF an application made by Hydro One Networks Inc. and Niagara Reinforcement Limited Partnership for approval of an interim revenue requirement and rate for 2019.

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1.0 INTRODUCTION

1.1 This joint submission is made on behalf of Hydro One Networks Inc. ("**HONI**") and Niagara Reinforcement Limited Partnership ("**NRLP**"). It is made in support of three interrelated applications for Ontario Energy Board ("**OEB**" or "**Board**") approvals. The first application (EB-2018-0277) is to secure a transmitter licence allowing NRLP to own and operate transmission assets in Ontario. The second application (EB-2018-0276) requests approval by HONI to sell certain transmission assets to the new transmitter, NRLP. The third application (EB-2018-0275) requests approval (i) to establish a deferral account to record associated revenue requirement for the asset once it is placed in-service and prior to NRLP's revenue requirement being included in the Uniform Transmission Rates and (ii) for NRLP's revenue requirement for 2020-2024 (expected to be filed October 2019).

1.2 Subject to approval of the applications described above, subsequent transactions will include the sale of minority interests in NRLP to two separate third parties representing First Nations communities – the Six Nations of the Grand River Development Corporation ("**SNGRDC**") and the Mississaugas of the Credit First Nation ("**MCFN**"). Based on the findings of EB-2013-0080[1], an application for the sale of those shares in the licenced transmitter is not being sought in this case. Hydro One Indigenous Partnerships GP Inc. ("**HOIP**"), that will be owned and controlled indirectly by Hydro One Inc. ("**Hydro One**") through a wholly-owned subsidiary, will own the remaining majority interest.

1.3 The approvals sought are condition precedent to a commercial transaction contemplated by the parties involved. Satisfactory approval of all three applications is necessary in order for the proposed transactions to take effect.

[1] In the Decision and Order of EB-2013-0080, the OEB ruled that, "the wording of subsection 86(2)(a) of the Act does not cover the acquisition of an interest in a limited partnership".

1.4 The purpose of these three applications is to give effect to a key commercial arrangement negotiated among SNGRDC, MCFN and Hydro One. This commercial arrangement facilitates the development, construction and in-service operation of HONI's Niagara Reinforcement Project ("**NRP**" or "the **Project**"). The Project is comprised of two - 230 kV transmission circuits known as Q26M and Q35M. Completion and operation of these facilities will provide necessary transmission system reinforcement capabilities for the Ontario bulk electricity system.

1.5 The Project was originally approved by the Board under section 92(1) of the Act, on July 8, 2005 pursuant to proceeding EB-2004-0476. Construction of the project was approximately 80% complete when work was halted in May 2006 due to a land dispute on the Douglas Estates site in Caledonia, Ontario; immediately adjacent to the HONI work site. Certain project assets were damaged and HONI determined it was most appropriate to suspend any further work until the matter was resolved.

1.6 With cooperation from the local First Nations communities, HONI has restarted construction on the Project in order to complete the required work, enabling the asset to be placed in-service. The energization of this transmission line will enhance Ontario's transmission system.

1.7 HONI's original Leave to Construct approval application[2] included a forecast cost for the Project of approximately $116 million. As of the date of submission of this Application, HONI's estimated cost to complete the Project is forecast to be $135M, a 16% increase from the original forecast cost. The majority of the increase is due to the 12-year delay in the expected in-servicing of the NRP. HONI advised the Board in a letter dated April 4, 2018, that the expected cost to complete the Project was then forecast to be $129.2M. The Board advised HONI that it would review this variance as part of a subsequent hearing[3].

[2] Submitted pursuant to EB-2004-0476
[3] "*Given the circumstances under which the OEB granted Hydro One leave to construct in 2005, the overall tenor of subsequent OEB decisions regarding the recovery of carrying costs, and Hydro One's projected in-service date of less than one year, the OEB will assess cost recovery in the normal course when an application is made seeking revenue recovery on the in-service rate base*" – OEB Letter to Hydro One dated July 27, 2018.

Due to further complications at the site of the Project, causing further delays, the forecast project cost has increased a further 4.5% since that letter was filed.

1.8 In HONI's application for Leave to Sell pursuant to section 86(1)(b), the cost of the NRP assets being transferred (the "Transferred Assets") to be sold to NRLP is forecast to be $120M. The balance of the total NRP cost ($15 million), is defined as "Station Work", and is related to station facility assets beyond the demarcation points and fibre optic sky-wire, which will not be included in the proposed sale of assets; these assets will be retained in HONI's transmission rate base.

1.9 The remainder of this submission provides additional information regarding the proposed transaction, organized as follows:

- Section 2 – details the requested approvals as part of these applications
- Section 3 – describes the parties involved in the transaction
- Section 4 – describes the transmission assets to be transferred
- Section 5 – provides details of the proposed transaction, the commercial details of the First Nation's involvement, and potential impacts that the transaction may have on consumers
- Section 6 – describes the partnership structure and financials
- Section 7 – provides final considerations related to the applications
- Section 8 – S.60 Application made by NRLP for a transmitter licence
- Section 9 – S.86 Application made by HONI for Leave to Sell the NRP transmission assets to NRLP
- Section 10 – seeking approval under s.78 of the OEB Act for the NRP Transmission Line Revenue Requirement Deferral Account to record revenue associated with the NRP Project once in-service
- Section 11 – seeking approval under s. 78 of the OEB Act for approval of NRLP's 2020-2024 Revenue Requirement (expected to be filed October 2019)

- Section 12 – Supporting Appendices

2.0 REQUESTED RELIEF

2.1 Pursuant to EB-2018-0277, NRLP hereby requests the following:

- Approval for an Ontario Transmission Licence to own, operate and maintain the NRP transmission assets, authorized under Section 60 of the Act;

- Permission to use USGAAP as its accounting standard for the purposes of rate setting, regulatory accounting, and regulatory reporting, as authorized under section 74 of the Act. In this regard, NRPL relies on the following provision of the Act:

(i) Subsection 70(1), which states that a licence under Part V of the OEB Act may prescribe the conditions under which a person may engage in an activity set out in section 57 and such other conditions as are appropriate having regard to the objectives of the Board and the purpose of the Electricity Act, 1998; and

(ii) Subsection 70(2), which gives examples of conditions that may be included in a licence, one of which, as set out in paragraph (f), is a condition requiring the licensee to maintain specific accounting records or to prepare accounting recordings according to specified principles.

2.2 Pursuant to EB-2018-0276, Hydro One Networks Inc. hereby requests the following:

- Permission to complete the sale of the Transferred Assets to NRLP, authorized under section 86(1)(b) of the Act; and

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

2.3 Pursuant to EB-2018-0275, Niagara Reinforcement Limited Partnership hereby requests the following:

- Authorization pursuant to section 78(1) of the Act seeking approval for a deferral account to record revenue requirement for the portion of 2019 in which the assets are placed in-service. **Section 12 Appendix 5 - Exhibit A** provides information of the calculation of the amounts to be recorded in the deferral account;

- Authorization under section 78(1) of the Act seeking approval for NRLP’s revenue requirement for 2020 to 2024 (expected to be filed October 2019);

- Board Direction be provided to the IESO to include the NRLP interim revenue in the calculation of the Ontario’s Uniform Transmission Rates (“UTR”s) in 2020 and years forward; and

- Such other relief as NRLP and HONI may request and the OEB determines to be just and reasonable.

3.0 DESCRIPTION OF PARTIES INVOLVED IN THE TRANSACTION

3.1 This section provides a description of the parties involved in the proposed transaction.

Hydro One Networks Inc. ("HONI")

3.2 HONI is a wholly-owned subsidiary of Hydro One Inc. which in turn is a wholly-owned subsidiary of Hydro One Limited, a publically listed business corporation. An organizational chart for the Hydro One group of companies is found in **Section 10, Appendix 3**.

3.3 Hydro One through its subsidiaries is the largest transmitter and distributor of electricity in Ontario serving customers throughout the entire province. Hydro One owns 98% of the transmission assets in Ontario comprised of approximately 308 transmission stations and approximately 30,000 circuit kilometres of high-voltage lines and towers operating at 500 kV, 230 kV or 115 kV. Hydro One also owns and operates 26 interconnections with neighbouring provinces and U.S. states, with a total export capacity of 6,000 MW. The distribution system delivers electricity at voltages below 50 kV to 1.3 million homes, farms and businesses. It does this through its network of poles and power lines comprising 123,000 circuit kilometres, which is larger than all other Ontario distributors combined. The audited Financial Statements of HONI Transmission for 2017 and 2018 are found in **Section 10, Appendix 4**, along with the HOIP (formerly B2M GP Inc.) Unaudited Financial Statements for 2017 and 2018. All other information that Hydro One has filed with the Ontario Securities Commission for the past two years (i.e. annual information forms and financial statements) is available through SEDAR at www.sedar.com.

3.4 HONI is an affiliate of Hydro One B2M Holdings Inc., which through wholly-owned subsidiaries, holds a majority interest in B2M Limited Partnership ("B2M LP"), a partnership similar in nature to that contemplated in this application. Through service agreements, HONI supports the successful operation and maintenance of the transmission line assets owned by B2M LP. With respect to NRLP, maintenance agreements will be executed with HONI for the Transferred Assets to ensure that all applicable OEB licence, code and rule requirements will be followed after the transfer of the transmission assets to NRLP and the subsequent completion and closing of the transaction to transfer minority interests to SNGRDC and MCFN. HONI's demonstrated experience with B2M LP provides a high level of confidence in the maintenance of the Transferred Assets described in this application.

3.5 HONI will act as a Limited Partner of NRLP and will own substantially all of Hydro One's interest in NRLP.

Hydro One Indigenous Partnerships GP Inc. ("HOIP")

3.6 HOIP will hold the general partner interests and carry out the general partner responsibilities of NRLP including management and oversight of the partnership. HOIP will be responsible for ensuring that the assets transferred to NRLP are operated and maintained in accordance with all applicable regulatory standards and HONI's maintenance and operating practices. HOIP will carry out these functions through an operations and management services agreement with HONI.

3.7 As general partner of the partnership HOIP will confirm that all applicable licence, code and rule requirements are being followed after completion of the transaction to sell minority interests to SNGRDC and MCFN.

3.8 HOIP was formerly known as and operated under the name B2M GP Inc. In August of 2018, the name of the company was changed to reflect the fact that this entity would be operating multiple Limited Partnerships going forward such as NRLP. HOIP continues with its previous role as general partner for B2M LP in addition to NRLP. The 2017 and 2018 unaudited Financial Statements of B2M GP Inc. (now renamed HOIP) are found in **Section 10, Appendix 4**.

Six Nations of the Grand River Development Corporation ("SNGRDC")

3.9 Six Nations of the Grand River ("**Six Nations**") is an Indian Reserve located between Brantford, Caledonia and Hagersville. Six Nations is the only reserve in North America where all six Iroquois nations live together. These nations include the Mohawk, Cayuga, Onondaga, Oneida, Seneca and Tuscarora.

3.10 Six Nations is the largest First Nations reserve in Canada by population with approximately 28,000 members, of which 13,000 live on reserve. It is the second largest reserve by size with an area of 46,500 acres (190 km^2). A portion of the NRP project assets pass over the Haldimand Tract, which comprises lands granted to Six Nations by the 1784 Haldimand Treaty.

3.11 SNGRDC manages a diverse portfolio of economic interests and enterprises on behalf of the Six Nations community. This includes deploying capital into strategic investments, operating businesses, and engaging in partnerships and joint ventures. SNGRDC holds a 51% controlling interest in A6N Utilities ("A6N"), a utility-focused joint venture with Aecon Group Inc. A6N Utilities has been contracted by HONI to assist in the completion of the NRP. SNGRDC is owned by Six Nations and all profits are invested back into the community.

3.12 SNGRDC is expected to form a corporate entity to hold its investment interest in NRLP. Since this will be a newly formed entity, no historical audited financial information or statements are available.

Mississaugas of the Credit First Nation ("MCFN")

3.13 The Mississaugas of the Credit First Nation is part of the Ojibwe (Anishinabe) Nation, one of the largest Aboriginal Nations in North America. Since time immemorial, MCFN has occupied, controlled and exercised stewardship over vast amounts of lands, waters, and resources covering most of Southern Ontario including the Niagara peninsula and the Greater Toronto Area.

3.14 A portion of the assets of the NRP pass over the traditional territory of MCFN.

3.15 MCFN is expected to form a corporate entity to hold its investment interest in NRLP. Since this will be a newly formed entity, no historical audited financial information or statements are available.

4.0 DESCRIPTION OF TRANSMISSION ASSETS TO BE TRANSFERRED

4.1 The proposed assets to be transferred substantially consist of towers and conductors, included within the scope of HONI's NRP, excluding the Station Work. This generally consists of a single span of towers carrying two - 230 kV circuits running from Allanburg Transmission Station on Barron Road in the City of Thorold, approximately 10 km west of Niagara Falls to the Middleport Transmission Station in Brant County, approximately 10 km north-east of the Town of Caledonia. These transmission circuits are known as Q26M and Q35M.

4.2 The circuits extend across the City of Thorold, the Town of Pelham, the Township of West Lincoln, the City of Hamilton, the County of Haldimand and Brant County. Each circuit is approximately 77 km in length and, together, the circuits have a combined capacity of approximately 800 MW. The circuits will terminate just west of Allanburg Station beside Crossline Junction at tower #3 inclusive, and just south of Middleport TS at tower #322 inclusive. A map showing the location of circuits Q26M and Q35M can be found in **Section 12 Appendix 7**.

4.3 The Transferred Assets include steel transmission towers, the transmission lines, the insulators and hardware affixed to the towers, and certain land rights adjoining HONI's existing transmission corridor on which the circuits are located. For clarity, none of HONI's transmission station assets beyond the demarcation points or the fibre optic sky wire are part of the Transferred Assets. Further details concerning the NRP can be found in evidence filed by HONI during OEB Proceeding EB-2004-0476.

4.4 Most of the work on the segment east of Caledonia was completed prior to the work stoppage in 2006. The focus of the final stages of construction is located in the segment that generally wraps around the perimeter of Caledonia from the south-east edge of the town to the north-west edge. Station connection work is also part of the final construction steps to be completed. The assets are to be placed into operation in accordance with approvals made in respect of OEB approvals received in 2005 pursuant to EB-2004-0476.

4.5 The estimated future gross book value of the Transferred Assets is forecast to be approximately $120[4] million. Details as to the breakdown of the forecast in-service assets are provided in **Section 12, Appendix 5, Exhibit C**.

4.6 The Transferred Assets are expected to go into service on September 1, 2019. The costs provided herein represent HONI's current estimate of the project costs. These estimates are of high quality and are not expected to be materially different from the final amount.

[4] The total estimate for the NRP project is $135M. The cost forecast for the Transferred Assets does not include the Station related component and fibre-optic cable of NRP – they will be retained by HONI.

5.0 TRANSACTION DETAILS

5.1 The overall objective of the transaction is to formalize a long-term cooperative commercial arrangement between HONI, SNGRDC and MCFN. The transaction will provide these First Nations communities with the opportunity to invest in the Transferred Assets and acquire an interest of up to [redacted] and [redacted] respectively. This partnership was a key factor in enabling the Project to move forward to completion after being dormant for more than 10 years.

5.2 The expected steps involved in the transaction are described in **Attachment C** of the Implementation Agreement ("IA"), signed August 20, 2018. A copy of the IA is found in **Section 12, Appendix 1**.

5.3 Fundamental to the terms of the IA, Hydro One will form a limited partnership (NRLP), establish an entity that will hold the general partnership interest (HOIP) and subsequently sell a minority interest in NRLP to the First Nations partners, SNGRDC and MCFN.

5.4 Upon receiving all necessary approvals, HONI will sell the Transferred Assets to NRLP. Through a series of related party transactions, HONI, and its parent Hydro One Inc., will receive from NRLP consideration in the form of cash, a promissory note, and partnership unit interests which, prior to the investment by SNGRDC and MCFN, will represent, in aggregate, the net book value of the Transferred Assets sold to NRLP. Cash consideration paid by SNGRDC and MCFN to NRLP for the acquisition of limited partnership units will, in the final step of the transaction, be used to reduce the level of debt that NRLP will have owing to Hydro One such that a 60/40 capital structure is maintained for NRLP.

5.5 Based on the Transferred Assets having a net book value of approximately $120 million at the time of the transaction closing, the Transferred Assets will be financed by approximately $72 million in total debt and $48 million of equity. An indicative example outlining the closing steps, calculations and descriptions of the transaction is found in the IA. Refer to **Section 12 Appendix 1, Attachment C**.

5.6 The sale of the NRP transmission assets will be effected through an asset purchase agreement made by NRLP with HONI. Preparation of this agreement is underway and a copy will be filed with the Board once it is finalized. The sale of the assets described in the agreement will take place upon receipt of all necessary approvals on or about the closing of the transaction.

5.7 It is expected that NRLP will enter into an operations and management services agreement with HONI for the provision of services for the ongoing operation and management of the Transferred Assets. The form of the operations and management services agreement is under negotiations but will fundamentally align with similar agreements executed previously, such as the agreement between B2M LP and HONI. This agreement between NRLP and HONI will ensure that sale of the NRP transmission assets from HONI to NRLP will have no impact upon the safe and effective manner in which the Transferred Assets will be managed and operated.

5.8 A Pro forma Income Statement for NRLP for a period of five years following the expected closing of the transaction can be found in **Section 12, Appendix 6**.

5.9 HONI is a privately-owned taxable corporation, however the First Nations partners in NRLP enjoy a non-taxable status with respect to income taxes in Canada. It is therefore the expectation of SNGRDC and MCFN that the income derived from the distributions paid to each of them will not garner income tax. The calculations underlying the interim revenue request in this application assume that the distributions paid to HONI are the only ones that will be subject to income tax. If the non-taxable status of the First Nations partners remain in place, ratepayers will benefit from this status in the form of lower income tax in the rates they pay for this transmission service. The current estimate of the net present value of the customer benefit associated with this transaction is approximately $3 million, calculated over the life of the Transferred Assets after all incremental costs are considered.

5.10 First Nation support is critical to the re-establishment of the project and construction in 2018 and 2019. An understanding was developed among the parties regarding the NRP

Project and its potential impacts on First Nations rights and interests. This was supported by consultation and sessions, conducted by the First Nations parties in the communities that demonstrated to members that First Nations' long-term interests will be protected and accommodated. The relationship and cooperation between SNGRDC, MCFN, and Hydro One is critical to ensuring a timely and efficient restart to the NRP, which will benefit the bulk electricity system and ultimately electricity customers across Ontario.

6.0 PARTNERSHIP STRUCTURE AND FINANCIALS

6.1 NRLP is expected to distribute income to its partners on a quarterly basis, in accordance with the Niagara Reinforcement Limited Partnership Agreement ("LPA"), subject to the requirements of prudent operation and management of the Transferred Assets. A draft copy of the LPA is found in **Section 12, Appendix 2.** Since the subject facilities will be newly built, there is no planned capital investment required for many years; hence, there is no reasonable expectation of a need to retain significant earnings or to issue new debt to fund capital improvements over the short to medium term.

6.2 It is expected that, barring unforeseen events such as major storm damage that would necessitate material capital replacements, the annual depreciation expense for the Transferred Assets will exceed capital expenditures. As such, rate base for NRLP will generally decline over time, along with the underlying debt and equity amounts required to support it. This will require cash distributions to the partners in excess of Net Income as well as managed debt repayments in order to keep the debt and equity amounts closely aligned with the OEB-approved 60/40 capital structure. Therefore, any and all activities, including the distribution of partnership income by NRLP, will be consistent with the prudent maintenance of the long-term financial stability of the regulated entity.

6.3 The change in structure from a single owner to three partners will not result in a material change in the manner in which the Transferred Assets will be operated and maintained. HONI will remain the party primarily responsible for the ongoing operation and management of the Transferred Assets. Once construction is complete and the Project is placed in-service, the NRLP will enter into an operations and management services agreement, in compliance with the *Affiliate Relationships Code for Electricity Distributors and Transmitters*, with HONI. The operations and management services agreement will be cost of service based, employing the same resources and standards used by HONI today in operating and managing similar assets in its transmission business, including the assets of B2M LP. The reliability and quality of service that will be provided by the Transferred Assets is expected to be equal to what is provided by any similar asset currently operated by HONI.

6.4 HONI and the First Nations partners of the NRLP necessarily incurred certain expenses associated with the negotiation and formation of the partnership and commercial agreements. Furthermore, NRLP, through its general partner, HOIP, is expected to incur certain costs necessary to setup the partnership for efficient and reliable administration. The current breakdown of the estimated transaction and administration costs are as follows:

- Costs incurred to negotiate and complete the transaction;
- Costs associated with all necessary regulatory approvals;
- Initial setup and ongoing administration and management costs of NRLP;
- Other incidental costs incurred by NRLP such as insurance, audit and accounting fees.

6.5 The one-time setup cost is estimated to be $1.2 million.

Revenue Requirement Components in 2019 forecast to Track in Deferral Account

6.6 The total OM&A expected for the remainder of 2019 is $1,447 thousand. This includes, in addition to the one-time setup costs listed above, other OM&A expenses expected to be incurred such as general maintenance costs including forestry of $81 thousand, insurance costs of $50 thousand, audit and other management fees of $100 thousand and corporate allocation fees for administration of $67 thousand.

6.7 The depreciation expense expected in 2019 is $798 thousand, calculated using the methodology from HONI's most recent depreciation study.

6.8 The capital cost calculations are based on an average rate base for the period of $39.9 million and utilize the current OEB capital parameters. Therefore, Return on Debt is calculated as $968 thousand assuming a capital structure that utilizes 56% Long Term debt and 4% Short Term components. Return on Equity is calculated as $1,433 thousand utilizing a 40% Equity structure.

6.9 For any Limited Partnership, income is taxed in the hands of the partners individually utilizing their particular circumstances to calculate the appropriate amount of income tax. As stated, the First Nations partners are expected to hold a tax-free status and thus the applicable portion of Net Income that is distributed to them is done so tax free, reducing costs for rate payers over time. However, in the early years of the partnership, as is typical with all large projects looked at in isolation, the Capital Cost Allowance ("CCA") afforded the project is in excess of the taxable gross income ("EBITDA") and thus the net income distributed to HONI (the taxable party) is less than zero during the Stub period. As such, Corporate Minimum tax applies during 2019 and is calculated to be $21 thousand.

6.10 Details of all costs and components included in the 2019 revenue requirement calculation are included in **Section 12, Appendix 5**.

Revenue Requirement Components in 2020-2024

6.11 The 5-year revenue requirement application for NRLP will be filed in October 2019 under docket EB-2018-0275.

7.0 FINAL CONSIDERATIONS

7.1 In the collective view of HONI, the NRLP and the proposed First Nation partners, the transaction is in the public interest and is consistent with the objectives found in the *Ontario Energy Board Act, 1998*. Completion of the project will provide a number of benefits to the electricity grid as well as increases in capacity to service load in the Greater Toronto and Hamilton Area. This partnership is also an important step towards creating co-operative economic opportunities for First Nations and it builds on a similar structure and model initially introduced by B2M LP.

7.2 The proposed transaction will include a provision to retain HONI as the owner and operator of the Transferred Assets. This will ensure that the assets are operated in a safe, reliable manner consistent with how transmission assets in Ontario are currently managed by HONI.

7.3 Timely consideration of these applications is essential to the parties. SNGRDC, MCFN and HONI have moved quickly to allow the NRP to be completed while protecting the SNGRDC and MCFN's long-term interests through consultation. It is because of this engagement that construction of the NRP has recommenced and the transmission line is expected to be in-service by September 1, 2019. The proposed transaction is a critical component of the relationship among SNGRDC, MCFN and HONI, so it is essential that this transaction now be brought to conclusion.

8.0 OEB FORM OF APPLICATION FOR APPLICATION FOR A TRANSMISSION ELECTRICITY LICENCE

NRLP is applying for a transmission electricity licence to own, operate and maintain transmission assets associated with the NRP Project. NRLP is also seeking permission to use USGAAP as its accounting standard for the purposes of rate setting, regulatory accounting, and regulatory reporting, as authorized under section 74 of the Act. In this regard, NRPL relies on the following provision of the Act:

(i) Subsection 70(1), which states that a licence under Part V of the OEB Act may prescribe the conditions under which a person may engage in an activity set out in section 57 and such other conditions as are appropriate having regard to the objectives of the Board and the purpose of the Electricity Act, 1998; and

(ii) Subsection 70(2), which gives examples of conditions that may be included in a licence, one of which, as set out in paragraph (f), is a condition requiring the licensee to maintain specific accounting records or to prepare accounting recordings according to specified principles.

Both Hydro One’s distribution and transmission businesses have received OEB approval to utilize US GAAP as its approved framework for rate setting, regulatory accounting and regulatory reporting. Approval to use US GAAP for NRLP will facilitate Hydro One Inc.’s consolidated reporting for securities filing purposes, thus avoiding incremental costs and/or reduced productivity.

Please see Appendix 8 for NRLP’s request for a electricity transmission licence.

9.0 OEB FORM OF APPLICATION MADE BY HONI FOR LEAVE TO SELL THE NRP PROJECT TRANSMISSION ASSETS TO NRLP IN ACCORDANCE WITH SECTION 86(1)(b) OF THE ACT.

9.1 Please see Appendix 9 for the OEB section 86(1)(b) form.

10.0 APPROVAL OF A DEFERRAL ACCOUNT TO RECORD NRLP'S INTERIM REVENUE REQUIREMENT FOR 2019

10.1 NRLP is requesting approval of a deferral account to record interim revenue requirement for the period in 2019 when the NRP assets will be in-service up until the time in 2020 that NRLP's revenue are included in Ontario's Uniform Transmission Rates ("UTR"). This application is under docket EB-2018-0276. Please see A**ppendix 10** for the deferral account application. The estimated revenue requirement NRLP will record in the deferral account for 2019 is approximately $4.7M for the four month period between September 1, 2019 and December 31, 2019. If NRLP's 2020 revenue requirement is not approved by the Board in time to be recovered from Ontario ratepayers in the UTR's, NRLP proposes to continue to use the deferral account for recording 2020 revenue requirement until such time it receives a Board-approved rate order and updates the UTR's to incorporate NRLP's approved revenue amount.

11.0 2020-2024 REVENUE REQUIREMENT

11.1 NRLP expects to submit a Cost of Service filing in October, 2019 for approval of final rates covering the five year period including 2020-2024. This timing allows for coordination with a similar application to be submitted by B2M LP for rates for the same period. Completion of these applications is expected to align the rate periods of the two transmitters and enhance regulatory efficiency for Hydro One, the Board and rate payers.

