

HYDRO ONE INC.

RESOLUTION OF THE SOLE SHAREHOLDER

**REGARDING COST ALLOCATION AND COST RECOVERY FOR
TRANSMISSION SYSTEM UPGRADES**

WHEREAS Her Majesty the Queen in Right of the Province of Ontario as Represented by the Minister of Energy (the "**Shareholder**"), as the registered holder of all the issued shares of Hydro One Inc. (the "**Corporation**"), executed a unanimous shareholder agreement (the "**Shareholder Agreement**") dated as of April 19th, 2011 regarding the Corporation;

AND WHEREAS paragraph 1 of the Shareholder Agreement removed from the Directors of the Corporation all of their rights, powers and duties in relation to decisions by Hydro One Networks Inc. ("**HONI**"), the Corporation's wholly-owned subsidiary, related to:

- (i) the pursuit of cost recovery, by HONI, from microFIT and small-scale (capacity allocation exempt) FIT generation projects or proponents thereof for costs related to investment and expenditures made, or required to be made, by HONI, in order to appropriately fund the upgrades at up to fifteen (15) transmission stations pursuant to the February 28, 2011 licence condition amendments made to HONI's transmission licence;
- (ii) the pursuit of cost recovery, by HONI, of such costs through regulatory processes designed to ultimately recover costs from Ontario electricity consumers through electricity rates;
- (iii) whether or not to pursue and implement, and require HONI to pursue and implement, internal cost recovery or cost mitigation measures designed to off-set the costs associated with the upgrades, and to pursue further cost minimization strategies and to increase overall cost efficiencies within HONI and the Corporation, including the timing of any such decisions.

AND WHEREAS the Shareholder wishes to ensure that the Corporation is managing its business and affairs in compliance with the Government of Ontario's policies in relation to alternative methods of managing costs including maximizing internal efficiencies, while maintaining the safety and reliability of the electricity system;

AND WHEREAS the Shareholder wishes to exercise its rights and powers under paragraph 1 of said Shareholder Agreement in relation to the management of the costs identified therein.

NOW THEREFORE BE IT RESOLVED AS A RESOLUTION OF THE SOLE SHAREHOLDER OF THE CORPORATION THAT:

1. The Corporation shall not, unless notified otherwise, seek or permit HONI to seek cost recovery for the upgrades from either microFIT or small-scale FIT generators, whether directly or indirectly, for costs related to investment and expenditures made, or required to be made, by HONI in order to appropriately fund the upgrades at up to fifteen (15) transmission stations pursuant to the February 28, 2011 licence condition amendments made to HONI's transmission licence.
2. The Corporation shall not, unless notified otherwise, seek or permit HONI to seek cost recovery for the upgrades through regulatory processes designed to ultimately recover costs from Ontario electricity consumers through electricity rates.
3. The Directors shall make all reasonable efforts and take all reasonable steps as soon as is practical to achieve cost reductions and maximize cost efficiencies within the Corporation, which are equivalent to amounts which are not recoverable from generators or electricity customers through electricity rates, as outlined in paragraphs 1 and 2 above.
4. The Directors shall ensure that this resolution is carried out in accordance with all applicable laws, and in accordance with sound commercial practice for a corporation involved in the transmission and distribution of electricity and in accordance with all applicable licences and with the Independent Electricity System Operator's Market Rules.
5. Any officer or Director of the Corporation be and is hereby authorized and directed to execute and deliver all documents and agreements, and to do and perform all things as may be necessary or desirable, in order to give effect to and implement the foregoing resolutions.

The foregoing resolutions are hereby consented to as evidenced by the signature of the sole shareholder of the Corporation pursuant to the provisions of the *Business Corporations Act* (Ontario).

DATED as of the 19th day of April, 2011.



Her Majesty the Queen in Right of the
Province of Ontario, as represented by
the Minister of Energy

HYDRO ONE INC.