12.0 SUPPORTING APPENDICES

Appendix Table of Contents

Appendix 1 – Implementation Agreement

Appendix 2 – Limited Partnership Agreement

Appendix 3 – Corporate Organization Charts

Appendix 4 – Hydro One Transmission Audited Financial Statements (2018 and 2017) and B2M GP Inc. Unaudited Financial Statements (2018 and 2017)

Appendix 5 – Financial Information

Appendix 6 - Pro Forma Statements for NRLP

Appendix 7 – Map of the NRP Line Project Area

Appendix 8 – NRLP request for an electricity transmission licence

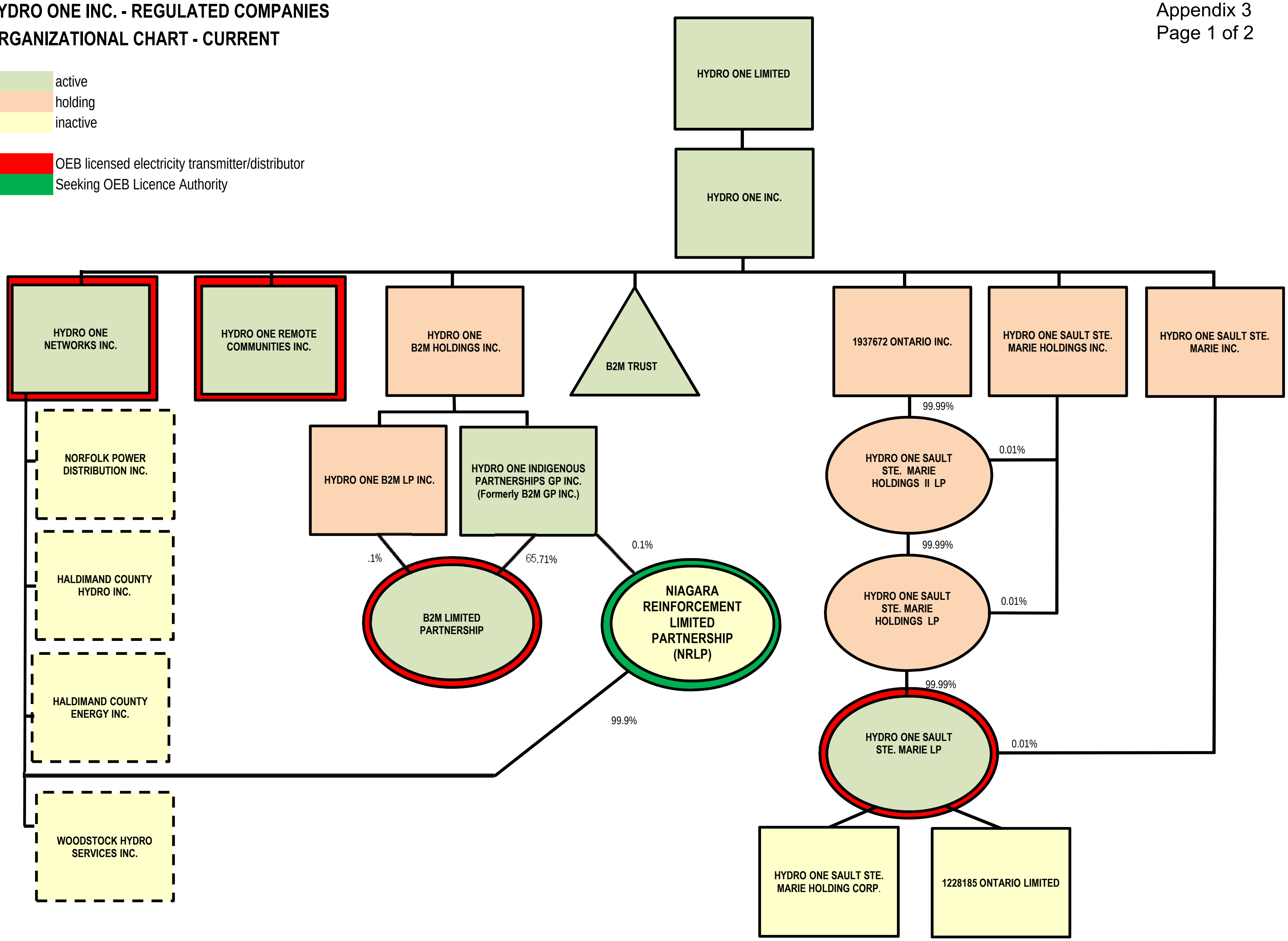
Appendix 9 – HONI request to sell NRP assets to NRLP

Appendix 10 – NRLP request for a Deferral Account

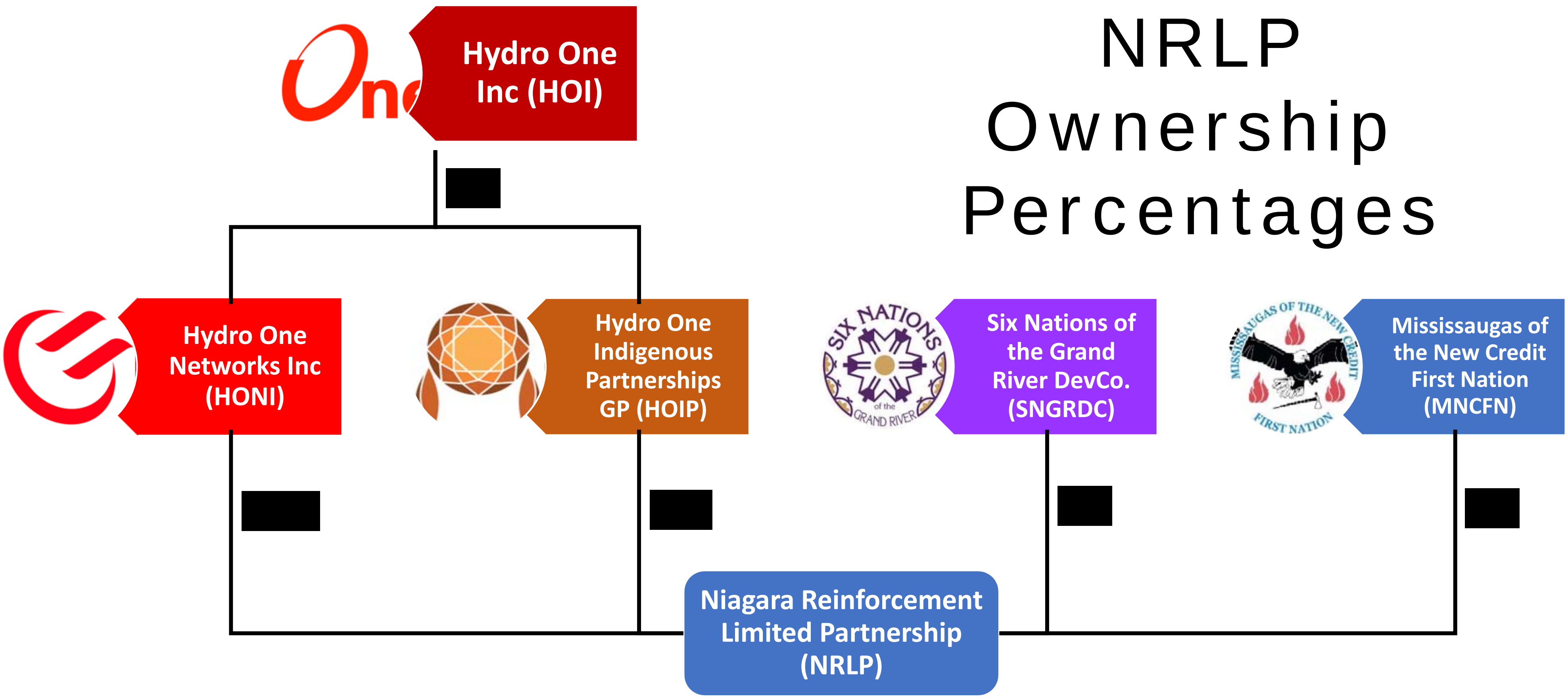
HYDRO ONE INC. - REGULATED COMPANIES
ORGANIZATIONAL CHART - CURRENT

active
holding
inactive

OEB licensed electricity transmitter/distributor
Seeking OEB Licence Authority



NRLP Ownership Percentages



HYDRO ONE NETWORKS INC.

TRANSMISSION BUSINESS

FINANCIAL STATEMENTS

DECEMBER 31, 2018

To the Directors of Hydro One Networks Inc.

Opinion

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

- the carve out balance sheet as at December 31, 2018
- the carve out statement of operations and comprehensive income for the year then ended
- the carve out statement of cash flows for the year then ended
- and notes to the carve out financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "carve-out financial statements").

In our opinion, the accompanying carve-out financial statements as at and for the year ended December 31, 2018 of the Entity are prepared, in all material respects, in accordance with the financial reporting framework described in Note 2 of these carve-out financial statements.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Carve-Out Financial Statements" section of our auditors' report.

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

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

Emphasis of Matter - Basis of Preparation

We draw attention to Note 2 to the carve-out financial statements which describes the basis of preparation used in these carve-out financial statements.

The purpose of the carve-out financial statements is to meet Hydro One Networks Inc.'s obligation to the Ontario Energy Board. As a result, these carve-out financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

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

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

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

Auditors' Responsibilities for the Audit of the Carve-Out Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the carve-out financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the carve-out financial statements, including the disclosures, and whether the carve-out financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
April 25, 2019

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2018 and 2017

Year ended December 31 *(millions of Canadian dollars)*	**2018**	**2017**
Revenues		
Transmission tariff *(Note 21)*	1,584	1,489
Other	39	30
	1,623	1,519
Costs		
Operation, maintenance and administration *(Note 21)*	420	386
Depreciation, amortization and asset removal costs *(Note 4)*	418	403
	838	789
Income before financing charges and income taxes	**785**	**730**
Financing charges *(Notes 5, 21)*	239	230
Income before income taxes	**546**	**500**
Income taxes *(Note 6)*	62	67
Net income	**484**	**433**
Other comprehensive income	—	—
Comprehensive income	**484**	**433**

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
BALANCE SHEETS
At December 31, 2018 and 2017

December 31 *(millions of Canadian dollars)*	**2018**	**2017**
Assets		
Current assets:		
Accounts receivable	36	40
Due from related parties *(Note 21)*	127	131
Other current assets *(Note 7)*	39	60
	202	231
Property, plant and equipment *(Note 8)*	12,269	11,719
Other long-term assets:		
Regulatory assets *(Note 10)*	838	1,297
Intangible assets *(Note 9)*	138	117
Other assets	1	1
	977	1,415
Total assets	**13,448**	**13,365**
Liabilities		
Current liabilities:		
Inter-company demand facility *(Note 21)*	897	1,159
Long-term debt payable within one year *(Notes 13, 14, 21)*	437	413
Accounts payable and other current liabilities *(Note 11)*	246	264
Due to related parties *(Note 21)*	64	64
	1,644	1,900
Long-term liabilities:		
Long-term debt *(Notes 13, 14, 21)*	5,637	5,087
Deferred income tax liabilities *(Note 6)*	638	1,128
Regulatory liabilities *(Note 10)*	102	39
Other long-term liabilities *(Note 12)*	698	753
	7,075	7,007
Total liabilities	**8,719**	**8,907**
Contingencies and Commitments *(Notes 23, 24)*		
Subsequent Events *(Note 25)*		
Excess of assets over liabilities *(Notes 15, 19)*	4,729	4,458
Total liabilities and excess of assets over liabilities	**13,448**	**13,365**

See accompanying notes to Financial Statements.

On behalf of the Board of Directors:

D.H. Sheffield

William Sheffield
Chair, Audit Committee

Russel Robertson
Director

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017

Year ended December 31 *(millions of Canadian dollars)*	**2018**	**2017**
Operating activities		
Net income	484	433
Environmental expenditures	(6)	(8)
Adjustments for non-cash items:		
Depreciation and amortization *(Note 4)*	380	364
Regulatory assets and liabilities	(18)	(66)
Deferred income taxes	(1)	17
Other	11	5
Changes in non-cash balances related to operations *(Note 22)*	8	(107)
Net cash from operating activities	**858**	**638**
Financing activities		
Long-term debt issued	988	—
Long-term debt repaid	(413)	(405)
Payments to finance dividends and return on stated capital	(213)	(248)
Other	(4)	—
Net cash from (used in) financing activities	**358**	**(653)**
Investing activities		
Capital expenditures *(Note 22)*		
Property, plant and equipment	(918)	(917)
Intangible assets	(45)	(24)
Capital contributions received *(Note 22)*	7	9
Other	2	1
Net cash used in investing activities	**(954)**	**(931)**
Net change in inter-company demand facility	262	(946)
Inter-company demand facility, beginning of year	(1,159)	(213)
Inter-company demand facility, end of year	**(897)**	**(1,159)**

See accompanying notes to Financial Statements.

1. DESCRIPTION OF THE BUSINESS

Hydro One Inc. (Hydro One) was incorporated on December 1, 1998, under the *Business Corporations Act* (Ontario) and is wholly-owned by Hydro One Limited. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

Hydro One Networks Inc. (Hydro One Networks or the Company) was incorporated on March 4, 1999 under the *Business Corporations Act* (Ontario) and is a wholly owned subsidiary of Hydro One. The Company owns and operates regulated transmission and distribution businesses. The regulated transmission business (Transmission Business) operates a high-voltage electrical transmission network that represents almost all of the licensed transmission capacity in Ontario. The Transmission Business is regulated by the Ontario Energy Board (OEB).

Rate Setting

OEB March 7, 2019 Decisions

Subsequent to year end, on March 7, 2019, the OEB issued a decision on its reconsideration of its decision and order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements dated September 28, 2017 (Original Decision) with respect to the rate-setting treatment of the benefits of the deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act* (Ontario) to tax payments under the federal and provincial tax regime which occurred when Hydro One Limited became a public company listed on the Toronto Stock Exchange.

The March 7, 2019 OEB decision has been determined to be a Type I subsequent event under United States (US) Generally Accepted Accounting Principles (GAAP). As a result, the financial impact of this OEB decision has been reflected in these financial statements, as more fully discussed in Note 10 - Regulatory Assets and Liabilities.

Transmission

In December 2017, the OEB approved Hydro One Networks' 2018 rates revenue requirement of $1,511 million. See Note 10 - Regulatory Assets and Liabilities for additional information.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These Financial Statements are prepared and presented in accordance with the accounting policies summarized below and in Canadian dollars. These policies are consistent with US GAAP.

The purpose of these Financial Statements is to meet Hydro One Networks' obligation to the OEB. As a result, these Financial Statements may not be suitable for another purpose. Consolidated Financial Statements of Hydro One for the year ended December 31, 2018 have been prepared and are publicly available.

Basis of Preparation

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

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

Hydro One Networks performed an evaluation of subsequent events through to April 25, 2019, the date these Financial Statements were available to be issued, to determine whether any events or transactions warranted recognition and disclosure in these Financial Statements. See Note 25 - Subsequent Events.

Use of Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumptions are made, with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, post-retirement and post-employment benefits, asset retirement obligations, asset impairments, contingencies, and deferred income tax assets and liabilities. Actual results may differ significantly from these estimates.

Regulatory Accounting

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

Revenue Recognition

The Company adopted Accounting Standard Codification (ASC) 606 - *Revenue from Contracts with Customers* on January 1, 2018 using the retrospective method, without the election of any practical expedients. There was no material impact to the Company's revenue recognition policy as a result of adopting ASC 606, and no adjustments were made to prior period reported financial statements amounts.

Nature of Revenues

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

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

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable represents earned revenue for electricity transmitted and delivered to customers and receivable from the Independent Electricity System Operator (IESO). Trade accounts receivable are recorded at the amount reported by the IESO. No allowance for doubtful accounts is recognized with respect to trade accounts receivable as there is no risk of loss associated with such amounts.

Income Taxes

Current and deferred income taxes are computed based on the tax rates and tax laws enacted as at the balance sheet date. Tax benefits associated with income tax positions are recorded only when the more-likely-than-not recognition threshold is satisfied and are measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant management judgment is required to determine recognition thresholds and the related amount of tax benefits to be recognized in the Financial Statements. Management re-evaluates tax positions each period using new information about recognition or measurement as it becomes available.

Deferred Income Taxes

Deferred income taxes are provided for using the liability method. Under this method, deferred income tax assets and liabilities are recognized on all temporary differences between the tax bases and carrying amounts of assets and liabilities, including the carry forward unused tax credits and tax losses to the extent that it is more-likely-than-not that these deductions, credits, and losses can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted as at the balance sheet date. Deferred income taxes that are not included in the rate-setting process are charged or credited to the Statements of Operations and Comprehensive Income.

Management reassesses the deferred income tax assets at each balance sheet date and reduces the amount to the extent that it is more-likely-than-not that the deferred income tax asset will not be realized. Previously unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more-likely-than-not that the tax benefit will be realized.

The Transmission Business records regulatory assets and liabilities associated with deferred income tax assets and liabilities that will be included in the rate-setting process.

Inter-company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries, and implicitly, by the regulated businesses of its subsidiaries. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Transmission Business to and from the pooled bank accounts. Interest is earned on positive inter-company balances based on the average of the bankers' acceptance rate at the beginning and end of the month, less 0.02%. Interest is charged on overdraft inter-company balances based on the same bankers' acceptance rate, plus 0.15%.

Materials and Supplies

Materials and supplies represent consumables, small spare parts and construction materials held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost, net of customer contributions, and any accumulated impairment losses. The cost of additions, including betterments and replacement asset components, is included on the Balance Sheets as property, plant and equipment.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized financing costs, asset retirement costs, and direct and indirect overheads that are related to the capital project or program. Indirect overheads include a portion of corporate costs such as finance, treasury, human resources, information technology and executive costs. Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

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

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware and grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, including transformers, circuit breakers and switches.

Communication

Communication assets include fibre optic and microwave radio systems, optical ground wire, towers, telephone equipment and associated buildings.

Administration and Service

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

Easements

Easements include statutory rights of use for transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other land access rights.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost, which comprises purchased software, direct labour (including employee benefits), consulting, engineering, overheads and attributable capitalized financing charges. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses. The Transmission Business' intangible assets primarily represent major computer applications.

Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of property, plant and equipment or development of intangible assets. The financing cost of attributable borrowed funds is capitalized as part of the acquisition cost of such assets. The capitalized financing costs are a reduction of financing charges recognized in the Statements of Operations and Comprehensive Income. Capitalized financing costs are calculated using the Company's weighted average effective cost of debt.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of constructed assets that are not yet complete and which have not yet been placed in service.

Depreciation and Amortization

The cost of property, plant and equipment and intangible assets is depreciated or amortized on a straight-line basis based on the estimated remaining service life of each asset category, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external independent review of its property, plant and equipment and intangible asset depreciation and amortization rates, as required by the OEB. Any changes arising from OEB approval of such a review are implemented on a remaining service life basis, consistent with their inclusion in electricity rates. The most recent review resulted in changes to rates effective January 1, 2017 for Hydro One Networks' transmission business. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average Service Life	Rate Range	Rate Average
Property, plant and equipment:			
Transmission	55 years	1% - 2%	2%
Communication	17 years	1% - 7%	5%
Administration and service	21 years	1% - 20%	6%
Intangible assets	10 years	10%	9%

In accordance with group depreciation practices, the original cost of property, plant and equipment, or major components thereof, and intangible assets that are normally retired, is charged to accumulated depreciation, with no gain or loss being reflected in results of operations. Where a disposition of property, plant and equipment occurs through sale, a gain or loss is calculated based on proceeds and such gain or loss is included in depreciation expense.

Long-Lived Asset Impairment

When circumstances indicate the carrying value of long-lived assets may not be recoverable, the Company evaluates whether the carrying value of such assets, excluding goodwill, has been impaired. For such long-lived assets, the Company evaluates whether impairment may exist by estimating future estimated undiscounted cash flows expected to result from the use and eventual disposition of the asset. When alternative courses of action to recover the carrying amount of a long-lived asset are under consideration, a probability-weighted approach is used to develop estimates of future undiscounted cash flows. If the carrying value of the long-lived asset is not recoverable based on the estimated future undiscounted cash flows, an impairment loss is recorded, measured as the excess of the carrying value of the asset over its fair value. As a result, the asset's carrying value is adjusted to its estimated fair value.

The carrying costs of most of the Transmission Business' long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable. As at December 31, 2018 and 2017, no asset impairment had been recorded.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Company defers its proportionate share of the relevant Hydro One external transaction costs related to obtaining financing and presents such amounts net of related debt on the Balance Sheets. Deferred issuance costs are amortized over the contractual life of the related debt on an effective-interest basis and the amortization is included within financing charges in the Statements of Operations and Comprehensive Income. Transaction costs for items classified as held-for-trading are expensed immediately.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI). OCI and net income are presented in a single continuous Statement of Operations and Comprehensive Income.

Financial Assets and Liabilities

All financial assets and liabilities are classified into one of the following five categories: held-to-maturity; loans and receivables; held-for-trading; other liabilities; or available-for-sale. Financial assets and liabilities classified as held-for-trading are measured at fair value. All other financial assets and liabilities are measured at amortized cost, except accounts receivable and amounts due from related parties, which are measured at the lower of cost or fair value. Accounts receivable and amounts due from related parties are classified as loans and receivables. The Company considers the carrying amounts of accounts receivable and amounts due from related parties to be reasonable estimates of fair value because of the short time to maturity of these instruments. All financial instrument transactions are recorded at trade date.

Derivative instruments are measured at fair value. Gains and losses from fair valuation are included within financing charges in the period in which they arise. The Company determines the classification of its financial assets and liabilities at the date of initial recognition. The Company designates certain of its financial assets and liabilities to be held at fair value, when it is consistent with the Company's risk management policy disclosed in Note 14 - Fair Value of Financial Instruments and Risk Management.

Derivative Instruments and Hedge Accounting

Hydro One closely monitors the risks associated with changes in interest rates on its operations and, where appropriate, uses various instruments to hedge these risks. Certain of these derivative instruments qualify for hedge accounting and are designated as accounting hedges, while others either do not qualify as hedges or have not been designated as hedges (hereinafter referred to as undesignated contracts) as they are part of economic hedging relationships. Hydro One's derivative instruments, or portions thereof, are mirrored down to Hydro One Networks, and are allocated between the Company's transmission and distribution businesses. The derivative instruments are classified as fair value hedges or undesignated contracts, consistent with Hydro One's derivative instruments classification.

The accounting guidance for derivative instruments requires the recognition of all derivative instruments not identified as meeting the normal purchase and sale exemption as either assets or liabilities recorded at fair value on the Balance Sheets. For derivative instruments that qualify for hedge accounting, Hydro One may elect to designate such derivative instruments as either cash flow hedges or fair value hedges. Hydro One offsets fair value amounts recognized on its Balance Sheets related to derivative instruments executed with the same counterparty under the same master netting agreement.

For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated OCI (AOCI) and is reclassified to results of operations in the same period or periods during which the hedged transaction affects results of operations. Any gains or losses on the derivative instrument that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations. For fair value hedges, changes in fair value of both the derivative instrument and the underlying hedged exposure are recognized in the Statements of Operations and Comprehensive Income in the current period. The gain or loss on the derivative instrument is included in the same line item as the offsetting gain or loss on the hedged item in the Statements of Operations and Comprehensive Income. The changes in fair value of the undesignated derivative instruments are reflected in results of operations.

Embedded derivative instruments are separated from their host contracts and are carried at fair value on the Balance Sheets when: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) the hybrid instrument is not measured at fair value, with changes in fair value recognized in results of operations each period; and (c) the embedded derivative itself meets the definition of a derivative. Hydro One does not engage in derivative trading or speculative activities and had no embedded derivatives that required bifurcation at December 31, 2018 or 2017.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where the Company has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. Hydro One also assesses, both at the inception of the hedge and on a quarterly basis, whether the hedging instruments are effective in offsetting changes in fair values or cash flows of the hedged items.

Employee Future Benefits

Employee future benefits provided by Hydro One include pension, post-retirement and post-employment benefits. The costs of the Hydro One's pension, post-retirement and post-employment benefit plans are recorded over the periods during which employees render service.

Hydro One recognizes the funded status of its defined benefit pension, post-retirement and post-employment plans on its Consolidated Balance Sheets and subsequently recognizes the changes in funded status at the end of each reporting year. Defined benefit pension, post-retirement and post-employment plans are considered to be underfunded when the projected benefit obligation (PBO) exceeds the fair value of the plan assets. Liabilities are recognized on the Consolidated Balance Sheets for any net underfunded PBO. The net underfunded PBO may be disclosed as a current liability, long-term liability, or both. The current portion is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months exceeds the fair value of plan assets. If the fair value of plan assets exceeds the PBO of the plan, an asset is recognized equal to the net overfunded PBO. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets.

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

Defined Benefit Pension

Hydro One has a contributory defined benefit pension plan covering most regular employees of Hydro One and its subsidiaries, including Hydro One Networks. The Hydro One pension plan does not segregate assets in a separate account for individual subsidiaries, nor is the obligation of the pension plan allocated to, or funded separately by, entities within the consolidated group. Accordingly, for purposes of these Financial Statements, the pension plan is accounted for as a defined contribution plan and no pension benefit asset or liability is recorded.

Post-retirement and Post-employment Benefits

Hydro One has post-retirement and post-employment benefit plans covering all regular employees of Hydro One and its subsidiaries, including Hydro One Networks. The benefit obligations of these post-retirement and post-employment benefit plans are not segregated, or funded separately, for Hydro One Networks. Accordingly, for purposes of these Financial Statements, the post-retirement and post-employment benefit obligations are allocated to the Company based on base pensionable earnings.

The Company records a regulatory asset equal to its allocated share of Hydro One's incremental net unfunded projected benefit obligation for post-retirement and post-employment plans at each year end based on annual actuarial reports. The regulatory asset for the incremental net unfunded projected benefit obligation for post-retirement and post-employment plans, in absence of regulatory accounting, would be recognized in AOCI. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process.

Post-retirement and post-employment benefits are recorded and included in rates on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments are amortized to results of operations based on the expected average remaining service period.

For post-retirement benefits, all actuarial gains or losses are deferred using the "corridor" approach. The amount calculated above the "corridor" is amortized to results of operations on a straight-line basis over the expected average remaining service life of active Hydro One employees in the plan and over the remaining life expectancy of inactive Hydro One employees in the plan. The post-retirement benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

For post-employment obligations, the associated regulatory liabilities representing actuarial gains on transition to US GAAP are amortized to results of operations based on the "corridor" approach. The actuarial gains and losses on post-employment obligations that are incurred during the year are recognized immediately to results of operations. The post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

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

Stock-Based Compensation

Share Grant Plans

The Company measures share grant plans based on fair value of share grants as estimated based on Hydro One Limited grant date common share price. The costs are recognized in the financial statements using the graded-vesting attribution method for share grant plans that have both a performance condition and a service condition. The Company records a regulatory asset equal to the accrued costs of share grant plans recognized in each period. Costs are transferred from the regulatory asset to labour costs at the time the share grants vest and are issued, and are recovered in rates. Forfeitures are recognized as they occur.

Deferred Share Unit (DSU) Plans

The Company records the liabilities associated with the Directors' and Management DSU Plans at fair value at each reporting date until settlement, recognizing compensation expense over the vesting period on a straight-line basis. The fair value of the DSU liability is based on the Hydro One Limited common share closing price at the end of each reporting period.

Long-term Incentive Plan (LTIP)

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

Loss Contingencies

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

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

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

Environmental Liabilities

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

Asset Retirement Obligations

Asset retirement obligations are recorded for legal obligations associated with the future removal and disposal of long-lived assets. Such obligations may result from the acquisition, construction, development and/or normal use of the asset. Conditional asset retirement obligations are recorded when there is a legal obligation to perform a future asset retirement activity but where the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. In such a case, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. This uncertainty is incorporated in the fair value measurement of the obligation.

When recording an asset retirement obligation, the present value of the estimated future expenditures required to complete the asset retirement activity is recorded in the period in which the obligation is incurred, if a reasonable estimate can be made. In general, the present value of the estimated future expenditures is added to the carrying amount of the associated asset and the resulting asset retirement cost is depreciated over the estimated useful life of the asset. The present value is determined with a discount rate that equates to the Company's credit-adjusted risk-free rate. Where an asset is no longer in service when an asset retirement obligation is recorded, the asset retirement cost is recorded in results of operations.

Some of the Company's transmission assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Transmission Business expects to use the majority of its facilities in perpetuity, no asset retirement obligations have been recorded for these assets. If, at some future date, a particular facility is shown not to meet the perpetuity assumption, it will be reviewed to determine whether an estimable asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time.

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact
ASC 606	May 2014 – November 2017	ASC 606 *Revenue from Contracts with Customers* replaced ASC 605 *Revenue Recognition*. ASC 606 provides guidance on revenue recognition relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.	January 1, 2018	On January 1, 2018, the Company adopted ASC 606 using the retrospective method, without the election of any practical expedients. Upon adoption, there was no material impact to the Company's revenue recognition policy and no adjustments were made to prior period reported financial statements amounts. The Company has included the disclosure requirements of ASC 606 for annual and interim periods in the year of adoption.
ASU 2017-07	March 2017	Service cost components of net benefit cost associated with defined benefit plans are required to be reported in the same line as other compensation costs arising from services rendered by the Company's employees. All other components of net benefit cost are to be presented in the income statement separately from the service cost component. Only the service cost component is eligible for capitalization where applicable.	January 1, 2018	The Company applied for a regulatory asset to maintain the capitalization of post-employment benefit related costs and as such, there is no material impact upon adoption. See Note 2 - Significant Accounting Policies and Note 10 - Regulatory Assets and Liabilities.

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated impact
2016-02 2018-01 2018-10 2018-11 2018-20 2019-01	February 2016 – March 2019	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under ASC 842 land easements that exist or expired before the entity's adoption of ASC 842 and that were not previously accounted for as leases under ASC 840. ASU 2018-10 amends narrow aspects of ASC 842. ASU 2018-11 provides entities with an additional and option transition method in adopting ASC 842. ASU 2018-11 also permits lessors to elect an optional practical expedient to not separate non-lease components from the associated lease component by underlying asset classes. ASU 2018-20 provides relief to lessors that have lease contracts that either require lessees to pay lessor costs directly to a third party or require lessees to reimburse lessors for costs paid by lessors directly to third parties. ASU 2019-01 provides clarification on three issues: determining the fair value of the underlying assets by lessors that are not manufacturers or dealers, presentation of statement of cash flows for sales-type and direct financing leases and interim transition disclosures relating to Topic 250, Accounting Changes and Error Corrections.	January 1, 2019	The Transmission Business reviewed its existing leases and other contracts that are within the scope of ASC 842. Apart from the existing leases, no other contracts contained lease arrangements. Upon adoption in the first quarter of 2019, the Transmission Business will utilize the modified retrospective transition approach using the effective date of January 1, 2019 as its date of initial application. As a result, comparatives will not be updated. The Transmission Business will elect the package of practical expedients and the land easement practical expedient upon adoption. The impact to the Transmission Business' financial statements will be the recognition of approximately $12 million of Right-of-Use (ROU) assets and corresponding lease obligations on the Balance Sheet. The ROU assets and lease obligations represent the present value of the Transmission Business' remaining minimum lease payments for leases with terms greater than 12 months. Discount rates used in calculating the ROU assets and lease obligations correspond to Hydro One's incremental borrowing rate.
2018-07	June 2018	Expansion in the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. Previously, ASC 718 was only applicable to share-based payment transactions for acquiring goods and services from employees.	January 1, 2019	No impact upon adoption
2018-13	August 2018	Disclosure requirements on fair value measurements in ASC 820 are modified to improve the effectiveness of disclosures in financial statement notes.	January 1, 2020	Under assessment
2018-14	August 2018	Disclosure requirements related to single-employer defined benefit pension or other post-retirement benefit plans are added, removed or clarified to improve the effectiveness of disclosures in financial statement notes.	January 1, 2021	Under assessment
2018-15	August 2018	The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement is not affected by the amendment.	January 1, 2020	Under assessment

4. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS

Year ended December 31 *(millions of dollars)*	2018	2017
Depreciation of property, plant and equipment	350	335
Amortization of intangible assets	24	21
Amortization of regulatory assets	6	8
Depreciation and amortization	380	364
Asset removal costs	38	39
	418	403

5. FINANCING CHARGES

Year ended December 31 *(millions of dollars)*	2018	2017
Interest on long-term debt *(Note 21)*	259	259
Interest on inter-company demand facility *(Note 21)*	16	8
Other	10	8
Less: Interest capitalized on construction and development in progress	(46)	(45)
	239	230

6. INCOME TAXES

As a rate regulated utility business, the Transmission Business's effective tax rate excludes temporary differences that are recoverable in future rates charged to customers. Income tax expense differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and the effective tax rates is provided as follows:

Year ended December 31 *(millions of dollars)*	2018	2017
Income before income taxes	546	500
Income taxes at statutory rate of 26.5% (2017 - 26.5%)	145	133
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(43)	(34)
Interest capitalized for accounting but deducted for tax purposes	(12)	(12)
Overheads capitalized for accounting but deducted for tax purposes	(12)	(10)
Pension contributions in excess of pension expense	(7)	(7)
Environmental expenditures	(2)	(2)
Other	(8)	(2)
Net temporary differences	(84)	(67)
Net permanent differences	1	1
Total income taxes	62	67
Effective income tax rate	11.4%	13.4%

The major components of income tax expense are as follows:

Year ended December 31 *(millions of dollars)*	2018	2017
Current income taxes	63	50
Deferred income taxes (recovery)	(1)	17
Total income taxes	62	67

Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities expected to be included in the rate-setting process are offset by regulatory assets and liabilities to reflect the anticipated recovery or disposition of these balances within future electricity rates. Deferred income tax assets and liabilities arise from differences between the tax basis and the carrying amounts of the assets and liabilities. At December 31, 2018 and 2017, deferred income tax assets and liabilities consisted of the following:

December 31 *(millions of dollars)*	2018	2017
Deferred income tax assets (liabilities)		
Capital cost allowance in excess of depreciation and amortization	(875)	(1,370)
Regulatory amounts that are not recognized for tax purposes	(1)	(17)
Post-retirement and post-employment benefits expense in excess of cash payments	226	241
Environmental expenditures	25	28
Other	(10)	(7)
	(635)	(1,125)
Less: valuation allowance	(3)	(3)
Net deferred income tax liabilities	(638)	(1,128)

The net deferred income tax liabilities are presented on the Balance Sheets as long-term liabilities.

7. OTHER CURRENT ASSETS

December 31 *(millions of dollars)*	2018	2017
Regulatory assets *(Note 10)*	11	14
Prepaid expenses and other assets	16	35
Materials and supplies	12	11
	39	60

8. PROPERTY, PLANT AND EQUIPMENT

December 31, 2018 *(millions of dollars)*	Property, Plant and Equipment[1]	Accumulated Depreciation	Construction in Progress	Total
Transmission	15,856	5,407	759	11,208
Communication	968	690	33	311
Administration and service	558	306	33	285
Easements	530	65	—	465
	17,912	6,468	825	12,269

[1] Includes future use assets totalling $97 million.

December 31, 2017 *(millions of dollars)*	Property, Plant and Equipment[1]	Accumulated Depreciation	Construction in Progress	Total
Transmission	14,807	5,135	986	10,658
Communication	938	642	21	317
Administration and service	554	292	20	282
Easements	523	61	—	462
	16,822	6,130	1,027	11,719

[1] Includes future use assets totalling $97 million.

Financing charges capitalized on property, plant and equipment under construction were $45 million in 2018 (2017 - $44 million).

9. INTANGIBLE ASSETS

December 31, 2018 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	297	193	29	133
Other	8	3	—	5
	305	196	29	138

December 31, 2017 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	268	169	17	116
Other	4	3	—	1
	272	172	17	117

Financing charges capitalized to intangible assets under development were $1 million in 2018 (2017 - $1 million). The estimated annual amortization expense for intangible assets is as follows: 2019 - $21 million; 2020 - $13 million; 2021 - $12 million; 2022 - $11 million; and 2023 - $9 million.

10. REGULATORY ASSETS AND LIABILITIES

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

December 31 *(millions of dollars)*	2018	2017
Regulatory assets:		
Deferred income tax regulatory asset	731	1,172
Environmental	69	78
Post-retirement and post-employment benefits non-service cost	23	—
Stock-based compensation	21	20
Foregone revenue deferral	—	22
Post-retirement and post-employment benefits	—	16
Other	5	3
Total regulatory assets	849	1,311
Less: current portion	(11)	(14)
	838	1,297
Regulatory liabilities:		
Post-retirement and post-employment benefits	56	—
Deferred income tax regulatory liability	47	—
External revenue variance	26	46
Pension cost differential	17	10
Conservation and Demand Management (CDM) deferral variance	—	28
Other	4	1
Total regulatory liabilities	150	85
Less: current portion	(48)	(46)
	102	39

Deferred Income Tax Regulatory Asset and Liability

Deferred income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. The Transmission Business has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Transmission Business' income tax expense would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the 2018 income tax expense would have been lower by approximately $359 million (2017 - higher by $81 million).

On September 28, 2017, the OEB issued its decision and order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Original Decision). In its Original Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the Electricity Act (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One Limited shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a decision and order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of a portion of Hydro One Networks' transmission deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Original Decision and filed an appeal with the Divisional Court of Ontario (Appeal). In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. On August 31, 2018, the OEB granted the Motion and returned the portion of the Decision relating to the deferred tax asset to an OEB panel for reconsideration.

Subsequent to year end, on March 7, 2019, the OEB issued its reconsideration decision and concluded that their Original Decision was reasonable and should be upheld. As a result of the decision the Transmission Business has recognized a reduction in Hydro One Networks' transmission deferred income tax regulatory asset of $558 million, an increase in deferred income tax regulatory liability of $47 million, a decrease in the foregone revenue deferral regulatory asset of $22 million, and a decrease in deferred tax liability of $611 million. Notwithstanding the recognition of the effects of the decision in the 2018 financial statements, on April 5, 2019, the Company filed an appeal with the Ontario Divisional Court with respect to the OEB's deferred tax benefit decision.

Environmental

The Transmission Business records a liability for the estimated future expenditures required to remediate environmental contamination. A regulatory asset is recognized because management considers it to be probable environmental expenditures will be recovered in the future through the rate-setting process. In 2018, the environmental regulatory asset decreased by $6 million (2017 - $2 million) to reflect related changes in the Company's PCB and LAR environmental liabilities. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudency and the timing of recovery of all of the Transmission Business' actual environmental expenditures. In the absence of rate-regulated accounting, 2018 OM&A expenses would have been lower by $6 million (2017 - $2 million). In addition, 2018 amortization expense would have been lower by $6 million (2017 - $8 million), and 2018 financing charges would have been higher by $3 million (2017 - $3 million).

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

Hydro One Networks applied to the OEB for a regulatory asset to record the components other than service costs relating to its post-retirement and post-employment benefits that would have previously been capitalized to property, plant and equipment and intangible assets prior to adoption of ASU 2017-07. In May 2018, the OEB approved the regulatory asset for Hydro One Networks' Transmission Business. Hydro One Networks has recorded the components other than service costs relating to its post-retirement and post-employment benefits that would have been capitalized to property, plant and equipment and intangible assets, in the Post-Retirement and Post-Employment Benefits Non-Service Cost Regulatory Asset.

Stock-based Compensation

The Transmission Business recognizes costs associated with share grant plans in a regulatory asset as management considers it probable that share grant plans' costs will be recovered in the future through the rate-setting process. In the absence of rate-regulated accounting, 2018 OM&A expenses would have been higher by $nil (2017 - $3 million). Share grant costs are transferred to labour costs at the time the share grants vest and are issued, and are recovered in rates in accordance with recovery of said labour costs.

Post-Retirement and Post-Employment Benefits

The Transmission Business recognizes the net unfunded status of post-retirement and post-employment obligations on the Balance Sheets with an incremental offset to the associated regulatory assets. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to the present value of the actuarially determined benefit obligation at each year end based on an annual actuarial report, with an offset to the associated regulatory liability, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2018 OCI would have been higher by $73 million (2017 - $89 million).

Pension Cost Differential

A pension cost differential account was established for Hydro One Networks' Transmission Businesses to track the difference between the actual pension expenses incurred and estimated pension costs approved by the OEB. In September 2017, the OEB approved the disposition of the Transmission Business portion of the total pension cost differential account as at December 31, 2015, including accrued interest, which was recovered over a two-year period ended December 31, 2018. In the absence of rate-regulated accounting, 2018 revenue would have been higher by $4 million (2017 - $3 million).

External Revenue Variance

In May 2009, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use, and external revenue from station maintenance and engineering and construction work. In November 2012, the OEB again approved forecasted amounts related to these revenue categories and extended the scope to encompass all other external revenues. In September 2017, the OEB approved the disposition of the external revenue variance account as at December 31, 2015, including accrued interest, which was returned to customers over a two-year period ended December 31, 2018. The external revenue variance account balance reflects the excess of actual external revenues compared to the OEB-approved forecasted amounts.

Foregone Revenue Deferral

As part of its September 2017 decision on Hydro One Networks' transmission rate application for 2017 and 2018 rates, the OEB approved the foregone revenue account to record the difference between revenue earned under the rates approved as part of the decision, effective January 1, 2017, and revenue earned under the interim rates until the approved 2017 rates were implemented. The balance of this account was returned to ratepayers over a one-year period ending December 31, 2018.

CDM Deferral Variance Account

As part of Hydro One Networks' application for 2013 and 2014 transmission rates, Hydro One agreed to establish a new regulatory deferral variance account to track the impact of actual CDM and demand response results on the load forecast compared to the estimated load forecast included in the revenue requirement. The balance in the CDM deferral variance account related to the actual 2013 and 2014 CDM and demand response results on load forecasts, which are inputs in the UTR, compared to the amounts included in 2013 and 2014 revenue requirements, respectively. The balance of the account at December 31, 2015, including interest, was approved for disposition in the 2017-2018 transmission rate decision and returned to customers over a 2-year period ended December 31, 2018.

11. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

December 31 *(millions of dollars)*	**2018**	**2017**
Accrued liabilities	31	66
Accounts payable	110	94
Accrued interest *(Note 21)*	57	58
Regulatory liabilities *(Note 10)*	48	46
	246	264

12. OTHER LONG-TERM LIABILITIES

December 31 *(millions of dollars)*	**2018**	**2017**
Post-retirement and post-employment benefit liability *(Note 16)*	602	646
Environmental liabilities *(Note 17)*	62	69
Long-term inter-company payable *(Note 21)*	17	18
Long-term accounts payable and other liabilities	12	16
Asset retirement obligations *(Note 18)*	5	4
	698	753

13. DEBT

Hydro One issues notes for long-term financing under its Medium-Term Note (MTN) Program. The terms of certain issuances are mirrored down to Hydro One Networks through the issuance of inter-company debt, and are allocated between the Company's transmission and distribution businesses. The following table presents long-term debt allocated to the Transmission Business outstanding at December 31, 2018 and 2017:

December 31 *(millions of dollars)*	**2018**	**2017**
Long-term debt	6,096	5,521
Add: Net unamortized debt premiums	6	6
Add: Unrealized mark-to-market gain[1]	(3)	(5)
Less: Deferred debt issuance costs	(25)	(22)
Less: Long-term debt payable within one year	(437)	(413)
Long-term debt	5,637	5,087

[1] The unrealized mark-to-market net gain relates to $300 million of notes due in 2019 and $300 million notes due in 2021. The unrealized mark-to-market net gain is offset by a $3 million (2017 - $5 million) unrealized mark-to-market net loss on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges.

In 2018, Hydro One issued $1,400 million (2017 - $nil) of long-term debt under its MTN Program, all of which was mirrored down to Hydro One Networks, and $988 million was allocated to the Company’s Transmission Business.

In 2018, Hydro One repaid $750 million (2017 - $600 million) of maturing long-term debt under its MTN Program. On the same date, Hydro One Networks repaid inter-company debt of $750 million (2017 - $600 million) to Hydro One, of which $413 million (2017 - $405 million) was allocated to the Company's Transmission Business.

Principal and Interest Payments

Principal repayments, interest payments, and related weighted-average interest rates are summarized by year in the following table:

Years	Long-term Debt Principal Repayments *(millions of dollars)*	Interest Payments *(millions of dollars)*	Weighted Average Interest Rate *(%)*
2019	437	264	2.0
2020	180	253	4.4
2021	550	243	2.5
2022	319	231	3.2
2023	—	226	—
	1,486	1,217	2.7
2024-2028	464	1,086	3.1
2029 and thereafter	4,146	2,644	5.1
	6,096	4,947	4.4

14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The Company classifies its fair value measurements based on the following hierarchy, as prescribed by the accounting guidance for fair value, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Hydro One Networks has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

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

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

Non-Derivative Financial Assets and Liabilities

At December 31, 2018 and 2017, the carrying amounts of accounts receivable, due from related parties, inter-company demand facility, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Transmission Business' long-term debt at December 31, 2018 and 2017 are as follows:

December 31 *(millions of dollars)*	2018 Carrying Value	2018 Fair Value	2017 Carrying Value	2017 Fair Value
$300 million notes due 2019	297	297	295	295
$300 million notes due 2021	300	300	—	—
Other notes and debentures	5,477	6,049	5,205	6,096
Long-term debt, including current portion	6,074	6,646	5,500	6,391

Fair Value Measurements of Derivative Instruments

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

At December 31, 2018, the Transmission Business' share of the Company's derivative instruments included $600 million (2017 - $300 million) interest-rate swaps that were used to convert fixed-rate debt to floating-rate debt. These swaps are classified as fair value hedges. The Transmission Business' fair value hedge exposure was approximately 10% (2017 - 5%) of its total long-term debt. At December 31, 2018, the Transmission Business' interest-rate swaps designated as fair value hedges were as follows:

- a $300 million fixed-to-floating interest-rate swap agreement to convert $300 million notes maturing on November 18, 2019 into three-month variable rate debt, and
- a $300 million fixed-to-floating interest-rate swap agreement to convert $300 million notes maturing on June 25, 2021 into three-month variable rate debt.

At December 31, 2018 and 2017, the Company had no interest-rate swaps classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at December 31, 2018 and 2017 is as follows:

December 31, 2018 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Inter-company demand facility	897	897	897	—	—
Long-term debt, including current portion	6,074	6,646	—	6,646	—
Derivative instruments					
Fair value hedges – interest-rate swaps	3	3	—	3	—
	6,974	7,546	897	6,649	—

December 31, 2017 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Inter-company demand facility	1,159	1,159	1,159	—	—
Long-term debt, including current portion	5,500	6,391	—	6,391	—
Derivative instruments					
Fair value hedge – interest-rate swap	5	5	—	5	—
	6,664	7,555	1,159	6,396	—

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

There were no transfers between any of the fair value levels during the years ended December 31, 2018 or 2017.

Risk Management

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

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

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. The Company may also utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing.

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Transmission Business' net income for the years ended December 31, 2018 and 2017.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Statements of Operations and Comprehensive Income. The Transmission Business' net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the years ended December 31, 2018 and 2017 was not material.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At December 31, 2018 and 2017, there were no significant concentrations of credit risk with respect to any class of financial assets. The Transmission Business' revenue is earned from a broad base of customers. As a result, the Transmission Business did not earn a material amount of revenue from any single customer. At December 31, 2018 and 2017, there was no material accounts receivable balance due from any single customer.

Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2018, approximately 11% (2017 - 3%) of the Transmission Business' net accounts receivable were outstanding for more than 60 days.

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

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At December 31, 2018 and 2017, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At December 31, 2018, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparties.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One Networks meets its short-term liquidity requirements through the inter-company demand facility with Hydro One and funds from operations. The short-term liquidity available to the Company is expected to be sufficient to fund normal operating requirements.

15. CAPITAL MANAGEMENT

The Transmission Business' objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. At December 31, 2018 and 2017, the Transmission Business' capital structure was as follows:

December 31 *(millions of dollars)*	**2018**	**2017**
Long-term debt payable within one year	437	413
Inter-company demand facility	897	1,159
	1,334	1,572
Long-term debt	5,637	5,087
Excess of assets over liabilities	4,729	4,458
Total capital	11,700	11,117

The following table shows the movements in the excess of assets over liabilities for the years ended December 31, 2018 and 2017:

Year ended December 31 *(millions of dollars)*	**2018**	**2017**
Excess of assets over liabilities - beginning	4,458	4,273
Net income	484	433
Payments to Hydro One to finance dividends and return of stated capital	(213)	(248)
Excess of assets over liabilities - ending	4,729	4,458

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

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

DC Plan

Hydro One established a DC Plan effective January 1, 2016. The DC Plan covers eligible management employees hired on or after January 1, 2016, as well as management employees hired before January 1, 2016 who were not eligible or had not irrevocably elected to join the Pension Plan as of September 30, 2015. Members of the DC Plan have an option to contribute 4%, 5% or 6% of their pensionable earnings, with matching contributions by Hydro One up to an annual contribution limit. There is also a Supplemental DC Plan that provides members of the DC Plan with employer contributions beyond the limitations imposed by the *Income Tax Act* (Canada) in the form of credits to a notional account. The Transmission Business contributions to the DC Plan for the year ended December 31, 2018 were less than $1 million (2017 - less than $1 million).

Pension Plan and Supplemental Plan

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

Company and employee contributions to the Pension Plan are based on actuarial reports, including valuations performed at least every three years, and actual or projected levels of pensionable earnings, as applicable. Annual Pension Plan contributions for 2018 were $75 million (2017 - $87 million). Estimated annual Pension Plan contributions for the years 2019, 2020, 2021, 2022, 2023 and 2024 are approximately $78 million, $77 million, $78 million, $79 million, $81 million and $83 million, respectively. The most recent actuarial valuation was performed effective December 31, 2017, and the next actuarial valuation will be performed no later than effective December 31, 2020. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash.

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

At December 31, 2018, the present value of Hydro One's projected pension benefit obligation was estimated to be $7,752 million (2017 - $8,258 million). The fair value of pension plan assets available for these benefits was $7,205 million (2017 - $7,277 million).

Post-Retirement and Post-Employment Plans

During the year ended December 31, 2018, the Transmission Business charged $16 million (2017 - $20 million) of post-retirement and post-employment benefit costs to operation, and capitalized $35 million (2017 - $35 million) as part of the cost of property, plant and equipment and intangible assets. Benefits paid in 2018 were $21 million (2017 - $18 million). In addition, the associated post-retirement and post-employment benefits regulatory asset was decreased by $73 million (2017 - $89 million).

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

December 31 *(millions of dollars)*	2018	2017
Accrued liabilities	26	25
Post-retirement and post-employment benefit liability	602	646
Net unfunded status	628	671

17. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2018 and 2017:

Year ended December 31, 2018 *(millions of dollars)*	PCB	LAR	Total
Environmental liabilities - beginning	73	5	78
Interest accretion	3	—	3
Expenditures	(6)	—	(6)
Revaluation adjustment	(7)	1	(6)
Environmental liabilities - ending	63	6	69
Less: current portion	(6)	(1)	(7)
	57	5	62

Year ended December 31, 2017 *(millions of dollars)*	PCB	LAR	Total
Environmental liabilities - beginning	77	8	85
Interest accretion	3	—	3
Expenditures	(6)	(2)	(8)
Revaluation adjustment	(1)	(1)	(2)
Environmental liabilities - ending	73	5	78
Less: current portion	(8)	(1)	(9)
	65	4	69

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

December 31, 2018 *(millions of dollars)*	PCB	LAR	Total
Undiscounted environmental liabilities	69	6	75
Less: discounting environmental liabilities to present value	(6)	—	(6)
Discounted environmental liabilities	63	6	69

December 31, 2017 *(millions of dollars)*	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities	78	5	83
Less: discounting environmental liabilities to present value	(5)	—	(5)
Discounted environmental liabilities	73	5	78

At December 31, 2018, the estimated future environmental expenditures were as follows:

(millions of dollars)	
2019	7
2020	11
2021	17
2022	19
2023	17
Thereafter	4
	75

The Transmission Business records a liability for the estimated future expenditures for LAR and for the phase-out and destruction of PCB-contaminated mineral oil removed from electrical equipment when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations, and advances in remediation technologies. In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation rate assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.0% to 3.8%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Transmission Business' environmental liabilities represent management's best estimates of the present value of costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, with respect to the PCB environmental liability, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures.

PCB

The Environment Canada regulations, enacted under the *Canadian Environmental Protection Act, 1999*, govern the management, storage and disposal of PCBs based on certain criteria, including type of equipment, in-use status, and PCB-contamination thresholds. Under current regulations, Hydro One's PCBs have to be disposed of by the end of 2025, with the exception of specifically exempted equipment. Contaminated equipment will generally be replaced, or will be decontaminated by removing PCB-contaminated insulating oil and retro filling with replacement oil that contains PCBs in concentrations of less than 2 ppm.

The Transmission Business' best estimate of the total estimated future expenditures to comply with current PCB regulations is $69 million (2017 - $78 million). These expenditures are expected to be incurred over the period from 2019 to 2024. As a result of its annual review of environmental liabilities, the Transmission Business recorded a revaluation adjustment in 2018 to decrease the PCB environmental liability by $7 million (2017 - $1 million).

LAR

The Transmission Business' best estimate of the total estimated future expenditures to complete its LAR program is $6 million (2017 - $5 million). These expenditures are expected to be incurred over the period from 2018 to 2022. As a result of its annual review of environmental liabilities, the Transmission Business recorded a revaluation adjustment in 2018 to increase the LAR environmental liability by $1 million (2017 - decrease by $1 million).

18. ASSET RETIREMENT OBLIGATIONS

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

In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.0% to 4.0%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Transmission Business' asset retirement obligations represent management's best estimates of the cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively. As a result of its annual review of asset retirement obligations, the Company recorded a revaluation adjustment in 2018 to increase the asset retirement liability for the Transmission Business by $1 million (2017 - $nil).

At December 31, 2018, Hydro One Networks had recorded asset retirement obligations of $5 million (2017 - $4 million) related to its Transmission Business, primarily consisting of the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The amount of interest recorded is nominal.

19. HYDRO ONE NETWORKS' SHARE CAPITAL

Hydro One Networks is authorized to issue an unlimited number of common and preferred shares. At December 31, 2018 and 2017, Hydro One Networks had 207,557,181 common shares issued and outstanding and no preferred shares issued and outstanding.

During 2018, Hydro One Networks declared common share dividends in the amount of $1 million (2017 - $2 million) and made a return of stated capital of $545 million (2017 – $509 million) to Hydro One. The amount allocated to the Transmission Business to finance these dividends and return of stated capital was $213 million (2017 - $248 million).

20. STOCK-BASED COMPENSATION

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

Share Grant Plans

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

The PWU Share Grant Plan provides for the issuance of common shares of Hydro One Limited from treasury to certain eligible members of the PWU annually, commencing on April 1, 2017 and continuing until the earlier of April 1, 2028 or the date an eligible employee no longer meets the eligibility criteria of the PWU Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on April 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. The requisite service period for the PWU Share Grant Plan began on July 3, 2015, which is the date the share grant plan was ratified by the PWU. The number of common shares issued annually to each eligible employee will be equal to 2.7% of such eligible employee's salary as at April 1, 2015, divided by $20.50, being the price of the common shares of Hydro One Limited in the Initial Public Offering (IPO). The aggregate number of Hydro One Limited common shares issuable under the PWU Share Grant Plan shall not exceed 3,981,763 common shares. In 2015,1,761,152 Hydro One Limited common shares were granted under the PWU Share Grant Plan relevant to the total stock-based compensation recognized by the Transmission Business.

The Society Share Grant Plan provides for the issuance of common shares of Hydro One Limited from treasury to certain eligible members of The Society annually, commencing on April 1, 2018 and continuing until the earlier of April 1, 2029 or the date an eligible employee no longer meets the eligibility criteria of the Society Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on September 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. Therefore the requisite service period for the Society Share Grant Plan began on September 1, 2015. The number of common shares issued annually to each eligible employee will be equal to 2.0% of such eligible employee's salary as at September 1, 2015, divided by $20.50, being the price of the common shares of Hydro One Limited in the IPO. The aggregate number of Hydro One Limited common shares issuable under the Society Share Grant Plan shall not exceed 1,434,686 common shares. In 2015, 608,626 Hydro One Limited common shares were granted under the Society Share Grant Plan relevant to the total stock-based compensation recognized by the Transmission Business.

The fair value of the Hydro One Limited 2015 share grants to employees of Hydro One Networks and allocated to the Transmission Business was $49 million. The fair value was estimated based on the grant date Hydro One Limited share price of $20.50 and is recognized using the graded-vesting attribution method as the share grant plans have both a performance condition and a service condition. In 2018, 220,022 common shares were issued under the Share Grant Plans (2017 - 179,175) to eligible employees of Hydro One Networks and allocated to the Transmission Business. Total stock-based compensation recognized by the Transmission Business during 2018 was $6 million (2017 - $8 million) and was recorded as a regulatory asset.

A summary of the Transmission Business' share grant activity under the Share Grant Plans during years ended December 31, 2018 and 2017 is presented below:

Year ended December 31, 2018	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding - beginning	2,088,926	$20.50
Vested and issued[1]	(220,022)	—
Forfeited	(48,940)	$20.50
Share grants outstanding - ending	1,819,964	$20.50

[1] In 2018,Hydro One Limited issued from treasury common shares to eligible Hydro One Networks employees in accordance with provisions of the PWU and the Society Share Grant Plans. In accordance with the inter-company agreement between Hydro One and Hydro One Limited, Hydro One Networks made payments to Hydro One for the common shares issued.

Year ended December 31, 2017	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding - beginning	2,332,878	$20.50
Vested and issued[1]	(179,175)	
Forfeited	(64,777)	$20.50
Share grants outstanding - ending	2,088,926	$20.50

[1] In 2017, Hydro One Limited issued from treasury common shares to eligible Hydro One Networks employees in accordance with provisions of the PWU Share Grant Plan. In accordance with the inter-company agreement between Hydro One and Hydro One Limited, Hydro One Networks made payments to Hydro One for the common shares issued.

Directors' DSU Plan

Under the Directors’ DSU Plan, directors can elect to receive credit for their annual cash retainer in a notional account of DSUs in lieu of cash. Hydro One Limited Board of Directors may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled. Each DSU represents a unit with an underlying value equivalent to the value of one common share of Hydro One Limited and is entitled to accrue Hydro One Limited common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One Limited Board of Directors.

During 2018 and 2017, Directors' DSU Plan awards granted by Hydro One Limited that related to Hydro One Networks' Transmission Business were as follows:

Year ended December 31 *(number of DSUs)*	2018	2017
DSUs outstanding - beginning	70,908	38,416
Granted	30,413	32,492
Settled	(82,246)	—
DSUs outstanding - ending	19,075	70,908

For the year ended December 31, 2018, an expense of $1 million (2017 - $1 million) was recognized in earnings with respect to the Directors' DSU Plan. At December 31, 2018, a liability of $1 million (2017 - $2 million) related to Directors' DSUs has been recorded at the December 31, 2018 closing price of Hydro One Limited common shares of $20.25. This liability is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

DSUs related to the Company's former Board of Directors were settled at the June 29, 2018 (last business day in June 2018) closing price of Hydro One Limited common shares of $20.04, with an amount of approximately $2 million paid in 2018.

Management DSU Plan

Under the Management DSU Plan, eligible executive employees can elect to receive a specified proportion of their annual short-term incentive in a notional account of DSUs in lieu of cash. Each DSU represents a unit with an underlying value equivalent to the value of one common share of Hydro One Limited and is entitled to accrue common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One Limited Board of Directors.

During 2018 and 2017, Management DSU Plan awards granted by Hydro One Limited that related to Hydro One Networks' Transmission Business were as follows:

Year ended December 31 (number of DSUs)	2018	2017
DSUs outstanding - beginning	27,341	—
Granted	13,829	27,970
Paid	—	(629)
DSUs outstanding - ending	41,170	27,341

For the year ended December 31, 2018, an expense recognized in earnings by the Transmission Business with respect to the Management DSU Plan was $nil (2017 - $1 million). At December 31, 2018, a liability related to outstanding DSUs recorded at the closing price of Hydro One Limited common shares of $20.25 and included in long-term accounts payable and other liabilities on the Balance Sheets was $nil (2017 - $1 million).

Employee Share Ownership Plan

In 2015, Hydro One Limited established Employee Share Ownership Plans (ESOP) for certain eligible management and non-represented employees (Management ESOP) and for certain eligible Society-represented staff (Society ESOP). Under the Management ESOP, the eligible management and non-represented employees may contribute between 1% and 6% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 50% of their contributions, up to a maximum Company contribution of $25,000 per calendar year. Under the Society ESOP, the eligible Society-represented staff may contribute between 1% and 4% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 25% of their contributions, with no maximum Company contribution per calendar year. In 2018, Company contributions made under the ESOP for the Transmission Business were $1 million (2017 - $1 million).

LTIP

Effective August 31, 2015, the Board of Directors of Hydro One Limited adopted an LTIP. Under the LTIP, long-term incentives are granted to certain executive and management employees of Hydro One Limited and its subsidiaries, and all equity-based awards will be settled in newly issued shares of Hydro One Limited from treasury, consistent with the provisions of the plan which also permit the participants to surrender a portion of their awards to satisfy related withholding taxes requirements. The aggregate number of shares issuable under the LTIP shall not exceed 11,900,000 shares of Hydro One Limited.

The LTIP provides flexibility to award a range of vehicles, including Performance Share Units (PSUs), Restricted Share Units (RSUs), stock options, share appreciation rights, restricted shares, DSUs, and other share-based awards. The mix of vehicles is intended to vary by role to recognize the level of executive accountability for overall business performance.

PSUs and RSUs

During 2018 and 2017, LTIP awards granted by Hydro One Limited that related to Hydro One Networks' Transmission Business were as follows:

	PSUs		RSUs	
Year ended December 31 (number of units)	2018	2017	2018	2017
Units outstanding – beginning	179,926	84,952	164,391	96,083
Granted	125,658	119,062	104,328	97,341
Vested and issued[1]	(60)	(291)	(53,695)	(6,983)
Forfeited	(16,832)	(23,797)	(16,873)	(22,050)
Settled	(54,844)	—	(37,122)	—
Units outstanding – ending	233,848	179,926	161,029	164,391

[1] In 2018, Hydro One Limited issued from treasury common shares to eligible Hydro One Networks Transmission Business employees in accordance with provisions of the LTIP. In accordance with the inter-company agreement between Hydro One and Hydro One Limited, Hydro One Networks made payments to Hydro One for the common shares issued.

The grant date total fair value of the awards granted in 2018 was $5 million (2017 - $5 million). The compensation expense related to the PSU and RSU awards recognized by the Transmission Business during 2018 was $4 million (2017 - $2 million). The expense recognized in 2018 included less than $1 million related to previously awarded PSUs and RSUs to Hydro One's former President and CEO for which costs had not previously been recognized. These awards were settled in 2018 through a one-time cash settlement arrangement.

At December 31, 2018, $4 million (2017 - $3 million) payable relating to PSU and RSU awards was included in due to related parties on the Balance Sheets.

Stock Options

Hydro One Limited is authorized to grant stock options under its LTIP to certain eligible employees. During 2018, Hydro One Limited granted 1,450,880 stock options (2017 - nil). The stock options granted are exercisable for a period not to exceed seven years from the date of grant and vest evenly over a three-year period on each anniversary of the date of grant.

The fair value based method is used to measure compensation expense related to stock options and the expense is recognized over the vesting period on a straight-line basis. The fair value of the stock option awards granted was estimated on the date of grant using a Black-Scholes valuation model.

Stock options granted and the weighted-average assumptions used in the valuation model for options granted during 2018 are as follows:

Exercise price[1]	$ 20.70
Grant date fair value per option	$ 1.66
Valuation assumptions:	
Expected dividend yield[2]	3.78%
Expected volatility[3]	15.01%
Risk-free interest rate[4]	2.00%
Expected option term[5]	4.5 years

1 Hydro One Limited common share price on the date of the grant.
2 Based on dividend and Hydro One Limited common share price on the date of the grant.
3 Based on average daily volatility of Hydro One Limited's peer entities for a 4.5-year term.
4 Based on bond yield for an equivalent Canadian government bond.
5 Determined using the option term and the vesting period.

During 2018 and 2017, the activity of stock options granted by Hydro One Limited that related to Hydro One Networks' Transmission Business were as follows:

Year ended December 31 *(number of stock options)*	**2018**	**2017**
Stock options outstanding - beginning	—	—
Granted[1]	280,449	—
Cancelled[2]	(57,062)	—
Stock options outstanding - ending[1]	223,387	—

1 All stock options granted and outstanding at December 31, 2018 are non-vested.
2 During 2018, stock options previously awarded to the Company's former President and CEO were cancelled. The Hydro One Networks unrecognized compensation expense related to the cancelled stock options was not significant.

The compensation expense related to stock options recognized by the Company during 2018 was not significant.

21. RELATED PARTY TRANSACTIONS

The Transmission Business is a separately regulated business of Hydro One Networks which is indirectly owned by Hydro One Limited. The Province is a shareholder of Hydro One Limited with approximately 47.4% ownership at December 31, 2018. The IESO, Ontario Power Generation Inc. (OPG), OEFC, and the OEB, are related parties to Hydro One Networks because they are controlled or significantly influenced by the Province.

Year ended December 31 *(millions of dollars)*

Related Party	**Transaction**	**2018**	**2017**
IESO	Transmission services – amounts received[1]	1,570	1,428
OPG	Revenues related to provision of construction and equipment maintenance services	2	2
	Costs related to the purchase of services	—	1
OEB	OEB fees	4	3
Hydro One Limited and its subsidiaries	Revenues for services provided	11	9
	Services received - costs expensed	16	19
	Interest expense on long-term debt	259	259
	Interest expense on inter-company demand facility	16	8
	Payments to finance dividends and return of stated capital	213	248
	Stock-based compensation costs	10	10

1 Consistent with the Company's revenue recognition policy, the Transmission Business recognized revenues of $1,584 million in 2018 (2017 – $1,489 million).

The amounts due to and from related parties at December 31, 2018 and 2017 are as follows:

December 31 *(millions of dollars)*	2018	2017
Inter-company demand facility	(897)	(1,159)
Due from related parties	127	131
Due to related parties	(64)	(64)
Accrued interest	(57)	(58)
Long-term inter-company payable	(17)	(18)
Long-term debt, including current portion	(6,074)	(5,500)

22. STATEMENTS OF CASH FLOWS

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

Year ended December 31 *(millions of dollars)*	2018	2017
Accounts receivable	7	(9)
Due from related parties	4	3
Materials and supplies	(1)	1
Other assets	19	(24)
Accounts payable	13	(9)
Accrued liabilities	(37)	(40)
Due to related parties	1	(60)
Accrued interest	(1)	(4)
Long-term accounts payable and other liabilities	(2)	(3)
Post-retirement and post-employment benefit liability	5	38
	8	(107)

Capital Expenditures

The following tables reconcile investments in property, plant and equipment and intangible assets and the amounts presented in the Statements of Cash Flows for the years ended December 31, 2018 and 2017. The reconciling items include change in accruals and capitalized depreciation.

Year ended December 31, 2018 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(934)	(45)	(979)
Reconciling items	16	—	16
Cash outflow for capital expenditures	(918)	(45)	(963)

Year ended December 31, 2017 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(928)	(26)	(954)
Reconciling items	11	2	13
Cash outflow for capital expenditures	(917)	(24)	(941)

Capital Contributions

Hydro One Networks enters into contracts governed by the OEB Transmission System Code when a transmission customer requests a new or upgraded transmission connection. The customer is required to make a capital contribution to Hydro One Networks based on the shortfall between the present value of the costs of the connection facility and the present value of revenues. The present value of revenues is based on an estimate of load forecast for the period of the contract with Hydro One Networks. Once the connection facility is commissioned, in accordance with the OEB Transmission System Code, Hydro One Networks will periodically reassess the estimated of load forecast which will lead to a decrease, or an increase in the capital contributions from the customer. The increase or decrease in capital contributions is recorded directly to fixed assets in service. In 2018, capital contributions from these reassessments totalled $7 million (2017 - $9 million), which represents the difference between the revised load forecast of electricity transmitted compared to the load forecast in the original contract, subject to certain adjustments.

Supplementary Information

Year ended December 31 *(millions of dollars)*	2018	2017
Net interest paid	260	263
Income taxes paid	33	60

23. CONTINGENCIES

Hydro One Networks is involved in various lawsuits and claims in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

Hydro One and certain of its subsidiaries, including Hydro One Networks, are defendants in a class action suit in which the representative plaintiff is seeking up to $125 million in damages related to allegations of improper billing practices. The action was commenced in the Superior Court of Ontario on September 9, 2015. The plaintiff's motion for certification was dismissed by the court in November 2017. The plaintiff appealed the court's decision to the Divisional Court. The appeal was heard in October 2018; the Divisional Court dismissed the appeal in December 2018; and in January 2019, the plaintiff applied for leave to appeal to the Ontario Court of Appeal. The plaintiff's application for leave to appeal was denied by the Ontario Court of Appeal in March 2019, which means that the lawsuit has effectively ended.

The Company is a wholly owned subsidiary of Hydro One. As such, the assets of the Transmission Business are available to satisfy the debts, contingent liabilities and commitments of both the Company and Hydro One.

24. COMMITMENTS

The Company and Hydro One have numerous commitments. These commitments have not been specifically allocated to the Transmission Business. However, the assets of the Transmission Business are available to satisfy the commitments of both the Company and Hydro One.

25. SUBSEQUENT EVENTS

(A) Payments to Finance Dividends and Return of Stated Capital

On February 20, 2019, Hydro One Networks declared common share dividends of $1 million, and a return of stated capital of $138 million was approved. The amount allocated to the Transmission Business to finance these payments was $46 million.

(B) Stock-based Compensation

Subsequent to December 31, 2018, Hydro One Limited issued from treasury 32,053 and 242,885 common shares to eligible Transmission Business employees in accordance with provisions of the LTIP and Share Grant Plans, respectively.

(C) Lake Superior Link Project

On February 15, 2018, the Transmission Business filed an application with the OEB to construct a transmission line (East-West Tie Line) in northwestern Ontario (Lake Superior Link Project). During 2018, the Transmission Business capitalized costs totaling approximately $11 million associated with this project. On February 11, 2019, the OEB awarded the project to a competitor, as directed by the Province on January 30, 2019. As a result, in the first quarter of 2019, Hydro One recognized an impairment loss of approximately $11 million associated with previously capitalized costs related to this project.

(D) OEB Regulatory Decisions

<u>Deferred Income Tax Regulatory Asset</u>

Subsequent to year end, on March 7, 2019, the OEB issued a decision on its reconsideration of its Original Decision with respect to the rate-setting treatment of the benefits of the deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act* (Ontario) to tax payments under the federal and provincial tax regime. The OEB's Original Decision concluded that these benefits should not accrue entirely to Hydro One shareholders and that a portion should be shared with ratepayers. The OEB has concluded that the Original Decision was reasonable and should be upheld. The March 7, 2019 OEB decision has been determined to be a Type I subsequent event under US GAAP. As a result, the financial impact of this OEB decision has been reflected in these financial statements, as more fully discussed in Note 10 - Regulatory Assets and Liabilities.

(E) Long-term Debt

On April 5, 2019, Hydro One issued the following long-term debt under its MTN Program:

- $700 million notes with a maturity date of April 5, 2024 and a coupon rate of 2.54%. This issuance was mirrored down to Hydro One Networks through the issuance of inter-company debt with a coupon rate of 2.79%, of which $413 million was allocated to the Transmission Business;
- $550 million notes with a maturity date of April 5, 2029 and a coupon rate of 3.02%. This issuance was mirrored down to Hydro One Networks through the issuance of inter-company debt with a coupon rate of 3.27%, of which $325 million was allocated to the Transmission Business; and
- $250 million notes with a maturity date of April 5, 2050 and a coupon rate of 3.64%. This issuance was mirrored down to Hydro One Networks through the issuance of inter-company debt with a coupon rate of 3.89%, of which $147 million was allocated to the Transmission Business.

On March 21, 2019, Hydro One repaid $228 million of maturing long-term debt notes under its MTN Program. On the same date, Hydro One Networks repaid inter-company debt of $228 million to Hydro One, of which $137 million was allocated to the Transmission Business.

HYDRO ONE NETWORKS INC.

TRANSMISSION BUSINESS

FINANCIAL STATEMENTS

DECEMBER 31, 2017

To the Directors of Hydro One Networks Inc.

We have audited the accompanying carve-out financial statements of the Transmission Business (a business of Hydro One Networks Inc.), which comprise the carve-out balance sheet as at December 31, 2017, the carve-out statements of operations and comprehensive income, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The carve-out financial statements have been prepared by management in accordance with the basis of accounting in Note 2 to the carve-out financial statements.

Management's Responsibility for the Carve-out Financial Statements

Management of Hydro One Networks Inc. is responsible for the preparation of these carve-out financial statements in accordance with the basis of accounting in Note 2 to the carve-out financial statements; this includes determining that the basis of accounting is an acceptable basis for the preparation of these carve-out financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these carve-out financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the carve-out financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the carve-out financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the carve-out financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the carve-out financial statements.

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

Opinion

In our opinion, the carve-out financial statements as at and for the year ended December 31, 2017 are prepared, in all material respects, in accordance with the basis of accounting in Note 2 to the carve-out financial statements.

Basis of Accounting and Restriction of Use

Without modifying our opinion, we draw attention to Note 2 to the carve-out financial statements, which describes the basis of preparation used in these carve-out financial statements. In particular, in preparing the carve-out financial statements, long-term debt, shared functions and service costs, and income taxes have been allocated to the Transmission Business (a business of Hydro One Networks Inc.) using the method of allocation described in Note 2 to the carve-out financial statements. As a result, the carve-out financial statements may not necessarily be identical to the balance sheet, results of operations and cash flows that would have resulted had the Transmission Business (a business of Hydro One Networks Inc.) historically operated on a stand-alone basis. The carve-out financial statements are prepared to assist Hydro One Networks Inc. to comply with its reporting requirements of the Ontario Energy Board. As a result, the carve-out financial statements may not be suitable for another purpose.

Our report is intended solely for the Directors of Hydro One Networks Inc. and the Ontario Energy Board and should not be used by parties other than Hydro One Networks Inc. or the Ontario Energy Board.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
April 27, 2018

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2017 and 2016

Year ended December 31 *(millions of Canadian dollars)*	**2017**	**2016**
Revenues		
Transmission tariff *(Note 21)*	1,489	1,512
Other	30	39
	1,519	1,551
Costs		
Operation, maintenance and administration *(Note 21)*	386	409
Depreciation and amortization *(Note 4)*	403	380
	789	789
Income before financing charges and income taxes	**730**	**762**
Financing charges *(Notes 5, 21)*	230	220
Income before income taxes	**500**	**542**
Income taxes *(Note 6)*	67	76
Net income	**433**	**466**
Other comprehensive income	—	—
Comprehensive income	**433**	**466**

See accompanying notes to Financial Statements.

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
BALANCE SHEETS
At December 31, 2017 and 2016

December 31 *(millions of Canadian dollars)*	**2017**	**2016**
Assets		
Current assets:		
Accounts receivable	40	38
Due from related parties *(Note 21)*	158	134
Other current assets *(Note 7)*	60	32
	258	204
Property, plant and equipment *(Note 8)*	11,719	11,148
Other long-term assets:		
Regulatory assets *(Note 10)*	1,297	1,256
Intangible assets *(Note 9)*	117	110
Other assets	1	2
	1,415	1,368
Total assets	**13,392**	**12,720**
Liabilities		
Current liabilities:		
Inter-company demand facility *(Note 21)*	1,071	213
Long-term debt payable within one year *(Notes 13, 14, 21)*	413	405
Accounts payable and other current liabilities *(Note 11)*	264	275
Due to related parties *(Note 21)*	179	124
	1,927	1,017
Long-term liabilities:		
Long-term debt *(Notes 13, 14, 21)*	5,087	5,503
Deferred income tax liabilities *(Note 6)*	1,128	998
Regulatory liabilities *(Note 10)*	39	128
Other long-term liabilities *(Note 12)*	753	801
	7,007	7,430
Total liabilities	**8,934**	**8,447**
Contingencies and Commitments (Notes 23, 24)		
Subsequent Events (Note 25)		
Excess of assets over liabilities *(Notes 15, 19)*	4,458	4,273
Total liabilities and excess of assets over liabilities	**13,392**	**12,720**

See accompanying notes to Financial Statements.

On behalf of the Board of Directors:

Philip Orsino
Chair, Audit Committee

Mayo Schmidt
Director

HYDRO ONE NETWORKS INC.
TRANSMISSION BUSINESS
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

Year ended December 31 *(millions of Canadian dollars)*	**2017**	**2016**
Operating activities		
Net income	433	466
Environmental expenditures	(8)	(7)
Adjustments for non-cash items:		
Depreciation and amortization (excluding asset removal costs)	364	346
Regulatory assets and liabilities	(66)	(8)
Deferred income taxes	17	—
Other	5	8
Changes in non-cash balances related to operations *(Note 22)*	(19)	94
Net cash from operating activities	**726**	**899**
Financing activities		
Long-term debt issued	—	1,240
Long-term debt repaid	(405)	(300)
Payments to finance dividends and return on stated capital	(248)	(343)
Other	—	(5)
Net cash from (used in) financing activities	**(653)**	**592**
Investing activities		
Capital expenditures *(Note 22)*		
Property, plant and equipment	(917)	(955)
Intangible assets	(24)	(22)
Capital contributions received *(Note 22)*	9	21
Other	1	1
Net cash used in investing activities	**(931)**	**(955)**
Net change in inter-company demand facility	(858)	536
Inter-company demand facility, beginning of year	(213)	(749)
Inter-company demand facility, end of year	**(1,071)**	**(213)**

See accompanying notes to Financial Statements.

1. DESCRIPTION OF THE BUSINESS

Hydro One Inc. (Hydro One) was incorporated on December 1, 1998, under the *Business Corporations Act* (Ontario) and is wholly-owned by Hydro One Limited. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

Hydro One Networks Inc. (Hydro One Networks or the Company) was incorporated on March 4, 1999 under the *Business Corporations Act* (Ontario) and is a wholly owned subsidiary of Hydro One. The Company owns and operates regulated transmission and distribution businesses. The regulated transmission business (Transmission Business) operates a high-voltage electrical transmission network that represents almost all of the licensed transmission capacity in Ontario. The Transmission Business is regulated by the Ontario Energy Board (OEB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These Financial Statements are prepared and presented in accordance with the accounting policies summarized below and in Canadian dollars. These policies are consistent with United States (US) Generally Accepted Accounting Principles (GAAP). These Financial Statements have been prepared for the specific use of the OEB and as a result, may not be suitable for any other purpose. Consolidated Financial Statements of Hydro One for the year ended December 31, 2017 have been prepared and are publicly available.

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

The Financial Statements have been constructed primarily through specific identification of assets, liabilities (other than debt), revenues and expenses that relate to the Transmission Business. The Company’s long-term debt is allocated based on the respective borrowing requirements of the Company’s transmission and distribution businesses. A portion of the Company’s shared functions and services costs is allocated to the Transmission Business on a fully allocated-cost basis, consistent with OEB-approved independent studies. Income tax expense has been recorded at effective rates based on income taxes as reported in the Statements of Operations and Comprehensive Income as though the Transmission Business was a separate taxpaying entity. However, income taxes paid and the deferred tax asset recognized by the Company in relation to the Company losing its exemption from tax under the Federal Tax Regime have been excluded as they represent transactions that are not included in the rate-setting process of the Transmission Business. Certain other amounts presented in these Financial Statements represent allocations subject to review and approval by the OEB.

Hydro One Networks performed an evaluation of subsequent events through to April 27, 2018, the date these Financial Statements were available to be issued, to determine whether any events or transactions warranted recognition and disclosure in these Financial Statements. See note 25 - Subsequent Events.

Use of Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumptions are made, with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, post-retirement and post-employment benefits, asset retirement obligations, asset impairments, contingencies, and deferred income tax assets and liabilities. Actual results may differ significantly from these estimates.

Rate Setting

In November 2017, the OEB approved Hydro One Networks’ 2017 transmission rates revenue requirement of $1,438 million. See Note 10 - Regulatory Assets and Liabilities for additional information.

Regulatory Accounting

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

Revenue Recognition

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as electricity is transmitted and delivered to customers. Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered. Revenues are recorded net of indirect taxes.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable represents earned revenue for electricity transmitted and delivered to customers and receivable from the Independent Electricity System Operator (IESO). Trade accounts receivable are recorded at the amount reported by the IESO. No allowance for doubtful accounts is recognized with respect to trade accounts receivable as there is no risk of loss associated with such amounts.

Income Taxes

Current and deferred income taxes are computed based on the tax rates and tax laws enacted as at the balance sheet date. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the “more-likely-than-not” recognition threshold is satisfied and are measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant management judgment is required to determine recognition thresholds and the related amount of tax benefits to be recognized in the Financial Statements. Management re-evaluates tax positions each period using new information about recognition or measurement as it becomes available.

Deferred Income Taxes

Deferred income taxes are provided for using the liability method. Under this method, deferred income tax liabilities are recognized on all taxable temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for deductible temporary differences between tax bases and carrying amounts of assets and liabilities, the carry forward unused tax credits and tax losses to the extent that it is more-likely-than-not that these deductions, credits, and losses can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted as at the balance sheet date. Deferred income taxes that are not included in the rate-setting process are charged or credited to the Statements of Operations and Comprehensive Income.

Management reassesses the deferred income tax assets at each balance sheet date and reduces the amount to the extent that it is more-likely-than-not that the deferred income tax asset will not be realized. Previously unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more-likely-than-not that the tax benefit will be realized.

The Transmission Business records regulatory assets and liabilities associated with deferred income tax assets and liabilities that will be included in the rate-setting process.

The Transmission Business uses the flow-through method to account for investment tax credits (ITCs) earned on eligible scientific research and experimental development expenditures, and apprenticeship job creation. Under this method, only non-refundable ITCs are recognized as a reduction to income tax expense.

Inter-company Demand Facility

Hydro One maintains pooled bank accounts for its use and for the use of its subsidiaries, and implicitly, by the regulated businesses of its subsidiaries. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the Transmission Business to and from the pooled bank accounts. Interest is earned on positive inter-company balances based on the average of the bankers’ acceptance rate at the beginning and end of the month, less 0.02%. Interest is charged on overdraft inter-company balances based on the same bankers’ acceptance rate, plus 0.15%.

Materials and Supplies

Materials and supplies represent consumables, small spare parts and construction materials held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost, net of customer contributions, and any accumulated impairment losses. The cost of additions, including betterments and replacement asset components, is included on the Balance Sheets as property, plant and equipment.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized financing costs, asset retirement costs, and direct and indirect overheads that are related to the capital project or program. Indirect overheads include a portion of corporate costs such as finance, treasury, human resources, information technology and executive costs. Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

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

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware and grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, including transformers, circuit breakers and switches.

Communication

Communication assets include fibre optic and microwave radio systems, optical ground wire, towers, telephone equipment and associated buildings.

Administration and Service

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

Easements

Easements include statutory rights of use for transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other land access rights.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost, which comprises purchased software, direct labour (including employee benefits), consulting, engineering, overheads and attributable capitalized financing charges. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses. The Transmission Business' intangible assets primarily represent major computer applications.

Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of property, plant and equipment or development of intangible assets. The financing cost of attributable borrowed funds is capitalized as part of the acquisition cost of such assets. The capitalized financing costs are a reduction of financing charges recognized in the Statements of Operations and Comprehensive Income. Capitalized financing costs are calculated using the Company's weighted average effective cost of debt.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of constructed assets that are not yet complete and which have not yet been placed in service.

Depreciation and Amortization

The cost of property, plant and equipment and intangible assets is depreciated or amortized on a straight-line basis based on the estimated remaining service life of each asset category, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external independent review of its property, plant and equipment and intangible asset depreciation and amortization rates, as required by the OEB. Any changes arising from OEB approval of such a review are implemented on a remaining service life basis, consistent with their inclusion in electricity rates. The most recent review resulted in changes to rates effective January 1, 2017 for Hydro One Networks' transmission business. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average	Rate	
	Service Life	Range	Average
Property, plant and equipment:			
Transmission	55 years	1% - 2%	2%
Communication	17 years	1% - 7%	5%
Administration and service	20 years	1% - 20%	6%
Intangible assets	10 years	10%	10%

In accordance with group depreciation practices, the original cost of property, plant and equipment, or major components thereof, and intangible assets that are normally retired, is charged to accumulated depreciation, with no gain or loss being reflected in results of operations. Where a disposition of property, plant and equipment occurs through sale, a gain or loss is calculated based on proceeds and such gain or loss is included in depreciation expense.

Long-Lived Asset Impairment

When circumstances indicate the carrying value of long-lived assets may not be recoverable, the Company evaluates whether the carrying value of such assets, excluding goodwill, has been impaired. For such long-lived assets, the Company evaluates whether impairment may exist by estimating future estimated undiscounted cash flows expected to result from the use and eventual disposition of the asset. When alternative courses of action to recover the carrying amount of a long-lived asset are under consideration, a probability-weighted approach is used to develop estimates of future undiscounted cash flows. If the carrying value of the long-lived asset is not recoverable based on the estimated future undiscounted cash flows, an impairment loss is recorded, measured as the excess of the carrying value of the asset over its fair value. As a result, the asset's carrying value is adjusted to its estimated fair value.

The carrying costs of most of the Transmission Business' long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable. As at December 31, 2017 and 2016, no asset impairment had been recorded.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Company defers its proportionate share of the relevant Hydro One external transaction costs related to obtaining debt financing and presents such amounts net of related debt on the Balance Sheets. Deferred debt issuance costs are amortized over the contractual life of the related debt on an effective-interest basis and the amortization is included within financing charges in the Statements of Operations and Comprehensive Income. Transaction costs for items classified as held-for-trading are expensed immediately.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI). OCI and net income are presented in a single continuous Statement of Operations and Comprehensive Income.

Financial Assets and Liabilities

All financial assets and liabilities are classified into one of the following five categories: held-to-maturity; loans and receivables; held-for-trading; other liabilities; or available-for-sale. Financial assets and liabilities classified as held-for-trading are measured at fair value. All other financial assets and liabilities are measured at amortized cost, except accounts receivable and amounts due from related parties, which are measured at the lower of cost or fair value. Accounts receivable and amounts due from related parties are classified as loans and receivables. The Company considers the carrying amounts of accounts receivable and amounts due from related parties to be reasonable estimates of fair value because of the short time to maturity of these instruments. All financial instrument transactions are recorded at trade date.

Derivative instruments are measured at fair value. Gains and losses from fair valuation are included within financing charges in the period in which they arise. The Company determines the classification of its financial assets and liabilities at the date of initial recognition. The Company designates certain of its financial assets and liabilities to be held at fair value, when it is consistent with the Company's risk management policy disclosed in Note 14 - Fair Value of Financial Instruments and Risk Management.

Derivative Instruments and Hedge Accounting

Hydro One closely monitors the risks associated with changes in interest rates on its operations and, where appropriate, uses various instruments to hedge these risks. Certain of these derivative instruments qualify for hedge accounting and are designated as accounting hedges, while others either do not qualify as hedges or have not been designated as hedges (hereinafter referred to as undesignated contracts) as they are part of economic hedging relationships. Hydro One's derivative instruments, or portions thereof, are mirrored down to Hydro One Networks, and are allocated between the Company's transmission and distribution businesses. The derivative instruments are classified as fair value hedges or undesignated contracts, consistent with Hydro One's derivative instruments classification.

The accounting guidance for derivative instruments requires the recognition of all derivative instruments not identified as meeting the normal purchase and sale exemption as either assets or liabilities recorded at fair value on the Balance Sheets. For derivative instruments that qualify for hedge accounting, Hydro One may elect to designate such derivative instruments as either cash flow hedges or fair value hedges. Hydro One offsets fair value amounts recognized on its Balance Sheets related to derivative instruments executed with the same counterparty under the same master netting agreement.

For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated OCI (AOCI) and is reclassified to results of operations in the same period or periods during which the hedged transaction affects results of operations. Any gains or losses on the derivative instrument that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations. For fair value hedges, changes in fair value of both the derivative instrument and the underlying hedged exposure are recognized in the Statements of Operations and Comprehensive Income in the current period. The gain or loss on the derivative instrument is included in the same line item as the offsetting gain or loss on the hedged item in the Statements of Operations and Comprehensive Income. The changes in fair value of the undesignated derivative instruments are reflected in results of operations.

Embedded derivative instruments are separated from their host contracts and are carried at fair value on the Balance Sheets when: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) the hybrid instrument is not measured at fair value, with changes in fair value recognized in results of operations each period; and (c) the embedded derivative itself meets the definition of a derivative. Hydro One does not engage in derivative trading or speculative activities and had no embedded derivatives at December 31, 2017 or 2016.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where the Company has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. Hydro One also assesses, both at the inception of the hedge and on a quarterly basis, whether the hedging instruments are effective in offsetting changes in fair values or cash flows of the hedged items.

Employee Future Benefits

Employee future benefits provided by Hydro One include pension, post-retirement and post-employment benefits. The costs of the Hydro One's pension, post-retirement and post-employment benefit plans are recorded over the periods during which employees render service.

Hydro One recognizes the funded status of its defined benefit pension, post-retirement and post-employment plans on its Consolidated Balance Sheets and subsequently recognizes the changes in funded status at the end of each reporting year. Defined benefit pension, post-retirement and post-employment plans are considered to be underfunded when the projected benefit obligation exceeds the fair value of the plan assets. Liabilities are recognized on the Consolidated Balance Sheets for any net underfunded projected benefit obligation. The net underfunded projected benefit obligation may be disclosed as a current liability, long-term liability, or both. The current portion is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months exceeds the fair value of plan assets. If the fair value of plan assets exceeds the projected benefit obligation of the plan, an asset is recognized equal to the net overfunded projected benefit obligation. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets.

Hydro One recognizes its contributions to the defined contribution pension plan as pension expense, with a portion being capitalized as part of labour costs included in capital expenditures. The expensed amount is included in operation, maintenance and administration costs in the Consolidated Statements of Operations and Comprehensive Income.

<u>Defined Benefit Pension</u>

Hydro One has a contributory defined benefit pension plan covering most regular employees of Hydro One and its subsidiaries, including Hydro One Networks. The Hydro One pension plan does not segregate assets in a separate account for individual subsidiaries, nor is the obligation of the pension plan allocated to, or funded separately by, entities within the consolidated group. Accordingly, for purposes of these Financial Statements, the pension plan is accounted for as a defined contribution plan and no pension benefit asset or liability is recorded.

Post-retirement and Post-employment Benefits

Hydro One has post-retirement and post-employment benefit plans covering all regular employees of Hydro One and its subsidiaries, including Hydro One Networks. The benefit obligations of these post-retirement and post-employment benefit plans are not segregated, or funded separately, for Hydro One Networks. Accordingly, for purposes of these Financial Statements, the post-retirement and post-employment benefit obligations are allocated to the Company based on base pensionable earnings.

The Company records a regulatory asset equal to its allocated share of Hydro One's incremental net unfunded projected benefit obligation for post-retirement and post-employment plans at each year end based on annual actuarial reports. The regulatory asset for the incremental net unfunded projected benefit obligation for post-retirement and post-employment plans, in absence of regulatory accounting, would be recognized in AOCI. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process.

Post-retirement and post-employment benefits are recorded and included in rates on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments are amortized to results of operations based on the expected average remaining service period.

For post-retirement benefits, all actuarial gains or losses are deferred using the "corridor" approach. The amount calculated above the "corridor" is amortized to results of operations on a straight-line basis over the expected average remaining service life of active Hydro One employees in the plan and over the remaining life expectancy of inactive Hydro One employees in the plan. The post-retirement benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

For post-employment obligations, the actuarial gains and losses that are incurred during the year are recognized immediately to results of operations. The post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

All post-retirement and post-employment future benefit costs are attributed to labour and are either charged to results of operations or capitalized as part of the cost of property, plant and equipment and intangible assets.

Stock-Based Compensation

Share Grant Plans

The Company measures share grant plans based on fair value of share grants as estimated based on the grant date Hydro One Limited common share price. The costs are recognized in the financial statements using the graded-vesting attribution method for share grant plans that have both a performance condition and a service condition. The Company records a regulatory asset equal to the accrued costs of share grant plans recognized in each period. Costs are transferred from the regulatory asset to labour costs at the time the share grants vest and are issued, and are recovered in rates. Forfeitures are recognized as they occur.

Deferred Share Unit (DSU) Plans

The Company records the liabilities associated with the Directors' and Management DSU Plans at fair value at each reporting date until settlement, recognizing compensation expense over the vesting period on a straight-line basis. The fair value of the DSU liability is based on the Hydro One Limited common share closing price at the end of each reporting period.

Long-term Incentive Plan (LTIP)

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

Loss Contingencies

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

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

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

Environmental Liabilities

Environmental liabilities are recorded in respect of past contamination when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated. The Transmission Business records a liability for the estimated future expenditures associated with contaminated land assessment and remediation and for the phase-out and destruction of polychlorinated biphenyl (PCB)-contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. The Company determines the present value with a discount rate equal to its credit-adjusted risk-free interest rate on financial instruments with comparable maturities to the pattern of future environmental expenditures. As the Company anticipates that the future expenditures will continue to be recoverable in future rates, an offsetting regulatory asset has been recorded to reflect the future recovery of these environmental expenditures from customers. Hydro One reviews its estimates of future environmental expenditures annually, or more frequently if there are indications that circumstances have changed.

Asset Retirement Obligations

Asset retirement obligations are recorded for legal obligations associated with the future removal and disposal of long-lived assets. Such obligations may result from the acquisition, construction, development and/or normal use of the asset. Conditional asset retirement obligations are recorded when there is a legal obligation to perform a future asset retirement activity but where the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. In such a case, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement.

When recording an asset retirement obligation, the present value of the estimated future expenditures required to complete the asset retirement activity is recorded in the period in which the obligation is incurred, if a reasonable estimate can be made. In general, the present value of the estimated future expenditures is added to the carrying amount of the associated asset and the resulting asset retirement cost is depreciated over the estimated useful life of the asset. Where an asset is no longer in service when an asset retirement obligation is recorded, the asset retirement cost is recorded in results of operations.

Some of the Company’s transmission assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company’s easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Transmission Business expects to use the majority of its facilities in perpetuity, no asset retirement obligations have been recorded for these assets. If, at some future date, a particular facility is shown not to meet the perpetuity assumption, it will be reviewed to determine whether an estimable asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time.

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Adopted Accounting Guidance

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-06	March 2016	Contingent call (put) options that are assessed to accelerate the payment of principal on debt instruments need to meet the criteria of being “clearly and closely related” to their debt hosts.	January 1, 2017	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2014-09 2015-14 2016-08 2016-10 2016-12 2016-20 2017-05 2017-10 2017-13 2017-14	May 2014 – November 2017	ASU 2014-09 was issued in May 2014 and provides guidance on revenue recognition relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2015-14 deferred the effective date of ASU 2014-09 by one year. Additional ASUs were issued in 2016 and 2017 that simplify transition and provide clarity on certain aspects of the new standard.	January 1, 2018	Hydro One Networks has completed the review of all its revenue streams and has concluded that there will be no material impact upon adoption.
2016-02 2018-01	February 2016 – January 2018	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840.	January 1, 2019	An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.
2016-15	August 2016	The amendments provide guidance for eight specific cash flow issues with the objective of reducing the existing diversity in practice.	January 1, 2018	No material impact
2017-01	January 2017	The amendment clarifies the definition of a business and provides additional guidance on evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses.	January 1, 2018	No material impact
2017-07	March 2017	Service cost components of net benefit cost associated with defined benefit plans are required to be reported in the same line as other compensation costs arising from services rendered by the Company's employees. All other components of net benefit cost are to be presented in the income statement separately from the service cost component. Only the service cost component is eligible for capitalization where applicable.	January 1, 2018	Hydro One Networks has applied for a regulatory deferral account to maintain the capitalization of OPEB related costs. As such, there will be no material impact.
2017-09	May 2017	Changes to the terms or conditions of a share-based payment award will require an entity to apply modified accounting unless the modified award meets all conditions stipulated in this ASU.	January 1, 2018	No impact
2017-11	July 2017	When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock.	January 1, 2019	Under assessment
2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results.	January 1, 2019	Under assessment

4. DEPRECIATION AND AMORTIZATION

Year ended December 31 *(millions of dollars)*	2017	2016
Depreciation of property, plant and equipment	335	320
Asset removal costs	39	34
Amortization of intangible assets	21	19
Amortization of regulatory assets	8	7
	403	380

5. FINANCING CHARGES

Year ended December 31 *(millions of dollars)*	2017	2016
Interest on long-term debt *(Note 21)*	259	248
Interest on inter-company demand facility *(Note 21)*	8	5
Other	8	9
Less: Interest capitalized on construction and development in progress	(45)	(42)
	230	220

6. INCOME TAXES

Income tax expense differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and the effective tax rates is provided as follows:

Year ended December 31 *(millions of dollars)*	2017	2016
Income before income taxes	500	542
Income taxes at statutory rate of 26.5% (2016 - 26.5%)	133	144
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(34)	(37)
Pension contributions in excess of pension expense	(7)	(8)
Overheads capitalized for accounting but deducted for tax purposes	(10)	(9)
Interest capitalized for accounting but deducted for tax purposes	(12)	(11)
Environmental expenditures	(2)	(2)
Other	(2)	(2)
Net temporary differences	(67)	(69)
Net permanent differences	1	1
Total income taxes	67	76

The major components of income tax expense are as follows:

Year ended December 31 *(millions of dollars)*	2017	2016
Current income taxes	50	76
Deferred income taxes	17	—
Total income taxes	67	76
Effective income tax rate	13.4%	14.0%

Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities expected to be included in the rate-setting process are offset by regulatory assets and liabilities to reflect the anticipated recovery or disposition of these balances within future electricity rates. Deferred income tax assets and liabilities arise from differences between the tax basis and the carrying amounts of the assets and liabilities. At December 31, 2017 and 2016, deferred income tax assets and liabilities consisted of the following:

December 31 *(millions of dollars)*	2017	2016
Deferred income tax assets (liabilities)		
Capital cost allowance in excess of depreciation and amortization	(1,370)	(1,248)
Regulatory amounts that are not recognized for tax purposes	(17)	(34)
Post-retirement and post-employment benefits expense in excess of cash payments	241	260
Environmental expenditures	28	30
Other	(7)	(6)
	(1,125)	(998)
Less: valuation allowance	(3)	—
Total deferred income tax liabilities	(1,128)	(998)

7. OTHER CURRENT ASSETS

December 31 *(millions of dollars)*	2017	2016
Regulatory assets *(Note 10)*	14	10
Prepaid expenses and other assets	35	10
Materials and supplies	11	12
	60	32

8. PROPERTY, PLANT AND EQUIPMENT

December 31, 2017 *(millions of dollars)*	Property, Plant and Equipment[1]	Accumulated Depreciation	Construction in Progress	Total
Transmission	14,807	5,135	986	10,658
Communication	938	642	21	317
Administration and service	554	292	20	282
Easements	523	61	—	462
	16,822	6,130	1,027	11,719

[1] Includes future use assets totalling $97 million.

December 31, 2016 *(millions of dollars)*	Property, Plant and Equipment[1]	Accumulated Depreciation	Construction in Progress	Total
Transmission	14,001	4,849	906	10,058
Communication	929	593	9	345
Administration and service	559	300	28	287
Easements	517	59	—	458
	16,006	5,801	943	11,148

[1] Includes future use assets totalling $95 million.

Financing charges capitalized on property, plant and equipment under construction were $44 million in 2017 (2016 - $41 million).

9. INTANGIBLE ASSETS

December 31, 2017 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	268	169	17	116
Other	4	3	—	1
	272	172	17	117

December 31, 2016 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	235	148	22	109
Other	4	3	—	1
	239	151	22	110

Financing charges capitalized to intangible assets under development were $1 million in 2017 (2016 - $1 million). The estimated annual amortization expense for intangible assets is as follows: 2018 - $23 million; 2019 - $18 million; 2020 - $10 million; 2021 - $9 million; and 2022 - $8 million.

10. REGULATORY ASSETS AND LIABILITIES

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

December 31 *(millions of dollars)*	2017	2016
Regulatory assets:		
Deferred income tax regulatory asset	1,172	1,060
Environmental	78	85
Stock-based compensation	20	14
Post-retirement and post-employment benefits	16	105
Foregone revenue deferral	22	—
Other	3	2
Total regulatory assets	1,311	1,266
Less: current portion	(14)	(10)
	1,297	1,256
Regulatory liabilities:		
External revenue variance	46	64
CDM deferral variance	28	54
Pension cost variance	10	4
Other	1	6
Total regulatory liabilities	85	128
Less: current portion	(46)	—
	39	128

Deferred Income Tax Regulatory Asset and Liability

Deferred income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. The Transmission Business has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Transmission Business' income tax expense would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the 2017 income tax expense would have been higher by approximately $81 million (2016 - $70 million).

On September 28, 2017, the OEB issued its Decision and Order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Decision). In its Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One's shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a Decision and Order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately $515 million. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Decision and filed an appeal with the Divisional Court of Ontario (Appeal). On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. The Appeal is being held in abeyance pending the outcome of the Motion. If the Decision is upheld, based on the facts known at this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately $515 million. Based on the assumptions that the OEB applies established rate making principles in a manner consistent with its past practice and does not exercise its discretion to take other policy considerations into account, management is of the view that it is likely that the Company's Motion will be granted and the aforementioned tax savings will be allocated to the benefit of Hydro One shareholders.

Post-Retirement and Post-Employment Benefits

The Transmission Business recognizes the net unfunded status of post-retirement and post-employment obligations on the Balance Sheets with an incremental offset to the associated regulatory assets. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2017 OCI would have been higher by $89 million (2016 - lower by $1 million).

Environmental

The Transmission Business records a liability for the estimated future expenditures required to remediate environmental contamination. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2017, the environmental regulatory asset decreased by $1 million (2016 - increased by $5 million) to reflect related changes in the Company's PCB liability, and decreased by $1 million (2016 - increased by $1 million) due to changes in the land assessment and remediation liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudency and the timing of recovery of all of the Transmission Business' actual environmental expenditures. In the absence of rate-regulated accounting, 2017 operation, maintenance and administration expenses would have been lower by $2 million (2016 - higher by $6 million). In addition, 2017 amortization expense would have been lower by $8 million (2016 - $7 million), and 2017 financing charges would have been higher by $3 million (2016 - $4 million).

Stock-Based Compensation

The Transmission Business recognizes costs associated with share grant plans in a regulatory asset as management considers it probable that share grant plans' costs will be recovered in the future through the rate-setting process. In the absence of rate-regulated accounting, 2017 operation, maintenance and administration expenses would have been higher by $3 million (2016 - $4 million). Share grant costs are transferred to labour costs at the time the share grants vest and are issued, and are recovered in rates in accordance with recovery of said labour costs.

Foregone Revenue Deferral

As part of its September 2017 decision on Hydro One Networks' transmission rate application for 2017 and 2018 rates, the OEB approved the foregone revenue account to record the difference between revenue earned under the rates approved as part of the decision, effective January 1, 2017, and revenue earned under the interim rates until the approved 2017 rates were implemented. The balance of this account will be returned to or recovered from ratepayers, respectively, over a one-year period ending December 31, 2018. The draft rate order submitted by Hydro One Networks was approved by the OEB in November, 2017. This draft rate order reflects the September 2017 decision, including a reduction of the amount of cash taxes approved for recovery in transmission rates due to the OEB's basis to share the savings resulting from a deferred tax asset with ratepayers. The Company's position in the aforementioned Motion is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. Therefore, the Company has also reflected the impact of the Company's position with respect to the Motion in the Foregone Revenue Deferral account. The timing for recovery of this impact will be determined as part of the outcome of the Motion.

Pension Cost Variance

A pension cost variance account was established for the Transmission Business to track the difference between the actual pension expenses incurred and estimated pension costs approved by the OEB. The balance in this regulatory account reflects the deficit of pension costs paid as compared to OEB-approved amounts. In September 2017, the OEB approved the disposition of the transmission business portion of the total pension cost variance account as at December 31, 2015, including accrued interest, which is being recovered over a two-year period ending December 31, 2018. In the absence of rate-regulated accounting, 2017 revenue would have been higher by $3 million (2016 - $10 million).

External Revenue Variance

In May 2009, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use, and external revenue from station maintenance and engineering and construction work. In November 2012, the OEB again approved forecasted amounts related to these revenue categories and extended the scope to encompass all other external revenues. The external revenue variance account balance reflects the excess of actual external revenues compared to the OEB-approved forecasted amounts. In September 2017, the OEB approved the disposition of the external revenue variance account as at December 31, 2015, including accrued interest, which is being returned to customers over a two-year period ending December 31, 2018.

CDM Deferral Variance Account

As part of Hydro One Networks' application for 2013 and 2014 transmission rates, Hydro One agreed to establish a new regulatory deferral variance account to track the impact of actual Conservation and Demand Management (CDM) and demand response results on the load forecast compared to the estimated load forecast included in the revenue requirement. The balance in the CDM deferral variance account relates to the actual 2013 and 2014 CDM compared to the amounts included in 2013 and 2014 revenue requirements, respectively. There were no additions to this regulatory account in 2017 or 2016. The balance of the account at December 31, 2015, including interest, was approved for disposition in the 2017-2018 transmission rate decision and is currently being drawn down over a 2-year period ending December 31, 2018.

11. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

December 31 *(millions of dollars)*	2017	2016
Accrued liabilities	66	110
Accounts payable	94	103
Accrued interest *(Note 21)*	58	62
Regulatory liabilities *(Note 10)*	46	—
	264	275

12. OTHER LONG-TERM LIABILITIES

December 31 *(millions of dollars)*	2017	2016
Post-retirement and post-employment benefit liability *(Note 16)*	646	697
Environmental liabilities *(Note 17)*	69	75
Long-term inter-company payable *(Note 21)*	18	11
Long-term accounts payable and other liabilities	16	14
Asset retirement obligations *(Note 18)*	4	4
	753	801

13. DEBT

Hydro One issues notes for long-term financing under its Medium-Term Note (MTN) Program. The terms of certain issuances are mirrored down to Hydro One Networks through the issuance of inter-company debt, and are allocated between the Company's transmission and distribution businesses. The following table presents long-term debt allocated to the Transmission Business outstanding at December 31, 2017 and 2016:

December 31 *(millions of dollars)*	2017	2016
Long-term debt	5,521	5,926
Add: Net unamortized debt premiums	6	7
Add: Unrealized mark-to-market gain[1]	(5)	(1)
Less: Deferred debt issuance costs	(22)	(24)
Less: Long-term debt payable within one year	(413)	(405)
Long-term debt	5,087	5,503

[1] The unrealized mark-to-market net gain relates to $300 million notes due in 2019. The unrealized mark-to-market net gain is offset by a $5 million (2016 - $1 million) unrealized mark-to-market net loss on the related fixed-to-floating interest-rate swap agreement, which is accounted for as fair value hedge.

In 2017, Hydro One did not issue any long-term debt. In 2016, Hydro One issued $2,300 million of long-term debt under its MTN Program, of which $2,290 million was mirrored down to Hydro One Networks and $1,240 million was allocated to the Company's Transmission Business.

In 2017, Hydro One repaid $600 million (2016 – $500 million) of maturing long-term debt under its MTN Program. On the same date, Hydro One Networks repaid inter-company debt of $600 million (2016 – $500 million) to Hydro One, of which $405 million (2016 – $300 million) was allocated to the Company's Transmission Business.

Principal and Interest Payments

Principal repayments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	Long-term Debt Principal Repayments *(millions of dollars)*	Weighted Average Interest Rate *(%)*
1 year	413	2.8
2 years	437	1.8
3 years	180	4.4
4 years	250	2.1
5 years	319	3.2
	1,599	2.7
6 – 10 years	245	3.0
Over 10 years	3,677	5.3
	5,521	4.4

Interest payment obligations related to long-term debt are summarized by year in the following table:

Year	Interest Payments *(millions of dollars)*
2018	244
2019	230
2020	220
2021	213
2022	206
	1,113
2023-2027	992
2028+	2,464
	4,569

14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The Company classifies its fair value measurements based on the following hierarchy, as prescribed by the accounting guidance for fair value, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Hydro One Networks has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

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

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

Non-Derivative Financial Assets and Liabilities

At December 31, 2017 and 2016, the carrying amounts of accounts receivable, due from related parties, inter-company demand facility, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Transmission Business' long-term debt at December 31, 2017 and 2016 are as follows:

December 31 *(millions of dollars)*	2017 Carrying Value	2017 Fair Value	2016 Carrying Value	2016 Fair Value
$300 million notes due 2019	295	295	299	299
Other notes and debentures	5,205	6,096	5,609	6,393
Long-term debt, including current portion	5,500	6,391	5,908	6,692

Fair Value Measurements of Derivative Instruments

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

At December 31, 2017, the Transmission Business' share of the Company's derivative instruments include a $300 million (2016 – $300 million) interest-rate swap that was used to convert fixed-rate debt to floating-rate debt. This swap is classified as a fair value hedge. The Transmission Business' fair value hedge exposure was approximately 5% (2016 – 5%) of its total long-term debt. At December 31, 2017, the Transmission Business' interest-rate swap designated as a fair value hedge was as follows:

- a $300 million fixed-to-floating interest-rate swap agreement to convert $300 million notes maturing on November 18, 2019 into three-month variable rate debt.

At December 31, 2017 and 2016, the Company had no interest-rate swaps classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at December 31, 2017 and 2016 is as follows:

December 31, 2017 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Inter-company demand facility	1,071	1,071	1,071	—	—
Long-term debt, including current portion	5,500	6,391	—	6,391	—
Derivative instruments					
Fair value hedge – interest-rate swap	5	5	—	5	—
	6,576	7,467	1,071	6,396	—

December 31, 2016 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Inter-company demand facility	213	213	213	—	—
Long-term debt, including current portion	5,908	6,692	—	6,692	—
Derivative instruments					
Fair value hedge – interest-rate swap	1	1	—	1	—
	6,122	6,906	213	6,693	—

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

There were no transfers between any of the fair value levels during the years ended December 31, 2017 or 2016.

Risk Management

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

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

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. The Company may also utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing.

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Transmission Business' net income for the years ended December 31, 2017 and 2016.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Statements of Operations and Comprehensive Income. The Transmission Business' net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the years ended December 31, 2017 and 2016 was not material.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At December 31, 2017 and 2016, there were no significant concentrations of credit risk with respect to any class of financial assets. The Transmission Business' revenue is earned from a broad base of customers. As a result, the Transmission Business did not earn a material amount of revenue from any single customer. At December 31, 2017 and 2016, there was no material accounts receivable balance due from any single customer.

Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2017, approximately 3% (2016 – 3%) of the Transmission Business' net accounts receivable were outstanding for more than 60 days.

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

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At December 31, 2017 and 2016, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At December 31, 2017, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparties.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One Networks meets its short-term liquidity requirements through the inter-company demand facility with Hydro One and funds from operations. The short-term liquidity available to the Company is expected to be sufficient to fund normal operating requirements.

15. CAPITAL MANAGEMENT

The Transmission Business' objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. At December 31, 2017 and 2016, the Transmission Business' capital structure was as follows:

December 31 *(millions of dollars)*	**2017**	**2016**
Long-term debt payable within one year	413	405
Inter-company demand facility	1,071	213
	1,484	618
Long-term debt	5,087	5,503
Excess of assets over liabilities	4,458	4,273
Total capital	11,029	10,394

The following table shows the movements in the excess of assets over liabilities for the years ended December 31, 2017 and 2016:

Year ended December 31 *(millions of dollars)*	**2017**	**2016**
Excess of assets over liabilities - beginning	4,273	4,125
Net income	433	466
Payments to Hydro One to finance dividends and return of stated capital	(248)	(318)
Excess of assets over liabilities - ending	4,458	4,273

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

Hydro One has a defined benefit pension plan (Pension Plan), a defined contribution pension plan (DC Plan), a supplemental pension plan (Supplemental Plan), and post-retirement and post-employment benefit plans.

DC Plan

Hydro One established a DC Plan effective January 1, 2016. The DC Plan covers eligible management employees hired on or after January 1, 2016, as well as management employees hired before January 1, 2016 who were not eligible or had not irrevocably elected to join the Pension Plan as of September 30, 2015. Members of the DC Plan have an option to contribute 4%, 5% or 6% of their pensionable earnings, with matching contributions by Hydro One.

Hydro One Networks contributions to the DC Plan for the year ended December 31, 2017 were less than $1 million (2016 - less than $1 million). At December 31, 2017 and 2016, Company contributions payable included in accrued liabilities on the Balance Sheets were not significant.

Pension Plan and Supplemental Plan

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

Hydro One and employee contributions to the Pension Plan are based on actuarial valuations performed at least every three years. Annual Pension Plan contributions for 2017 of $87 million (2016 - $108 million) were based on an actuarial valuation effective

December 31, 2016 (2016 - based on an actuarial valuation effective December 31, 2015) and the level of pensionable earnings. Estimated annual Pension Plan contributions for 2018 and 2019 are approximately $71 million for each year based on the actuarial valuation as at December 31, 2016 and projected levels of pensionable earnings. Future minimum contributions beyond 2019 will be based on an actuarial valuation effective no later than December 31, 2019. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash.

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

At December 31, 2017, the present value of Hydro One's projected pension benefit obligation was estimated to be $8,258 million (2016 - $7,774 million). The fair value of pension plan assets available for these benefits was $7,277 million (2016 - $6,874 million).

Post-Retirement and Post-Employment Plans

During the year ended December 31, 2017, the Transmission Business charged $20 million (2016 - $19 million) of post-retirement and post-employment benefit costs to operation, and capitalized $35 million (2016 - $35 million) as part of the cost of property, plant and equipment and intangible assets. Benefits paid in 2017 were $18 million (2016 - $19 million). In addition, the associated post-retirement and post-employment benefits regulatory asset was decreased by $89 million (2016 - increased by $1 million).

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

December 31 *(millions of dollars)*	2017	2016
Accrued liabilities	25	26
Post-retirement and post-employment benefit liability	646	697
Net unfunded status	671	723

17. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2017 and 2016:

Year ended December 31, 2017 *(millions of dollars)*	PCB	Land Assessment and Remediation	Total
Environmental liabilities - beginning	77	8	85
Interest accretion	3	—	3
Expenditures	(6)	(2)	(8)
Revaluation adjustment	(1)	(1)	(2)
Environmental liabilities - ending	73	5	78
Less: current portion	(8)	(1)	(9)
	65	4	69

Year ended December 31, 2016 *(millions of dollars)*	PCB	Land Assessment and Remediation	Total
Environmental liabilities - beginning	71	11	82
Interest accretion	4	—	4
Expenditures	(3)	(4)	(7)
Revaluation adjustment	5	1	6
Environmental liabilities - ending	77	8	85
Less: current portion	(8)	(2)	(10)
	69	6	75

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

December 31, 2017 *(millions of dollars)*	PCB	Land Assessment and Remediation	Total
Undiscounted environmental liabilities	78	5	83
Less: discounting environmental liabilities to present value	(5)	—	(5)
Discounted environmental liabilities	73	5	78

December 31, 2016 *(millions of dollars)*	PCB	Land Assessment and Remediation	Total
Undiscounted environmental liabilities	85	9	94
Less: discounting environmental liabilities to present value	(8)	(1)	(9)
Discounted environmental liabilities	77	8	85

At December 31, 2017, the estimated future environmental expenditures were as follows:

(millions of dollars)	
2018	9
2019	12
2020	12
2021	16
2022	18
Thereafter	16
	83

The Transmission Business records a liability for the estimated future expenditures for land assessment and remediation and for the phase-out and destruction of PCB-contaminated mineral oil removed from electrical equipment when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations, and advances in remediation technologies. In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation rate assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.0% to 3.8%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Transmission Business' environmental liabilities represent management's best estimates of the present value of costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, with respect to the PCB environmental liability, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures.

PCBs

The Environment Canada regulations, enacted under the *Canadian Environmental Protection Act, 1999*, govern the management, storage and disposal of PCBs based on certain criteria, including type of equipment, in-use status, and PCB-contamination thresholds. Under current regulations, Hydro One's PCBs have to be disposed of by the end of 2024, with the exception of specifically exempted equipment. Contaminated equipment will generally be replaced, or will be decontaminated by removing PCB-contaminated insulating oil and retro filling with replacement oil that contains PCBs in concentrations of less than 2 ppm.

The Transmission Business' best estimate of the total estimated future expenditures to comply with current PCB regulations is $78 million (2016 - $85 million). These expenditures are expected to be incurred over the period from 2018 to 2024. As a result of its annual review of environmental liabilities, the Transmission Business recorded a revaluation adjustment in 2017 to reduce the PCB environmental liability by $1 million (2016 - increase by $5 million).

Land Assessment and Remediation

The Transmission Business' best estimate of the total estimated future expenditures to complete its land assessment and remediation program is $5 million (2016 - $9 million). These expenditures are expected to be incurred over the period from 2018 to 2022. As a result of its annual review of environmental liabilities, the Transmission Business recorded a revaluation adjustment in 2017 to reduce the land assessment and remediation environmental liability by $1 million (2016 - increase by $1 million).

18. ASSET RETIREMENT OBLIGATIONS

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

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

At December 31, 2017, Hydro One Networks had recorded asset retirement obligations of $4 million (2016 - $4 million) related to its Transmission Business, primarily consisting of the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The amount of interest recorded is nominal.

19. HYDRO ONE NETWORKS' SHARE CAPITAL

Hydro One Networks is authorized to issue an unlimited number of common and preferred shares. At December 31, 2017 and 2016, Hydro One Networks had 207,577,181 common shares issued and outstanding and no preferred shares issued and outstanding.

During 2017, Hydro One Networks declared common share dividends in the amount of $2 million (2016 – $2 million) and made a return of stated capital of $509 million (2016 – $609 million) to Hydro One. The amount allocated to the Transmission Business to finance these dividends and return of stated capital was $248 million (2016 – $318 million).

20. STOCK-BASED COMPENSATION

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

Share Grant Plans

Hydro One Limited has two share grant plans (Share Grant Plans), one for the benefit of certain members of the PWU (PWU Share Grant Plan) and one for the benefit of certain members of The Society (Society Share Grant Plan).

The PWU Share Grant Plan provides for the issuance of common shares of Hydro One Limited from treasury to certain eligible members of the PWU annually, commencing on April 1, 2017 and continuing until the earlier of April 1, 2028 or the date an eligible employee no longer meets the eligibility criteria of the PWU Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on April 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. The requisite service period for the PWU Share Grant Plan began on July 3, 2015, which is the date the share grant plan was ratified by the PWU. The number of common shares issued annually to each eligible employee will be equal to 2.7% of such eligible employee's salary as at April 1, 2015, divided by $20.50, being the price of the common shares of Hydro One Limited in the IPO. The aggregate number of common shares issuable under the PWU Share Grant Plan shall not exceed 3,981,763 common shares. In 2015,1,761,152 Hydro One Limited common shares were granted under the PWU Share Grant Plan relevant to the total share based compensation recognized by the Transmission Business.

The Society Share Grant Plan provides for the issuance of common shares of Hydro One Limited from treasury to certain eligible members of The Society annually, commencing on April 1, 2018 and continuing until the earlier of April 1, 2029 or the date an eligible employee no longer meets the eligibility criteria of the Society Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on September 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. Therefore the requisite service period for the Society Share Grant Plan began on September 1, 2015. The number of common shares issued annually to each eligible employee will be equal to 2.0% of such eligible employee's salary as at September 1, 2015, divided by $20.50, being the price of the common shares of Hydro One Limited in the IPO. The aggregate number of common shares issuable under the Society Share Grant Plan shall not exceed 1,434,686 common shares. In 2015, 608,626 Hydro One Limited common shares were granted under the Society Share Grant Plan relevant to the total share based compensation recognized by the Transmission Business.

The fair value of the Hydro One Limited 2015 share grants to employees of Hydro One Networks and allocated to the Transmission Business was $49 million. The fair value was estimated based on the grant date Hydro One Limited share price of $20.50 and is recognized using the graded-vesting attribution method as the share grant plans have both a performance condition and a service condition. In 2017, 179,175 common shares were granted under the Share Grant Plans (2016 - $nil) to eligible employees of Hydro One Networks and allocated to the Transmission Business. Total stock-based compensation recognized by the Transmission Business during 2017 was $8 million (2016 - $9 million) and was recorded as a regulatory asset.

A summary of the Transmission Business' share grant activity under the Share Grant Plans during 2017 and 2016 is presented below:

Year ended December 31, 2017	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding - beginning	2,332,878	$20.50
Vested and issued[1]	(179,175)	—
Forfeited	(64,777)	$20.50
Share grants outstanding - ending	2,088,926	$20.50

[1] On April 1, 2017, Hydro One Limited issued from treasury 179,175 common shares to eligible Hydro One Networks employees, which were allocated to the Transmission Business, in accordance with provisions of the PWU Share Grant Plan.

Year ended December 31, 2016	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding - beginning	2,369,778	$20.50
Forfeited[1]	(36,900)	$20.50
Share grants outstanding - ending	2,332,878	$20.50

[1]Includes shares forfeited as well as shares transferred corresponding to transfer of employees between affiliate companies.

Directors' DSU Plan

Under the Directors' DSU Plan, directors can elect to receive credit for their annual cash retainer in a notional account of DSUs in lieu of cash. Hydro One Limited's Board of Directors may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled. Each DSU represents a unit with an underlying value equivalent to the value of one Hydro One Limited common share and is entitled to accrue Hydro One Limited common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One Limited's Board of Directors.

During 2017 and 2016, Directors' DSU Plan awards granted by Hydro One Limited that related to Hydro One Networks' Transmission Business were as follows:

Year ended December 31 *(number of DSUs)*	2017	2016
DSUs outstanding - beginning	38,416	7,958
DSUs granted	32,492	30,458
DSUs outstanding - ending	70,908	38,416

For the year ended December 31, 2017, an expense of $1 million (2016 - $1 million) was recognized in earnings by the Transmission Business with respect to the Directors' DSU Plan. At December 31, 2017, a liability of $2 million (2016 - $1 million), related to outstanding DSUs has been recorded at the closing price of Hydro One Limited's common shares of $22.40 and is included in long-term accounts payable and other liabilities on the Balance Sheets.

Management DSU Plan

Under the Management DSU Plan, eligible employees can elect to receive a specified proportion of their annual short-term incentive in a notional account of DSUs in lieu of cash. Each DSU represents a unit with an underlying value equivalent to the value of one common share of Hydro One Limited and is entitled to accrue common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One Limited's Board of Directors.

During 2017 and 2016, Management DSU Plan awards granted by Hydro One Limited that related to Hydro One Networks' Transmission Business were as follows:

Year ended December 31 *(number of DSUs)*	2017	2016
DSUs outstanding - beginning	—	—
Granted	27,970	—
Paid	(629)	—
DSUs outstanding - ending	27,341	—

For the year ended December 31, 2017, an expense of $1 million (2016 - $nil) was recognized in earnings by the Transmission Business with respect to the Management DSU Plan. At December 31, 2017, a liability of $1 million (2016 - $nil) related to outstanding DSUs has been recorded at the closing price of Hydro One Limited common shares of $22.40 and is included in long-term accounts payable and other liabilities on the Balance Sheets.

Employee Share Ownership Plan

In 2015, Hydro One Limited established Employee Share Ownership Plans (ESOP) for certain eligible management and non-represented employees (Management ESOP) and for certain eligible Society-represented staff (Society ESOP). Under the Management ESOP, the eligible management and non-represented employees may contribute between 1% and 6% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 50% of their contributions, up to a maximum Company contribution of $25,000 per calendar year. Under the Society ESOP, the eligible Society-represented staff may contribute between 1% and 4% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 25% of their contributions, with no maximum Company contribution per calendar year. In 2017, Company contributions made under the ESOP for the Transmission Business were $1 million (2016 - $1 million).

LTIP

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

The LTIP provides flexibility to award a range of vehicles, including RSUs, PSUs, stock options, share appreciation rights, restricted shares, deferred share units and other stock-based awards. The mix of vehicles is intended to vary by role to recognize the level of executive accountability for overall business performance.

During 2017 and 2016, LTIP awards granted by Hydro One Limited that related to Hydro One Networks' Transmission Business were as follows:

	PSUs		RSUs	
Year ended December 31 *(number of units)*	**2017**	**2016**	**2017**	**2016**
Units outstanding - beginning	84,952	—	96,083	—
Units granted	119,062	86,487	97,341	97,618
Units vested	(291)	—	(6,983)	—
Units forfeited	(23,797)	(1,535)	(22,050)	(1,535)
Units outstanding - ending	179,926	84,952	164,391	96,083

The grant date total fair value of the awards granted in 2017 was $5 million (2016 - $5 million). The compensation expense related to these awards recognized by the Transmission Business during 2017 was $2 million (2016 - $1 million).

21. RELATED PARTY TRANSACTIONS

The Transmission Business is a separately regulated business of Hydro One Networks which is indirectly owned by Hydro One Limited. The Province is a shareholder of Hydro One Limited with approximately 47.4% ownership at December 31, 2017. The IESO, Ontario Power Generation Inc. (OPG), OEFC, and the OEB, are related parties to Hydro One Networks because they are controlled or significantly influenced by the Province.

Year ended December 31 *(millions of dollars)*

Related Party	Transaction	2017	2016
IESO	Transmission services – amounts received[1]	1,450	1,510
OPG	Revenues related to provision of construction and equipment maintenance services	2	4
	Costs related to the purchase of services	1	1
OEB	OEB fees	3	4
Hydro One Limited and its subsidiaries	Revenues for services provided	9	3
	Services received - costs expensed	19	20
	Services received - costs capitalized	—	12
	Interest expense on long-term debt	259	248
	Interest expense on inter-company demand facility	8	5
	Payments to finance dividends and return of stated capital	248	318
	Stock-based compensation costs	10	10

[1] Consistent with the Company's revenue recognition policy, the Transmission Business recognized revenues of $1,489 million in 2017 (2016 – $1,512 million).

The amounts due to and from related parties at December 31, 2017 and 2016 are as follows:

December 31 *(millions of dollars)*	**2017**	**2016**
Inter-company demand facility	(1,071)	(213)
Due from related parties	158	134
Due to related parties	(179)	(124)
Accrued interest	(58)	(62)
Long-term inter-company payable	(18)	(11)
Long-term debt, including current portion	(5,500)	(5,908)

22. STATEMENTS OF CASH FLOWS

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

Year ended December 31 *(millions of dollars)*	**2017**	**2016**
Accounts receivable	(9)	(7)
Due from related parties	(24)	(15)
Materials and supplies	1	(1)
Other assets	(24)	(1)
Accounts payable	(9)	19
Accrued liabilities	(40)	(6)
Due to related parties	55	65
Accrued interest	(4)	4
Long-term accounts payable and other liabilities	(3)	2
Post-retirement and post-employment benefit liability	38	34
	(19)	94

Capital Expenditures

The following table reconciles investments in property, plant and equipment and the amounts presented in the Statements of Cash Flows after accounting for capitalized depreciation and the net change in related accruals:

Year ended December 31 *(millions of dollars)*	**2017**	**2016**
Capital investments in property, plant and equipment	(928)	(965)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	11	10
Cash outflow for capital expenditures – property, plant and equipment	(917)	(955)

The following table reconciles investments in intangible assets and the amounts presented in the Statements of Cash Flows after accounting for the net change in related accruals:

Year ended December 31 *(millions of dollars)*	**2017**	**2016**
Capital investments in intangible assets	(26)	(22)
Net change in accruals included in capital investments in intangible assets	2	—
Cash outflow for capital expenditures – intangible assets	(24)	(22)

Capital Contributions

Hydro One Networks enters into contracts governed by the OEB Transmission System Code when a transmission customer requests a new or upgraded transmission connection. The customer is required to make a capital contribution to Hydro One Networks based on the shortfall between the present value of the costs of the connection facility and the present value of revenues. The present value of revenues is based on an estimate of load forecast for the period of the contract with Hydro One Networks. Once the connection facility is commissioned, in accordance with the OEB Transmission System Code, Hydro One Networks will periodically reassess the estimated of load forecast which will lead to a decrease, or an increase in the capital contributions from the customer. The increase or decrease in capital contributions is recorded directly to fixed assets in service. In 2017, capital contributions from these reassessments totalled $9 million (2016 - $21 million), which represents the difference between the revised load forecast of electricity transmitted compared to the load forecast in the original contract, subject to certain adjustments.

Supplementary Information

Year ended December 31 *(millions of dollars)*	**2017**	**2016**
Net interest paid	263	244
Income taxes paid	60	14

23. CONTINGENCIES

Hydro One Networks is involved in various lawsuits and claims in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

Hydro One and certain of its subsidiaries, including Hydro One Networks, are defendants in a class action suit in which the representative plaintiff is seeking up to $125 million in damages related to allegations of improper billing practices. The plaintiff's motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court's decision, and it is likely that no decision will be rendered by the appeal court until the second half of 2018. At this time, an estimate of a possible loss related to this claim cannot be made.

The Company is a wholly owned subsidiary of Hydro One. As such, the assets of the Transmission Business are available to satisfy the debts, contingent liabilities and commitments of both the Company and Hydro One.

24. COMMITMENTS

The Company and Hydro One have numerous commitments. These commitments have not been specifically allocated to the Transmission Business. However, the assets of the Transmission Business are available to satisfy the commitments of both the Company and Hydro One.

25. SUBSEQUENT EVENTS

Payments to Finance Dividends and Return of Stated Capital

On February 12, 2018, Hydro One Networks declared common share dividends in the amount of $1 million, and a return of stated capital in the amount of $131 million was approved. The amount allocated to the Transmission Business to finance these payments was $51 million.

HYDRO ONE INDIGENOUS PARTNERSHIPS GP INC.
(formerly B2M GP INC.)

FINANCIAL STATEMENTS
(unaudited)

DECEMBER 31, 2018

HYDRO ONE INDIGENOUS PARTNERSHIPS GP INC. (formerly B2M GP INC.)
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the years ended December 31, 2018 and 2017

Year ended December 31 *(thousands of Canadian dollars)*	**2018**	**2017**
Revenues		
Partnership distributions	14,024	10,720
Interest income	57	52
	14,081	10,772
Income before income taxes	**14,081**	**10,772**
Income tax expense	1,362	342
Net income	**12,719**	**10,430**
Other comprehensive income	—	—
Comprehensive income	**12,719**	**10,430**

HYDRO ONE INDIGENOUS PARTNERSHIPS GP INC. (formerly B2M GP INC.)
BALANCE SHEETS (unaudited)
At December 31, 2018 and 2017

December 31 *(thousands of Canadian dollars)*	**2018**	**2017**
Assets		
Current assets:		
Cash and cash equivalents	834	6,908
Inter-company receivable	—	2
Income taxes receivable	—	112
	834	7,022
Long-term assets:		
Regulatory assets	55,732	52,668
Investment in subsidiary	138,369	138,369
	194,101	191,037
Total assets	**194,935**	**198,059**
Liabilities		
Current liabilities:		
Inter-company payable	97	—
Income taxes payable	348	—
Other current liabilities	—	6,000
	445	6,000
Long-term liabilities:		
Deferred income tax liability	55,407	51,695
Total liabilities	**55,852**	**57,695**
Shareholder's equity		
Common shares	146,370	159,870
Deficit	(7,287)	(19,506)
Total shareholder's equity	**139,083**	**140,364**
Total liabilities and shareholder's equity	**194,935**	**198,059**

HYDRO ONE INDIGENOUS PARTNERSHIPS GP INC. (formerly B2M GP INC.)
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (unaudited)
For the years ended December 31, 2018 and 2017

Year ended December 31, 2018 *(thousands of Canadian dollars)*	**Common Shares**	**Retained Earnings (Deficit)**	**Total Shareholder's Equity**
January 1, 2018	159,870	(19,506)	140,364
Net income	—	12,719	12,719
Dividends on common shares	—	(500)	(500)
Return of stated capital	(13,500)	—	(13,500)
December 31, 2018	**146,370**	**(7,287)**	**139,083**

Year ended December 31, 2017 *(thousands of Canadian dollars)*	**Common Shares**	**Retained Earnings (Deficit)**	**Total Shareholder's Equity**
January 1, 2017	196,370	(29,436)	166,934
Net income	—	10,430	10,430
Dividends on common shares	—	(500)	(500)
Return of stated capital	(36,500)	—	(36,500)
December 31, 2017	**159,870**	**(19,506)**	**140,364**

B2M GP INC.

FINANCIAL STATEMENTS
(unaudited)

DECEMBER 31, 2017

B2M GP INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the years ended December 31, 2017 and 2016

Year ended December 31 *(thousands of Canadian dollars)*	**2017**	**2016**
Revenues		
Partnership distributions	10,720	18,985
Interest income	52	75
	10,772	19,060
Income before income taxes	**10,772**	**19,060**
Income tax expense	342	330
Net income	**10,430**	**18,730**
Other comprehensive income	—	—
Comprehensive income	**10,430**	**18,730**

B2M GP INC.
BALANCE SHEETS (unaudited)
At December 31, 2017 and 2016

December 31 *(thousands of Canadian dollars)*	**2017**	**2016**
Assets		
Current assets:		
Cash and cash equivalents	6,908	24,184
Inter-company receivable	2	3,000
Income taxes receivable	112	302
	7,022	27,486
Long-term assets:		
Regulatory assets	52,668	44,237
Investment in subsidiary	138,369	138,369
	191,037	182,606
Total assets	**198,059**	**210,092**
Liabilities		
Current liabilities:		
Other current liabilities	6,000	—
Long-term liabilities:		
Deferred income tax liability	51,695	43,158
Total liabilities	**57,695**	**43,158**
Shareholder's equity		
Common shares	159,870	196,370
Deficit	(19,506)	(29,436)
Total shareholder's equity	**140,364**	**166,934**
Total liabilities and shareholder's equity	**198,059**	**210,092**

B2M GP INC.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (unaudited)
For the years ended December 31, 2017 and 2016

Year ended December 31, 2017 *(thousands of Canadian dollars)*	**Common Shares**	**Retained Earnings (Deficit)**	**Total Shareholder's Equity**
January 1, 2017	196,370	(29,436)	166,934
Net income	—	10,430	10,430
Dividends on common shares	—	(500)	(500)
Return of stated capital	(36,500)	—	(36,500)
December 31, 2017	**159,870**	**(19,506)**	**140,364**

Year ended December 31, 2016 *(thousands of Canadian dollars)*	**Common Shares**	**Retained Earnings (Deficit)**	**Total Shareholder's Equity**
January 1, 2016	196,370	(48,166)	148,204
Net income	—	18,730	18,730
December 31, 2016	**196,370**	**(29,436)**	**166,934**

Exhibit A

Niagara Reinforcement Limited Partnership ("NRLP")
Illustrative Revenue Requirement for the 4-Month Stub Period of 2019

Line No.	Particulars	Reference	Annualized 2019
			($000s)
	Cost of Service		
1	Operating, Maintenance & Administrative	Exhibit B	1,447
2	Depreciation & Amortization	Exhibit C	798
3	Total Return on Capital	Line 11	2,401
4	Income Taxes	Line 18	21
5	**Total Illustrative Revenue Requirement for 2019**		**4,668**
6	Annualized Rate Base for 2019	Exhibit D	39,899
7	Return on Capital [1]		
8	Return on Long Term Debt - 56%	4.13%	923
9	Return on Short Term Debt - 4%	2.82%	45
10	Return on Equity - 40%	8.98%	1,433
11	Total Return on Capital		2,401
	Calculation of Income Taxes [2]		
12	Return on Equity		1,433
13	Add: Depreciation		798
14	Less: Capital Cost Allowance		(4,800)
15	Taxable Income		(2,568)
16	EBIT for the Taxable Partner [3]		788
17	Corporate Minimum Tax Rate		2.70%
18	Income Tax Payable		21

Notes:

1 Returns are taken from the most recent Cost of Capital Parameter Update issued by the Board on November 22, 2018

2 Since Taxable Income is below $0 (line 15), Corporate Minimum Tax is applicable at 2.70%.

3 Includes the portion of Earnings Before Interest and Taxes ("EBIT") attributable to taxable parties assuming full recovery of costs.

Exhibit B

Niagara Reinforcement Limited Partnership
Forecast Operating, Maintenance and Administration Expenses
for the 4 Month Stub Period of 2019

Line No.	Particulars		2019
			($000s)
	Cost of Service		
1	Maintenance and Operating Costs		81
2	Insurance		50
3	Management Costs		100
4	Corporate Cost Allocation		67
5	One-Time Start Up Costs		1,150
6	Total OM&A Costs		1,447

Exhibit C

Niagara Reinforcement Limited Partnership
Illustrative Schedule of Forecast Assets to be Sold to NRLP
and Resulting Depreciation for 2019

Line No.	USoA	Particulars	NBV	Depreciation Rate	Gross Depreciation
			($000s)	(%)	($000s)
			(1)	(2)	(3)
1	1705	Land	-	0.00%	-
2	1706	Land-Rights	1,000	0.96%	5
3	1720	Towers and Fixtures	79,000	1.28%	506
4	1730	Overhead Lines	40,000	1.44%	288
5		Total	120,000		798

Notes

1 HONI cost forecast is as of August 1, 2019

2 Rates of depreciation equal to those used by HONI from its most recent depreciation study

3 Includes reduction for half year rule during the year the assets are placed in service

Exhibit D

Niagara Reinforcement Limited Partnership
Continuity of Rate Base (Illustrative)

	A	B	C	D	E	F
Line No.	Particulars	In-Service 1-Sept-19 [1]	Depreciation 2019 [2]	NBV 31-Dec-19	Average In-Service Rate Base [3]	4-Month of Average Rate Base [4]
		($000s)	($000s)	($000s)		($000s)
1	Land	-	-	-	-	-
2	Land-Rights	1,000	(5)	995	998	333
3	Towers and Fixtures	79,000	(506)	78,494	78,747	26,249
4	Overhead Lines	40,000	(288)	39,712	39,856	13,285.33
5	Total NBV	120,000	(798)	119,202	119,601	39,867
6	Working Capital Allowance [5]				55	32
7	Average Rate Base					39,899

Notes:

1 In-service totals used here are estimates are being updated as work at the site proceeds.
Entires into the deferral account will be trued up to the actual spending amount.

2 Depreciation Rates are consistent with HONI Transmission rates and include half year reduction - See Exhibit C

3 Column E represents the average rate base over a full-year period. (average of Columns B & D)

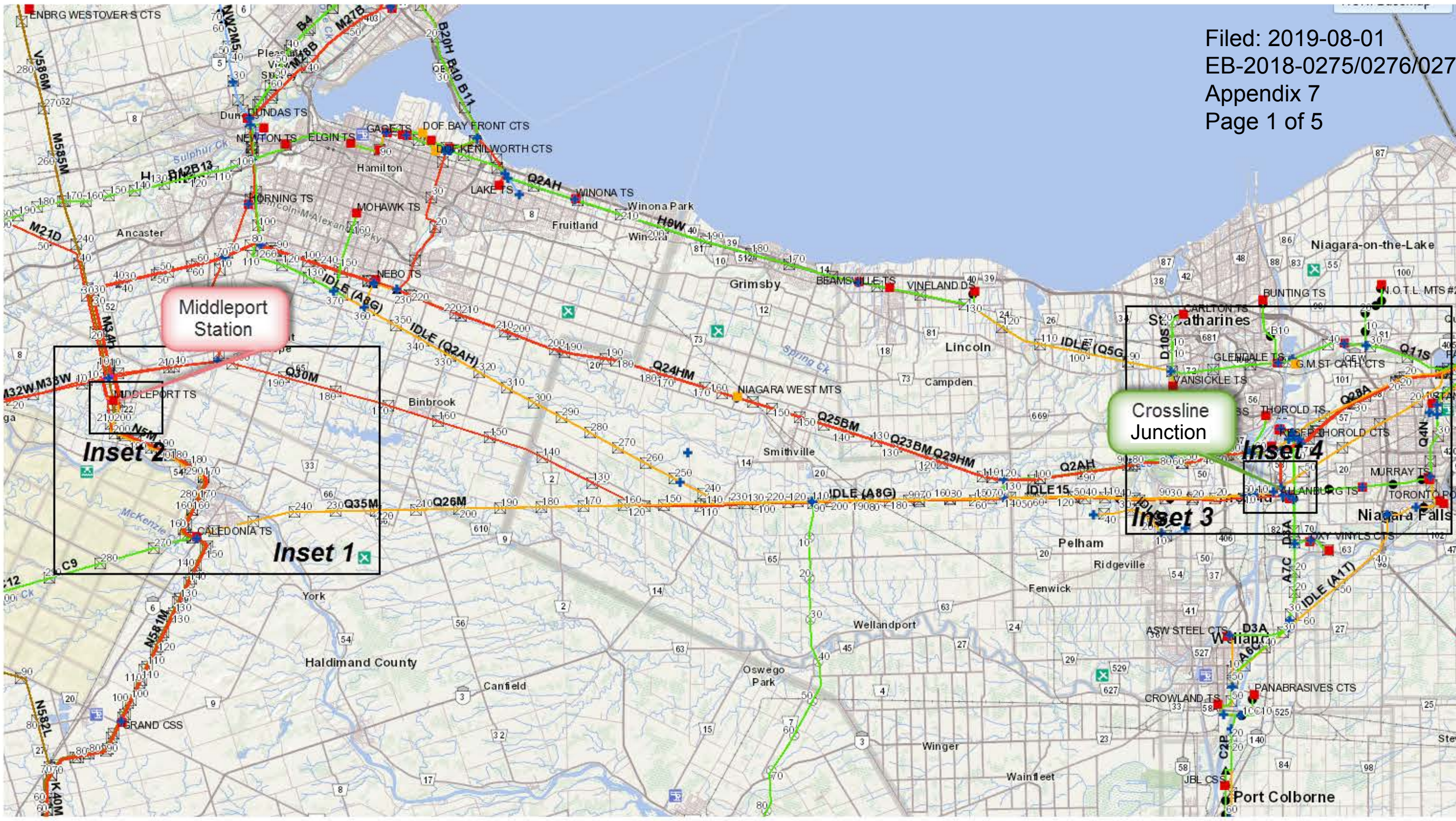
4 Column F is the average rate base in-service over the 4-month period (Column E x 4months/12months)

5 Working Capital calculated using the HONI rate of 3.8% of OM&A (as approved in EB-2016-0160)

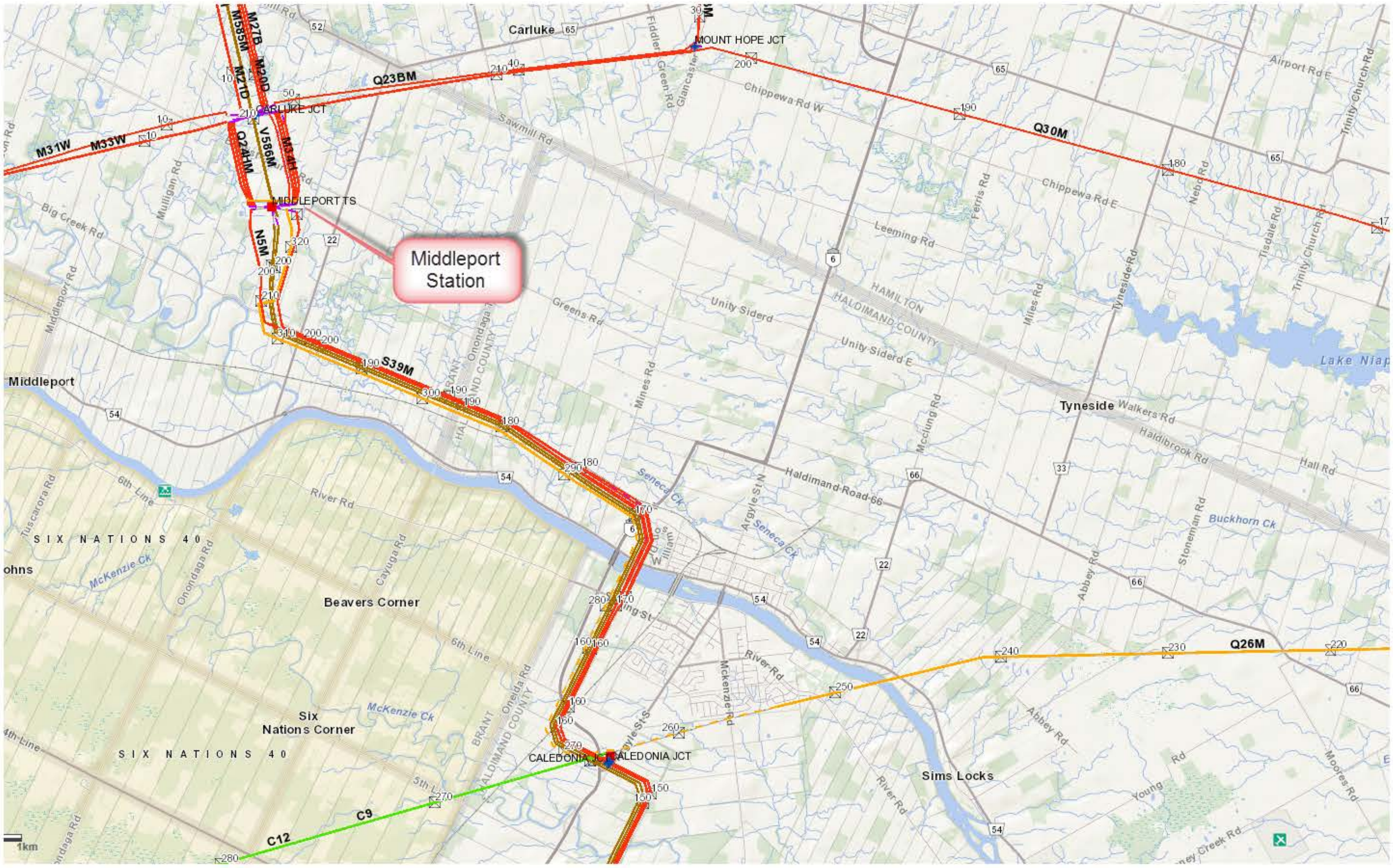
Niagara Reinforcement LP - Financial Outlook

Illustrative ProForma Income Statement

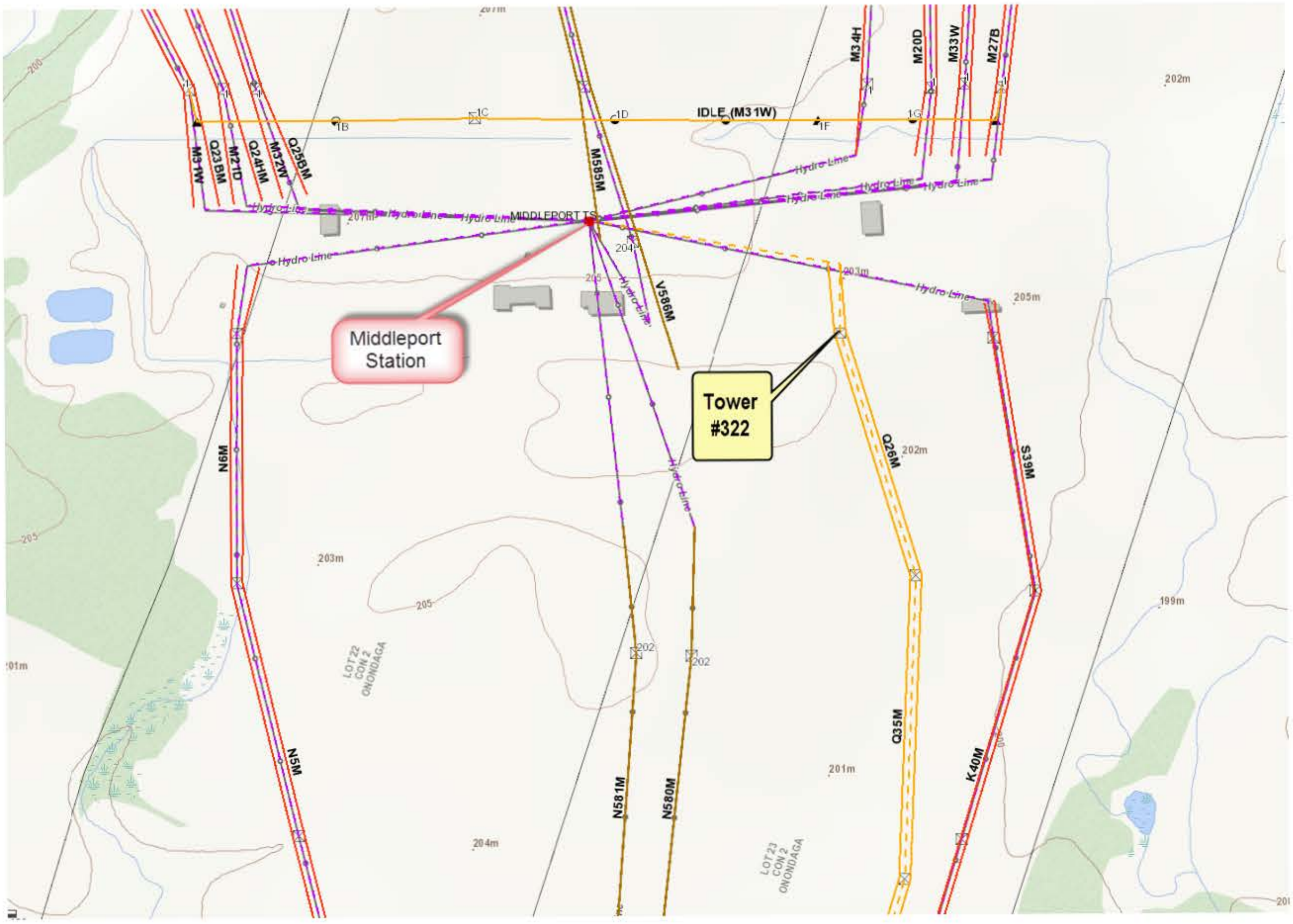
	2019	2020	2021	2022	2023
OPERATING STATEMENT ($M)					
Revenues					
Revenue Requirement	4.67	9.45	9.36	9.27	9.19
AFUDC	-	-	-	-	-
Total revenue	4.67	9.45	9.36	9.27	9.19
Costs					
OM&A	0.30	0.60	0.62	0.63	0.64
Initial Setup costs	1.15				
Depreciation	0.80	1.60	1.60	1.60	1.60
Total costs	2.24	2.20	2.21	2.23	2.24
Earnings before interest and income tax	2.42	7.24	7.15	7.05	6.95
Interest expense	0.97	2.87	2.83	2.80	2.76
Earnings before income tax	1.45	4.37	4.31	4.25	4.20
Income Tax	0.02	0.12	0.12	0.11	0.11
Net Income	1.43	4.25	4.20	4.14	4.08


Middleport Station
Crossline Junction
Inset 1
Inset 2
Inset 3
Inset 4

Main MAP

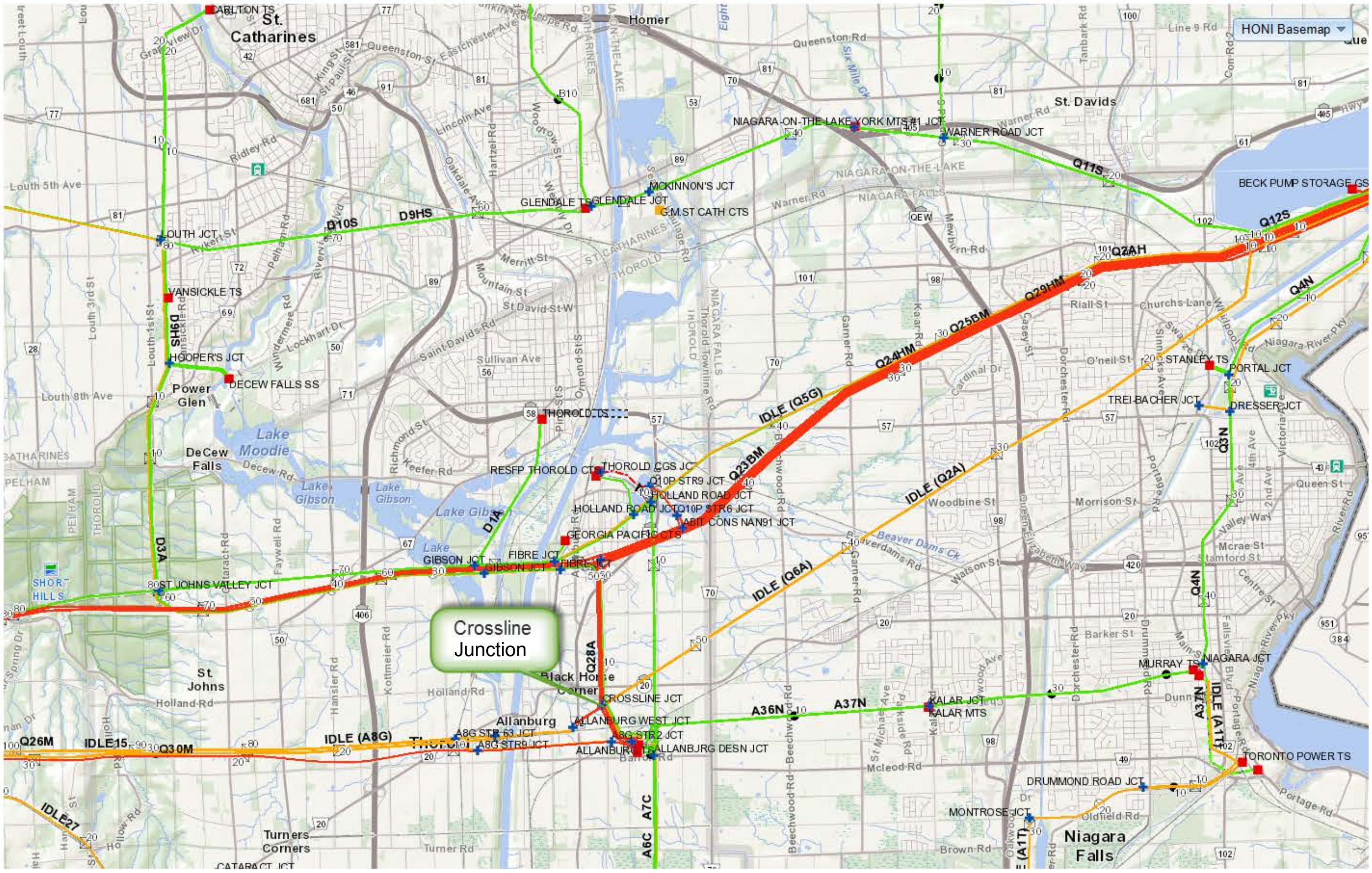

Middleport Station
MIDDLEPORT TS
CALEDONIA JCT
MOUNT HOPE JCT
CARLUKE JCT
S39M
Q23BM
Q30M
Q26M
M31W
M33W
C9
C12
N5M
V586M
Q24HM
M21D
M585M
M27B
Middleport
Carluke
Tyneside
Beavers Corner
Six Nations Corner
Sims Locks
SIX NATIONS 40

Inset 1



IDLE (M31W)
M31W
Q23BM
M21D
Q24HM
M32W
Q25BM
M585M
M34H
M20D
M33W
M27B
MIDDLEPORT TS
Middleport Station
V586M
Tower #322
Q26M
S39M
N6M
N5M
N581M
N580M
Q35M
K40M
LOT 22 CON 2 ONONDAGA
LOT 23 CON 2 ONONDAGA

Inset 2


HONI Basemap
St. Catharines
Crossline Junction
CARLTON TS
VANSICKLE TS
HOOPER'S JCT
DECEW FALLS SS
LOUTH JCT
ST JOHNS VALLEY JCT
GLENDALE TS
GLENDALE JCT
MCKINNON'S JCT
G.M.ST CATH CTS
NIAGARA-ON-THE-LAKE YORK MTS #1 JCT
WARNER ROAD JCT
BECK PUMP STORAGE GS
THOROLD CTS
RESFP THOROLD CTS
THOROLD CGS JCT
Q10P STR9 JCT
HOLLAND ROAD JCT
HOLLAND ROAD JCT
Q10P STR6 JCT
ABIT CONS NAN91 JCT
GEORGIA PACIFIC CTS
GIBSON JCT
FIBRE JCT
CROSSLINE JCT
ALLANBURG WEST JCT
A8G STR2 JCT
A8G STR 63 JCT
A8G STR9 JCT
ALLANBURG
ALLANBURG DESN JCT
KALAR JCT
KALAR MTS
MURRAY TS
NIAGARA JCT
STANLEY TS
PORTAL JCT
TREI-BACHER JCT
DRESSER JCT
TORONTO POWER TS
DRUMMOND ROAD JCT
MONTROSE JCT
CATARACT JCT
D10S
D9HS
D9HS
D3A
D7A
Q28A
Q23BM
Q24HM
Q25BM
Q29HM
Q24H
Q12S
Q11S
Q4N
Q3N
A36N
A37N
A7C
A6C
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Q30M
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IDLE (Q6A)
IDLE (A1T)
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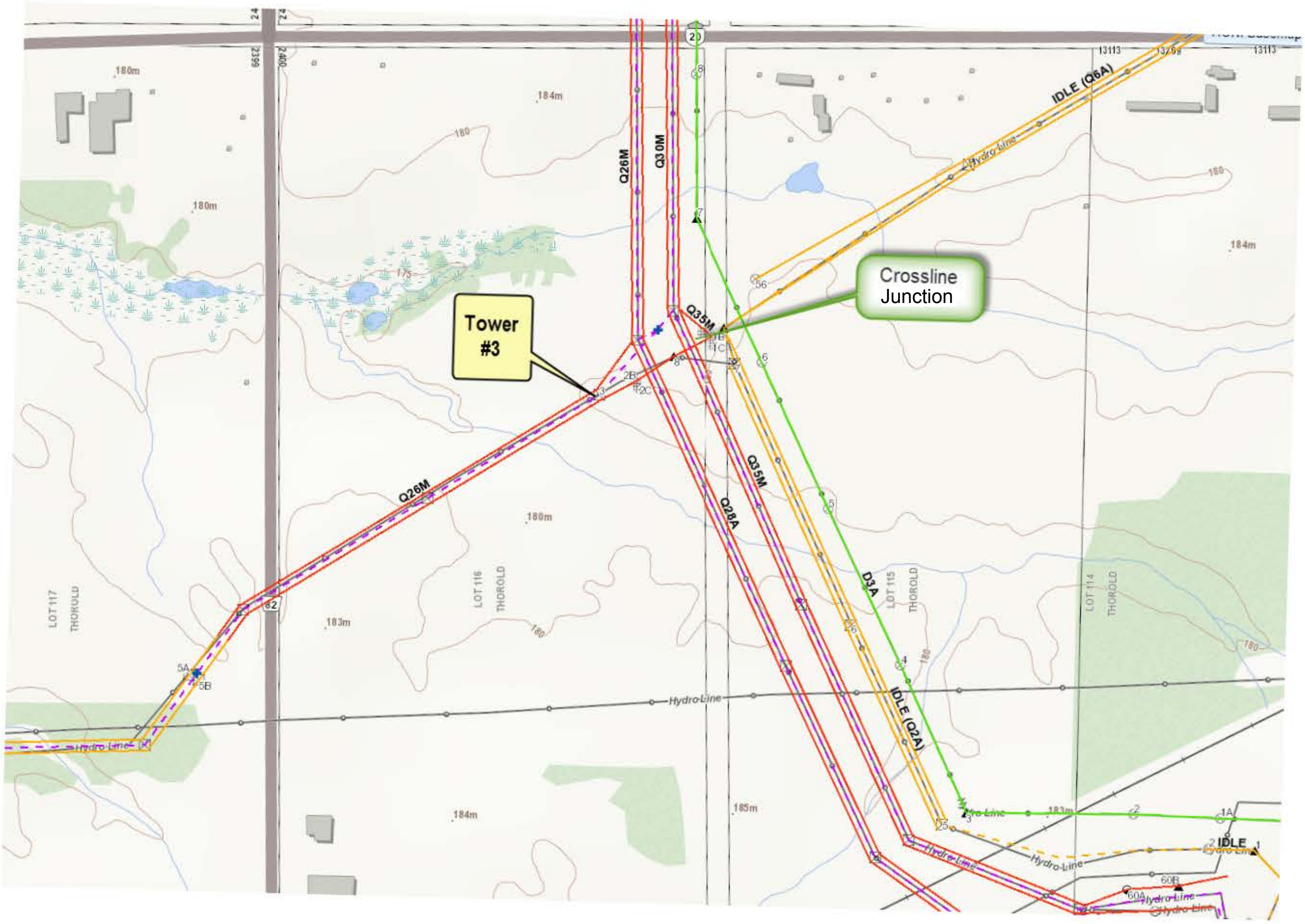
Allanburg
Power Glen
DeCew Falls
St Johns
Turners Corners
Black Horse Corner
Homer
St. Davids

Inset 3


Tower
#3
Crossline
Junction
Q26M
Q30M
Q35M
Q28A
D3A
IDLE (Q6A)
IDLE (Q2A)
IDLE
Hydro Line
LOT 117
THOROLD
LOT 116
THOROLD
LOT 115
THOROLD
LOT 114
THOROLD
180m
184m
183m
185m

Inset 4

Ontario Energy Board
Commission de l'Énergie de l'Ontario

Application for Electricity Transmission Licence

Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4
Telephone: 1-888-632-6273
Facsimile: (416) 440-7656

Commission de l'Énergie de l'Ontario
2300 rue Yonge
C.P. 2319
Toronto, ON M4P 1E4
Téléphone: 1-888-632-6273
Télécopieur: (416) 440-7656

Application Instructions

1. Purpose of this form

The purpose of this form is to collect information to determine whether the Applicant will be granted a licence to transmit electricity.

2. Structure of the Application Form

This form contains the following sections:
- A General Information;
- B Corporate Information;
- C Notice and Consent;
- D Acknowledgement

Note: The Board shall keep confidential the information in Item 10, Section B of this form, with the exception of the names and positions held of key individuals. All other information filed as part of this application will be considered public. Where the applicant objects to public disclosure of the information, the applicant must follow the Ontario Energy Board's approved Guidelines for Treatment of Filing made in confidence, effective March 19, 2001.

3. Completion Instructions

PRINT CLEARLY or TYPE all information in BLACK. Please send the completed form and two copies of all attachments to:

Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319, 26th Floor
Toronto, ON M4P 1E4

4. Licence Fees:

Application Fees:
A non-refundable application fee is required to process your application. Please enclose a cheque or money order made payable to the **ONTARIO ENERGY BOARD**.

Note:
The Licencee may be required to pay an annual fee.

5. Important Information:

As a licenced Electricity Transmitter, the licencee may be subject to additional obligations as required by the Independent Electricity System Operator (IESO) and as established under section 70 of the *Ontario Energy Board Act, 1998*.

The issuance of an electricity transmission licence does not guarantee accreditation by the IESO or connection to a transmission or distribution system.

REMARQUE:
Ce document est disponible en français.

Ontario Energy Board
Commission de l'Énergie de l'Ontario
Application for Electricity Transmission Licence

Ontario Energy Board
2300 Yonge Street
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Toronto, ON M4P 1E4
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Télécopieur: (416) 440-7656

For Office Use Only	
Application Number	
Date Received	

A. General information

1. Type of Application

New licence	☑
Renewal	☐
Amendment to an existing Licence	☐

2. Applicant

Please provide the following information about the Applicant

Full Legal Name of Applicant	Ontario Corporation Number, Canadian Corporation Number or Business Registration Number	Date of Formation or Incorporation
Niagara Reinforcement Limited Partnership	280994377	September, 19, 2018

Business Address:
483 Bay Street, 8th Floor South Tower

City	Prov.	Country	Postal/Zip Code
Toronto	Ontario	Canada	M5G 2P5

Phone Number	FAX Number	E-Mail Address (if applicable)
416-345-5721	(416) 345-5866	regulatory@hydroone.com

3. Primary Contact for this Applicant

Please provide the following information about the Primary Contact for this Application:			
Mr. ☑ Mrs. ☐ Miss ☐ Ms. ☐ Other: _______	Last Name: Smith	Full First Name: Jeffrey	Initial: A
	Position Held: Managing Director		
Contact Address (if R.R., give Lot, Concession No. and Township) 483 Bay Street, 7th Floor			
City: Toronto	Province: Ontario	Country: Canada	Postal/Zip Code: M5G 2P5
Phone Number: 416-345-5721	FAX Number: 416-345-5886	E-mail Address (if applicable): jeffrey.smith@b2mlp.ca	

4. Transmission Facilities

Please provide a description of the transmission facilities involved in this Application:

Niagara Reinforcement Limited Partnership ("**NRLP**") is a newly formed limited partnership which does not currently own or operate transmission facilities in Ontario. Subject to various regulatory approvals, including this transmission licence application, the Applicant has entered into an agreement with Hydro One Networks Inc. ("**HONI**") to purchase transmission line assets.

The assets are located in southern Ontario in the Niagara region and are comprised of a new 76 km double circuit 230 kV transmission line connecting Allanburg Transformer Station and Middleport Transformer Station ("**the Line**"). The Line assets are part of HONI's Niagara Reinforcement Project ("**NRP**") line that is scheduled to be placed in-service on September 1, 2019. The purchase does not include any station assets or the optical fibre sky wire affixed to the towers. A Leave-to-Sell application under s. 86 of the *OEB Act, 1998* has be filed with the Board to seek approval for the proposed sale of the Line under docket EB-2018-0276.

B. Corporate Information

Organizational

5. Business Classification

Please indicate the Applicant's Business Classification (check appropriate type below):

- ☐ Sole Proprietor
- ☑ Partnership
- ☐ Corporation
- ☐ Other (describe)____________________

6. Business Activities

Please provide a description of the transmission facilities involved in this Application:

The Applicant is a newly-formed Ontario limited partnership, which is currently 100% owned by Hydro One Inc., through wholly-owned subsidiaries. The Applicant intends to engage in activities that are related to the ownership of the Line. Accordingly, the Applicant's business activities, under the direction and management of the general partner, are expected to generally be limited to the operation, maintenance and administration of that facility, as well as financing and recovery of costs and prudent investments through the Ontario Energy Board's ("**OEB**") established transmission rate setting process.

Hydro One Networks Inc. has signed an agreement with Six Nations of the Grand River Development Corporation ("**SNGRDC**"), and Mississaugas of the Credit First Nation ("**MCFN**"), two First Nations located proximate to the Line. Subject to regulatory approvals, this agreement was forged to enable SNGRDC and MCFN to purchase, an equity interest in the Licence Applicant, as limited partners.

7. Affiliates of the Applicant

a) Please provide the following information for all Affiliates of the Applicant:			
Full Legal Name of Affiliate Company Hydro One Inc. Hydro One Remote Communities Inc. Hydro One Telecom Inc. Hydro One Networks Inc. Hydro One Sault Ste. Marie B2M Limited Partnership Other holding companies within Hydro One Limited.			
Business Address: 483 Bay St., 8th Floor, South Tower			
City Toronto	Prov. Ontario	Country Canada	Postal/Zip Code M5G 2P5
Phone Number 416-345-5000	FAX Number 416-345-5886	E-Mail Address (if applicable) regulatory@hydroone.com	
Description of Business Activities:			

Following the enactment of the *Electricity Act, 1998* and the restructuring of the former Ontario Hydro, Ontario Hydro Services Company Inc. was incorporated under the *Ontario Business Corporations Act* on December 1, 1998 and commenced business on May 1, 1999. On May 1, 2000, the company's name was changed to Hydro One Inc. in accordance with Section 48.1 of the *Electricity Act, 1998*, as amended. Hydro One Inc. is a holding company operating through its wholly-owned subsidiaries. Its principal subsidiary, Hydro One Networks Inc., is the largest electricity transmitter and distributor within Ontario.

- Hydro One Remote Communities Inc. carries on all business relating to ownership, operation, maintenance and construction of generating and distribution assets used in the supply of electricity to remote communities throughout Northern Ontario that are not connected to the transmission grid.
- Hydro One Telecom Inc. carries on all business relating to leasing dark fibre and providing lit capacity to other telecommunications carriers, large corporations, government, health care and education institutions.
- Hydro One Sault Ste. Marie owns certain transmission assets in the Algoma Region of Ontario.
- B2M Limited Partnership carries on all business relating to the ownership, operation and management of electricity transmission facilities in relation to the Bruce to Milton Transmission line between Milton, Ontario and the Bruce Nuclear Power Development in Tiverton, Ontario.

b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.

Please refer to Attachment 2

7. Affiliates of the Applicant (continued)

a) Please provide the following information for all Affiliates of the Applicant:

Full Legal Name of Affiliate Company

Hydro One Indigenous Partnerships GP Inc.

Business Address:

185 Clegg Road

City	Prov.	Country	Postal/Zip Code
Markham	Ontario	Canada	L6G 1B7

Phone Number	FAX Number	E-Mail Address (if applicable)
905-946-6018	416-345-5886	jeffrey.smith@b2mlp.ca

Description of Business Activities:

Subject to OEB approval, the Niagara Reinforcement Limited Partnership ("NRLP") will own, operate and maintain the transmission line assets of the Niagara Reinforcement Project, under the direction and management of the general partner, Hydro One Indigenous Partnerships GP Inc. ("HOIP").

HOIP will hold the general partner interests and carry out the general partner responsibilities of NRLP including management and oversight of the company. It will be responsible for ensuring that the assets transferred to NRLP are operated and maintained in accordance with all applicable regulatory standards and HONI's maintenance and operating practices. HOIP will carry out these functions through an operations and management services agreement with HONI.

All operational activities of NRLP will be unilaterally directed and managed by HOIP – the General Partner. This entity will coordinate, supervise and manage all activities relating to NRLP. It is the intention of HOIP to procure the bulk of the necessary services from HONI under an operations agreement. This agreement will cover the provision of numerous operation, maintenance and administration services to the Applicant by HONI, and will be in compliance with the OEB's Affiliate Relationship Code.

b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.

Please refer to the supplemental information document at **Appendix 3** to this filing.

8. Energy Sector Activities

Has the Applicant or an Affiliate undertaken any energy sector activities in Ontario or any other jurisdiction? If yes, please provide the following information for each:	Yes ☑ No ☐
Full Legal Name of Company: Hydro One Networks, Inc. Hydro One Remote Communities, Inc. B2M LP Hydro One Sault Ste. Marie LP	Licence/Registration Number: 870865821 870836269 808209530 833178213
Jurisdiction: Across the Province of Ontario	Type of Business Activity (e.g. Generation, Transmission, Distribution): Hydro One Networks: Transmission, Distribution Hydro One Remote Communities: Generation, Distribution B2M LP: Transmission Hydro One Sault Ste. Marie LP: Transmission

Technical Capability and Experience

9. Technical Ability

a) Please describe the applicant's technical ability to carry out the activities applied for including the Applicant's specific experience in Ontario and in other jurisdictions.	
The Applicant is a newly formed Ontario entity that has been established for the purpose of owning, operating, maintaining and administering an electricity transmission facility in Ontario. Units of NRLP will ultimately be held by each of the three limited partners and one general partner. The limited partners of NRLP will be Hydro One Networks Inc., SNGRDC and MCFN. The general partner, HOIP, through its affiliation with Hydro One Inc., brings significant skills, resources and experience to the limited partnership, including technical, financial and stakeholder relationship capabilities. Each of the limited partners brings financial capabilities and stakeholder relationship capabilities.	
b) If the Applicant intends to utilize the capability of others by contracting transmission activities, please indicate below which activities and to whom they will be contracted:	
☐ Design	Contracted to:
☐ Construction	Contracted to:
☐ Customer Connection	Contracted to:
☑ Inspection & Maintenance	Contracted to: Hydro One Networks Inc.
☑ Operation	Contracted to: Hydro One Networks Inc.
☑ Other (describe) Various Administration services	Contracted to: Hydro One Networks Inc.

10. Information About Each Key Individual

Mr. ☑ Mrs. ☐ Miss ☐ Ms. ☐ Other: _______	Last Name: Smith	Full First Name: Jeffrey	Initial: A.
	Position Held: Managing Director		

Please explain the person's experience in the electrical transmission business and in the energy field in general.

Mr. Smith joined Hydro One in 2000 and has over twenty years of diverse experience in Ontario's utility sector. Since joining Hydro One, he has held a variety of management positions in various divisions across the company including Finance, Information Technology, Asset Management and Regulatory Affairs. At present, he is the Managing Director for Hydro One Indigenous Partnerships GP Inc. overseeing B2M LP. In that role, Mr. Smith is accountable for overseeing all activities of the partnership. Mr. Smith also serves as Director of Regulatory Initiatives, Compliance and Support for Hydro One Networks. In that role, he is accountable for investigation and demonstration of compliance with industry standards and administration of regulatory reporting and submissions on behalf of the company.

He has a Bachelor of Arts in Economics from the University of Western Ontario and a Master of Business Administration from the Ivey School of Business.

a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the *Ontario Energy Board Act, 1998.* If yes, provide business names and licence number(s) and describe the individual's specific related experience.	Yes ☑ No ☐
Jeffrey Smith is the Managing Director of Hydro One Indigenous Partnerships GP Inc., general partner of B2M LP	
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.	Yes ☑ No ☐
Jeffrey Smith is the Managing Director of Hydro One Indigenous Partnerships GP Inc., general partner of B2M LP	
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.	Yes ☐ No ☑

11. Financial Information

Please attach financial statements of the Applicant for each of the past two fiscal years. This may include audited financial statements, annual reports, prospectuses or other such information.

Transmission Facilities Information

12. Facilities

Please indicate whether the Applicant's transmission facilities are:	
☒ New assets to be constructed?	Proposed In-Service Date: September 1, 2019 Assets will be built and in-serviced by HONI and then sold to NRLP shortly after completion
☐ Existing assets presently owned by the Applicant?	
☐ Existing assets not presently owned by the applicant (i.e. to be purchased)?	Please indicate from whom assets will be purchased:
☐ Other (describe)	

13. Purpose of Facilities

Please indicate the intended purpose(s) of the Applicant's transmission facilities:
☐ To provide a connection between a generator and a transmission system. ☒ To provide a connection between a transmission system and a load customer. ☐ To provide a connection between a generator and a load customer. ☐ To provide a connection between one transmission system and another ☐ To import or export power ☐ Other (please describe): ____
If parties other than the Applicant are involved, please indicate the specific names of the participants (generator, load customer, transmission system(s): The NRP line will interconnect with the HONI transmission system at both ends of the Line.

14. Location of Facilities

Please indicate the location (township or other such description as appropriate) of the Applicant's transmission facilities and attach a single-line diagram indicating the length (km), capacity (MW) and operating voltage (kV) of each element.
The NRP line includes the 230 kV circuits specifically named Q26M and Q35M – running westerly from Allanburg TS located on Barron Road in the City of Thorold, traversing the counties of Welland, Lincoln and Haldimand, before terminating at Middleport TS located on Baptist Church Road in the County of Brant.

15. Licencing History

	Yes	No
Has the Applicant obtained Ontario Energy Board, National Energy Board, Federal Energy Regulatory Commission or any other regulatory approvals required for the acquisition, construction or operation of the transmission facilities? If no, please indicate the status and plans for seeking these approvals.	☐	☑
These transmission facilities are currently being constructed and are forecast to be placed in-service by HONI on September 1, 2019. HONI has filed an application to the OEB requesting approval for the sale of assets to NRLP (EB-2018-0276). As well, NRLP will be filing an application seeking approval for a deferral account to record associated revenue requirement for the portion of 2019 in which the asset will be in-service (EB-2018-0275), and a request for approval of revenue requirement for 2020-2024. NRLP expects to submit an application for approval of its 2020-2024 revenue requirement in October 2019.		

16. Services to Other Parties

If the transmission facilities are to be used to deliver electricity to a party other than the Applicant please attach the following: a) a summary of business plans relating to the Applicant's proposed transmission business for the next five years. This should include the following: - a forecast of annual peak demand (MW) and energy (MWH) transmitted and/or transformed. - annual pro forma financial statements including forecasts of costs, revenues and project financing indicating the underlying assumptions on which the forecasts are based. b) estimates of net annual cash flows for subsequent periods to demonstrate financial feasibility and security. c) indication of the Applicant's plans to seek Ontario Energy Board approval for rates for transmission services. Please refer to Appendix 6 of this filing for pro-forma financial statements for 2019-2023 that include a forecast of revenue requirement. NRLP is filing 3 applications (EB-2018-0275/0276/0277) to facilitate the creation and interim operation of the transmitter. NRLP plans to file a 5 year Revenue Cap rate request in October 2019 covering the years 2020-2024.

17. Proposed Business Transaction Impact

Please provide a brief summary of the expected impact of the proposed business transactions on the Ontario electricity market under the following headings:

• Facilitate competition and enhance access to transmission services

If approved, NRLP will be a new transmitter in the Province of Ontario. The existence of this entity supports the government's stated mandate to increase ownership diversity within the Transmission sector in Ontario, and to foster participation by First Nations.

• Improve reliability and quality of supply

The Line is being constructed to allow for enhanced transmission flexibility in the Niagara region. This will decrease the requirement for planned outages in the region and enhance reliability. Furthermore, this will support greater utilization of the Bulk Electrical System through the 500kV sub-system out of Middleport to load centres in the Greater Toronto Area. Construction of this asset is supported by the IESO.

• Promote economic and efficient electrical energy supply

The participation of SNGRDC and MCFN as owners of these transmission facilities is expected to allow for the continued economic enhancement on First Nations lands and provide efficient supply of energy generated in the Niagara region, or imported from across the border in the U.S. in the same region, to the provincial grid in southern Ontario.

Other Information

18. Ontario Market Activities

Please indicate whether the Applicant intends to be involved with other electricity sector activities in the Ontario market?	
Buy or Sell (Wholesale) electricity	Yes ☐ No ☑
Distribute electricity	Yes ☐ No ☑
Retail electricity	Yes ☐ No ☑
Generate electricity	Yes ☐ No ☑
If yes to any of the above: a) If affiliates have not yet been established, please indicate when this is planned ____________________	
b) Has Applicant or an affiliate applied for an Ontario Energy Board Licences? If no, when planned? ____________________ Hydro One Networks Inc., B2M LP and Hydro One Sault Ste. Marie are licensed to transmit electricity in Ontario.	Yes ☑ No ☐

C. Notice and Consent

AS REQUIRED BY THE FREEDOM OF INFORMATION AND PROTECTION OF INDIVIDUAL PRIVACY ACT

In order to complete or verify the information provided on this form, it may be necessary for the Ontario Energy Board to collect additional information from some or all of the following sources: federal, provincial/state and municipal governments; licensing bodies; banks; professional and industry associations; and former and current employers. **Only information relevant to your application will be collected.**

The public official who can answer questions about the collection of information is:

Board Secretary
Ontario Energy Board
2300 Yonge Street, P.O. Box 2319
Toronto, Ontario M4P 1E4

Note: The issuance of an electricity transmitter licence does not guarantee accreditation by the IESO, or connection to a transmission or distribution system.

NOTE: This application must be signed by the proprietor or by at least one partner, officer or director of the organization.

WARNING: It is an offence to knowingly provide false information on this application.

I/We consent to the collection of this information as authorized under the *Ontario Energy Board Act, 1998.*	Yes ☑
I/We understand that this information will be used to determine whether I am/we are and remain qualified for the licence for which I am/we are applying.	Yes ☑

Print Name and Title	Signature of Applicant(s)	Date Signed
Jeffrey Smith, Managing Director, Hydro One Indigenous Partnerships GP Inc., general partner of Niagara Reinforcement Limited Partnership	Original Signed by Jeffrey Smith	July 31, 2019

D. Acknowledgement

NOTE: This acknowledgement must be signed by the proprietor or by at least one partner, officer or director of the organization.

I understand and acknowledge that, as a licenced electricity transmitter, I will be required, unless otherwise exempted:

- To provide non-discriminatory access to all persons wishing to connect to the transmission system.
- To comply with all licence conditions including the provisions of:
  - The Ontario Energy Board Affiliate Relationships Code for Electricity Distributors and Transmitters
  - The Ontario Energy Board Transmission System Code
  - The Market Rules made under section 32 of the Electricity Act.

Print Name and Title	Signature of Applicant(s)	Date Signed
Jeffrey Smith, Managing Director, Hydro One Indigenous Partnerships GP Inc., general partner of Niagara Reinforcement Limited Partnership	Original Signed by Jeffrey Smith	July 31, 2019

Print Form

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

Ontario

Application Form for Applications under Section 86(1)(b) of the *Ontario Energy Board Act, 1998*

Application Instructions

1. Purpose of this Form

This form is to be used by parties applying under section 86(1)(b) of the *Ontario Energy Board Act, 1998* (the "Act"). Please note that the Board may require information that is additional or supplementary to the information filed in this form and that the filing of the form does not preclude the applicant from filing additional or supplementary information.

2. Completion Instructions

This form is in a writeable PDF format. The applicant may, however, complete responses on additional pages if the space provided is not sufficient. The applicant must either:

- type answers to all questions, print two copies and sign both copies; or
- print a copy of the form, clearly print answers to all questions, make a copy and sign both copies.

Please send both copies of the completed form and two copies of any attachments to:

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

If you have any questions regarding the completion of this application, please contact the Market Operations Hotline by telephone at 416-440-7604 or 1-888-632-6273 or e-mail at market.operations@oeb.gov.on.ca.

The Board's "Performance Standards for Processing Applications" are indicated on the "Corporate Information and Reports" section of the Board's website at www.oeb.gov.on.ca . Applicants are encouraged to consider the timelines required to process applications to avoid submitting applications too late. If the submitted application is incomplete, it may be returned by the Board or there may be a delay in processing the application.

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4
Telephone: 1-888-632-6273
Facsimile: (416) 440-7656

Commission de l'énergie l'Ontario
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4
Téléphone: 1-888-632-6273
Télécopieur: (416) 440-7656

Application Form for Applications under Section 86(1)(b) of the *Ontario Energy Board Act, 1998*

For Office Use Only	
Application Number	EB -
Date Received	

PART I : IDENTIFICATION OF PARTIES

1.1 Name of Applicant

Legal name of the applicant: Hydro One Networks Inc. ("HONI")

Name of Primary Contact:

Mr. ○ Mrs. ○ Miss ○ Ms. ◉ Other ○ ____________

Last Name	First Name	Initial
Bradley	Darlene	

Title/Position: Chief Operating Officer (A) - Hydro One Networks Inc.

Address of Head Office:

City	Province/State	Country	Postal/Zip Code
Toronto	ON	Canada	M5G 2PS

Phone Number	Fax Number	E-mail Address
416-345-5209		Darlene.Bradley@HydroOne.com

1.2 Other Party to the Transaction (if more than one attach a list)

Name of the other party: Niagara Reinforcement Limited Partnership ("NRLP")

Name of Primary Contact:

Mr. ◉ Mrs. ○ Miss ○ Ms. ○ Other ○ ____________

Last Name	First Name	Initial
Smith	Jeffrey	A

Title/Position: Managing Director, HOIP GP Inc. in its capacity as General Partner of NRLP

Address of Head Office:

City	Province/State	Country	Postal/Zip Code
Toronto	ON	Canada	M5G 2PS

Phone Number	Fax Number	E-mail Address
416-345-5721	416- 345-5866	jeffery.smith@b2mlp.ca

1.3 If the proposed recipient is not a licensed distributor or transmitter, is it a distributor or transmitter that is exempted from the requirement to hold a distribution or transmission licence?

☐ Yes

☒ No

PART II: DESCRIPTION OF ASSETS TO BE TRANSFERRED

2.1 Please provide a description of the assets that are the subject of the proposed transaction.

The assets consist of a new 76 km double circuit 230 kV transmission line connecting Allanburg Transmission Station ("TS") and Middleport TS (the "Line"). These line assets include the 230 kV circuits named Q26M and Q35M and are part of HONI's Niagara Reinforcement Project ("NRP") scheduled to be completed on September 1, 2019. The purchase does not include any station assets nor the fibre-optic sky wire affixed to the towers. Further details of the assets are provided in the Supplementary Application Information.

2.2 Please indicate where the assets are located - whether in the applicant's service area or in the proposed recipient's service area (if applicable). Please include a map of the location.

The Line is located in south western Ontario in the Niagara region connecting Allanburg TS and Middleport TS. Please see Appendix 7 in the Supplementary Application Information for a map of the line's location.

2.3 Are the assets surplus to the applicant's needs?

☐ Yes

☒ No

If yes, please indicate why the assets are surplus and when they became surplus.

2.4 Are the assets useful to the proposed recipient or any other party in serving the public?

☒ Yes

☐ No

If yes, please indicate why.

The Line will allow for enhanced transmission flexibility in the Niagara region. This will decrease the requirement for planned outages in the region and enhance reliability. The line will form part of the bulk electricity system ("BES") in Ontario, delivering power from the connecting Allanburg TS and Middleport TS on to the GTA.

2.5 Please identify which utility's customers are currently served by the assets.

This line will become part of the BES and this supports, directly or indirectly, all electricity customers of Ontario.

2.6 Please identify which utility's customers will be served by the assets after the transaction and into the foreseeable future.

The line will serve the customers of Ontario in the manner described above becoming part of the bulk transmission system.

PART III: DESCRIPTION OF THE PROPOSED TRANSACTION

3.1 Will the proposed transaction be a sale, lease or other?

- ☒ Sale
- ☐ Lease
- ☐ Other

If other, please specify. ______________________________

3.2 Please attach the details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.

3.3 Would the proposed transfer impact any other parties (e.g. joint users of poles) including any agreements with third parties?

- ☐ Yes
- ☒ No

If yes, please explain how.

3.4 Would the proposed transfer impact distribution or transmission rates of the applicant?

- ☐ Yes
- ☒ No

If yes, please explain how.

The revenue requirement for these assets is not included in any current, or future, HONI Transmission revenue requirement approved by the Board. NRLP is concurrently applying for a deferral account to track 2019 revenue requirement for the period that the assets will be in-service. NRLP will file a revenue requirement application for 2020-2024 revenue requirement in October 2019.

3.5 Will the transaction adversely affect the safety, reliability, quality of service, operational flexibility or economic efficiency of the applicant or the proposed recipient?

- ☐ Yes
- ☒ No

If yes, please explain how.

PART IV: WRITTEN CONSENT/JOINT AGREEMENT

4.1 Please provide the proposed recipient's written consent to the transfer of the assets by attaching:

a) a letter from the proposed recipient consenting to the transfer of the assets;

b) a letter or proposed sale agreement jointly signed by the applicant and the proposed recipient agreeing to the transfer of the assets; or

c) the proposed recipient's signature on the application.

PART V: REQUEST FOR NO HEARING

5.1 Does the applicant request that the application be determined by the Board without a hearing? If yes, please provide:

a) an explanation as to how no person, other than the applicant or licence holder, will be adversely affected in a material way by the outcome of the proceeding; and

b) the proposed recipient's written consent to dispose of the application without a hearing.

The proposed transaction results in an inter-company transfer of assets. The transferred assets will be operated and maintained by HONI in the same manner as related transmission facilities in Ontario. Performance and reliability will not be impacted by a change in equity ownership. In light of these circumstances, HONI does not view the application to require a public hearing.

PART VI: OTHER INFORMATION

6.1 Please provide the Board with any other information that is relevant to the application. When providing this additional information, please have due regard to the Board's objectives in relation to electricity.

As described in the Supplementary Application Information filing, the asset purchaser, NRLP, has filed an application for a transmission licence (EB-2018-0277) and plans to make available an equity interest to First Nations partners. This transaction supports the Government of Ontario objective to promote economic partnerships with Indigenous groups.

PART VII : CERTIFICATION AND ACKNOWLEDGMENT

7.1 Certification and Acknowledgment

I certify that the information contained in this application and in documents provided are true and accurate.

Signature of Key Individual	Print Name of Key Individual Original Signed by Darlene Bradley	Title/Position COO (A)
	Date Aug 1, 2019	Company Hydro One Networks Inc.

(Must be signed by a key individual. A key individual is one that is responsible for executing the following functions for the applicant: matters related to regulatory requirements and conduct, financial matters and technical matters. These key individuals may include the Chief Executive Officer, the Chief Financial Officer, other officers, directors or proprietors.)

Appendix 10

NIAGARA REINFORCEMENT LIMITED PARTNERSHIP APPLICATION FOR DEFERRAL ACCOUNT

1.0 INTRODUCTION

This application is made in support of three interrelated applications for Ontario Energy Board ("OEB" or "the Board") approvals made on behalf of Hydro One Networks Inc. ("HONI") and Niagara Reinforcement Limited Partnership ("NRLP"). NRLP has made a separate application to secure a transmission licence (EB-2018-0277) and HONI has made an application for leave to sell transmission assets to NRLP (EB-2018-0276). This Application (EB-2019-0275) is a request for OEB-approval of an accounting order to establish a new deferral account, the "NRP Transmission Line Revenue Requirement Deferral Account" ("NRLPDA"), for the purpose of recording revenue requirement relating to the NRP Transmission Line Project ("the NRP Project") once it is placed in-service. The NRLPDA will collect the costs on the subset of assets from the NRP Project that are planned to be sold to NRLP ("NRLP Assets").

NRLP is requesting the new deferral account be effective starting September 1, 2019, the date the assets are expected to be placed in-service by HONI and subsequently transferred to the limited partnership. The proposed deferral account would record the revenue requirement from the time of the in-service of the assets up to the OEB-approved effective date of a subsequent NRLP rate application.

NRLP is preparing to file a Revenue Cap rate application covering 2020-2024 rates including the revenue requirement details for their 2020 test year and to include those rates in the determination of the UTR for 2020. This application is expected to be filed with the Board in October 2019. NRLP will ask the Board to adjudicate the prudency and allow for recovery of the costs included in the NRLPDA as part of that application.
Assuming NRLP achieves an OEB-approved 2020 rate decision, effective January 1,

2020, NRLP will ask the Board to include the approved costs from the NRLPDA in the Uniform Transmission Rates ("UTR") rates for recovery from the Ontario Rate Pool (the "Pool").

The proposed NRLPDA should be approved and is in the public interest because:

- HONI and NRLP have applied to the Board for the approval of a transmission license for NRLP and, HONI has applied for the approval to sell assets to NRLP under s.86 of the Ontario Energy Board Act (the "Act");
- It will allow for the timely in-service of the assets that will benefit Ontario ratepayers;
- It will be increase regulatory efficiency since the adjudication of the prudency of the costs will be heard in tandem with the 2020 rate filing, without an additional proceeding; and
- Neither HONI nor NRLP are seeking recovery of the amount it proposes to record in the deferral account at this time. The deferral account balances will be subject to review upon disposition and recovered through the Ontario Uniform Transmission Rates ("UTRs").

The need for this account is to ensure that NRLP is able to recover the appropriate level of revenue requirement for the period of time the asset will be in-service, prior to NRLP receiving approval of its revenue requirement. NRLP will own only one asset, the NRLP Assets, and currently, there is no other interim mechanism to allow NRLP to recover costs for the four months of service that the NRLP Assets will provide to the Pool.

As per the Board's usual process, a deferral account approval is required in advance of recording any balances.

2.0 EFFECTIVE DATE OF NRLPDA

NRLP is requesting the account be effective from September 1, 2019. This is the date HONI expects the Project assets will be placed in-service and conveying electricity and transferred to NRLP.

3.0 TEST FOR ESTABLISHMENT OF A DEFERRAL ACCOUNT

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

3.1 Causation

Section 2.10 of the Filing Requirements requires that the, "forecasted expense must be clearly outside of the base upon which revenue requirement(s) were derived"[1]. NRLP has no current OEB-approved revenue requirement nor are the assets included in HONI's rate base. NRLP expects to file an application seeking approval of its 2020 revenue requirement in October 2019.

NRLP is seeking OEB-approval for a transmission licence, and HONI is seeking leave to sell the NRLP Assets to NRLP. Revenue requirement of this nature would normally be recoverable by a transmitter from the provision of these types of services to ratepayers. Without approval of this account, the lost revenue this would significantly impact the operations of the transmitter, NRLP and its partners.

3.2 Materiality

In terms of the materiality of the amounts a transmitter is seeking to record, Section 2.10 of the Filing Requirements require the, "forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the transmitter".[2] Additionally, Section 2.1.1 of the Filing Requirements prescribes materiality thresholds for transmitters, indicating they are dependent on the magnitude of the transmitters revenue requirement. The filing requirements state;

[1] Filing Requirements dated February 11, 2016, Page 35
[2] Filing Requirements dated February 11, 2016, Page 35

"Unless a different threshold applies to a specific section of these filing requirements, the default materiality thresholds are as follows:

- *$50,000 for a transmitter with a transmission revenue requirement less than or equal to $10 million*
- *0.5% of transmission revenue requirement for a transmitter with a transmission revenue requirement greater than $10 million and less than or equal to $200 million*
- *$3 million for a transmitter with a transmission revenue requirement of more than $200 million"*[3]

NRLP does not have a current OEB-approved revenue requirement. Please refer to **Appendix 6** for the estimates of NRLP's Revenue Requirement for 2019 through 2023.

Given the Board's materiality threshold categories above, NRLP's revenue requirement would see them captured in the first category as its revenue requirement is not expected to exceed $10 million, NRLP's materiality threshold is therefore $0.05M.

HONI estimates the amount to be recorded in 2019 will be more than $4M. Therefore, the forecast amount to be recorded in the deferral account meets the materiality criteria. If the deferral account is not approved, NRLP will effectively not be entitled to recover the full costs of owning and operating the assets that are also subject to approval in the related applications for a transmission licence and sale of assets from HONI to NRLP. Based on the Board's criteria HONI and NRLP believe the materiality threshold for a deferral account has been satisfied.

[3] Filing Requirements dated February 11, 2016, Page 6

3.3 Prudence

Section 2.10 of the Filing Requirements require that the, "nature of the costs and forecasted quantum must be reasonably incurred, although the final determination of prudence will be made at the time of disposition"[4]

If the transmission license application and leave to sell the assets application are approved, NRLP will acquire the NRP transmission facility assets and will own, operate and maintain the facilities to provide transmission services to ratepayers as described by NRLP and HONI in the accompanying applications[5].

The agreement with the First Nations underlying the formation of the limited partnership and the sale of assets will facilitate the NRP Project assets being placed in service and ultimately providing transmission services to ratepayers. This agreement prevents what could have been, in a worse-case scenario, a write-off potentially exceeding $100M already incurred in Project costs. The deal allows for the completion of the project providing beneficial service to rate payers at a favourable cost[6]. HONI and NRLP believe this satisfies the prudency standard whereby, "T[t]he transmitter's decisions to incur the amounts must represent the most cost-effective option for ratepayers."[7]

The approval of a deferral account to record the interim 2019 revenue requirement for the period the asset will be used and useful is appropriate and equitable such that the newly formed NRLP will have the opportunity to recover the revenue it earns from the services the acquired transmission facilities provide to ratepayers.

The final determination of prudency will be made at the time NRLP applies for disposition of the deferral account in a future transmission rate filing hearing. The Board

---

4 Filing Requirements dated February 11, 2016, Page 35

5 EB-2018-0276 and EB-2018-0277

6 Rate payers will enjoy a modest tax benefit flowing through in rates, given the tax-free status of the First Nations partners' ownership of NRLP

7 Filing Requirements dated February 11, 2016, Page 32

and other stakeholders will have the opportunity to review and test the prudency of those costs at that time.

4.0 DRAFT ACCOUNTING ORDER

As prescribed by the Filing Requirements, NRLP is including a Draft Accounting Order outlining the proposed entries for recording NRLP's interim revenue requirement prior to the effective date of NRLP's first OEB-approved revenue requirement. Please refer to as **Appendix 5** of this application for the estimate of NRLP's interim 2019 revenue requirement that will be recorded in the deferral account.

5.0 CONCLUSION

NRLP believes the establishment of the NRLPDA should be approved. The amounts proposed to be recorded within the account will be material to NRLP, and the account has met the Board's eligibility criteria of causation, materiality and prudence.

All of which is respectfully submitted for the Board's consideration.

Appendix 10A

2019 Interim Revenue Requirement for the Period Sept 1, 2019 to December 31, 2019, to be Recorded in the Deferral Account.

1.1 NRLP is making an application pursuant to sections 78(3) and 21(7) of the Act for approval of a Deferral Account that will record the NRLP's interim revenue requirement for 2019. The 2019 interim revenue requirement is necessary to fund the costs associated with completion of the NRP, of which a majority (the "Transferred Assets") will be sold by HONI to NRLP.

1.2 NRLP expects to submit a Cost of Service filing in October 2019 for approval of final rates covering the five year period including 2020-2024. This timing allows for coordination with a similar application to be submitted by B2M LP for rates for the same period. Completion of these applications is expected to align the rate periods of the two transmitters and enhance regulatory efficiency for HONI, the Board and rate payers.

1.3 The NRP Transmission Line Revenue Requirement Deferral Account would record the 2019 interim revenue requirement request included as part of this Application in order to establish a reasonable rate recovery for the Transferred Assets and include that amount in the deferral account for later review by the Board and when disposed of, be included in a future years UTR. The expectation is that the NRP will come into service on September 1, 2019, resulting in an in-service of four months during 2019. HONI does not, and will not, possess a rate order allowing for the recovery of costs for any of the NRP-related expenditures, or proposed Transferred Assets in 2019. If approved for licencing, NRLP proposes the 2019 interim revenue requirement be recorded in a deferral account for future review and disposition by the Board. NRLP will be proposing to be an active Transmitter such that its revenue requirement is included on the 2020 UTR schedule. The 2019 interim revenue requirement, as estimated NRLP, will be recorded in the requested deferral account and included in a future UTR rate once reviewed and approved by the Board.

1.4 NRLP estimates the interim revenue requirement associated with the Transferred Assets in 2019 to be approximately $4.7M for the four month period (September 1st to December 31st) the Project is forecast to be in-service. Further information of the calculation of the 2019 revenue requirement is found in **Appendix 5**.

1.5 NRLP acknowledges the amounts that will be recorded in the deferral account representing 2019 revenue requirement will be interim and proposes to true-up and record the actual 2019 revenue requirement calculated subsequent to the completion of the Project. The amounts recorded in the proposed deferral account will be subject to interest improvement consistent with the OEB's policies and guidelines for deferral and variance accounts. This calculation will be completed as part of the proceeding related to the 2020-2024 cost of service application and will include updated and more accurate project costs. As part of the request, NRLP will seek to dispose of any deferral account balance to ensure that ratepayers are kept whole and provide the correct level of cost recovery to NRLP.

1.6 The steps of the transaction included in the IA contemplate that the Transferred Assets will be placed in-service by HONI on September 1, 2019 and then sold to NRLP shortly thereafter. A minority stake in NRLP will subsequently be sold to the First Nations partners to complete the transaction. Therefore, NRLP will be wholly-owned by HONI until after the asset is placed in-service.

Appendix 10B - Draft Accounting Order

Accounting Entries

NRP Transmission Line Revenue Requirement Deferral Account

NRLP proposes the establishment of a new "NRP Transmission Line Revenue Requirement Deferral Account" to capture the preliminary revenue requirement relating to the operation associated with this project before such time that a S.78 Revenue Requirement application can be approved by the OEB and the associated Revenue Requirement can be included in the Uniform Transmission rates ("UTR") rates.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account "NRP Transmission Line Revenue Requirement Deferral Account" effective September 1, 2019 to December 31, 2019. NRLP will record interest on the balance in the sub-account using the prescribed interest rates set by the Board. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

The following outlines the proposed accounting entries for this account:

PROPOSED ACCOUNTING ENTRIES

NRP Transmission Line Revenue Requirement Deferral Account

USofA # Account Description

Dr: 1508 Other Regulatory Assets – Sub account "NRP Transmission Line Revenue Requirement Deferral Account"

Cr: 4110 Transmission Service Revenue

To record the revenue related to NRLP’s 2019 Interim Revenue Requirement for the NRP transmission facilities. The asset will be recognised in the “NRP Transmission Line Revenue Requirement Deferral Account” for future disposition.

Dr: 1508 Other Regulatory Assets – Sub account “NRP Transmission Line Revenue Requirement Deferral Account”

Cr: 6035 Other Interest Expense

To record interest improvement on the principal balance of the “NRP Transmission Line Revenue Requirement Deferral Account”.