DECLARATION OF THE SOLE SHAREHOLDER REGARDING the allocation of costs and cost recovery for certain transmission system expansion, reinforcement and upgrade activities (the "upgrades"), such declaration being made as of the 19th day of April, 2011 (the "Effective Date");

WHEREAS HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF ONTARIO AS REPRESENTED BY THE MINISTER OF ENERGY (the "Shareholder") is the registered and beneficial owner of all the issued and outstanding shares of Hydro One Inc (the "Corporation");

AND WHEREAS the Shareholder recognizes that the Corporation is itself the sole shareholder of Hydro One Networks Inc. ("HONI") which is licensed by the Ontario Energy Board as both a transmitter and a distributor;

AND WHEREAS the upgrades are an important element of the government's Long Term Energy Plan, and are necessary to help ensure the electricity grid is able to accommodate Ontarians' tremendous response to the microFIT program and capacity allocation exempt (CAE) applications to the FIT program;

AND WHEREAS HONI's transmission licence requires the company to develop and implement transmission projects to increase short circuit and/or transformer capacity at up to fifteen (15) of the Licensee's transmission stations during the forty-eight (48) month period beginning March 1, 2011, to enable the connection of small-scale renewable energy generation facilities;

AND WHEREAS HONI's business decisions must include consideration of the impact of those decisions on electricity ratepayers, as well as the safety and reliability of the electricity system;

AND WHEREAS the Shareholder finds it necessary to assume decision-making power and authority over certain distinct aspects of the business operations of the Corporation, and in particular, in regards to certain decision-making authority that the Corporation has with respect to its own wholly-owned subsidiary, HONI, such decisions having implications for small-scale FIT and microFIT generators;

AND WHEREAS the Shareholder makes the following declaration pursuant to subsection 108(3) of the *Business Corporations Act* (Ontario) (the "Act") intending the same to be deemed to be a Unanimous Shareholder Agreement within the meaning of the Act.

NOW THEREFORE it is hereby declared that:

1. The rights, powers and duties of the Directors (the "Directors") of the Corporation to manage, or supervise the management of, the business

and affairs of the Corporation, whether such rights, powers or duties arise under the Act, the articles of incorporation of the Corporation or the by-laws of the Corporation, as and when amended, or otherwise, are forthwith restricted with regard to any decisions regarding:

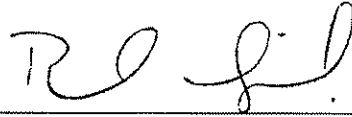
- (i) the pursuit of cost recovery, by HONI, from microFIT and small-scale (capacity allocation exempt) FIT generation projects or proponents thereof for costs related to investment and expenditures made, or required to be made, by HONI, in order to appropriately fund the upgrades at up to fifteen (15) transmission stations pursuant to the February 28, 2011 licence condition amendments made to HONI's transmission licence;
 - (ii) the pursuit of cost recovery, by HONI, of such costs through regulatory processes designed to ultimately recover costs from Ontario electricity consumers through electricity rates;
 - (iii) whether or not to pursue and implement, and require HONI to pursue and implement, internal cost recovery or cost mitigation measures designed to off-set the costs associated with the upgrades, and to pursue further cost minimization strategies and to increase overall cost efficiencies within HONI and the Corporation, including the timing of any such decisions.
2. Those rights, powers and duties of the Directors are hereby assumed by the Shareholder and no longer reside with the Board of Directors or any members thereof, from the Effective Date, until this Declaration is amended or revoked. (collectively, the "**Restricted Powers**").
 3. This Declaration and the restriction of the powers of the Directors herein contained shall not affect any action, step, resolution or by-law duly taken, made, passed or consented to by the Directors prior to the Effective Date.
 4. The Shareholder assumes all the rights, powers, duties and liabilities of the Directors to manage or supervise the management of the business and affairs of the Corporation in connection with the Restricted Powers and, pursuant to subsection 108(5) of the Act, the Directors are thereby relieved of their duties and liabilities, including any liabilities under section 131, to the same extent.
 5. For greater certainty, the Restricted Powers do not restrict the duties and liabilities of the Directors to manage, or supervise the management of, the business and affairs of the Corporation relating to the actual implementation of any decision made by the Shareholder pursuant to paragraph 1 above, including:
 - (i) duties stemming from the Corporation's or HONI's licence conditions and all applicable instruments, codes and orders of the Ontario Energy

Board, as well as the regulations and legislation and any instruments issued pursuant thereto;

- (ii) duties and liabilities associated with the prudent and cost-efficient operation by HONI of all of its transmission and distribution facilities;
- (iii) duties and liabilities associated with the safe, reliable and environmentally responsible operation of all of HONI's transmission and distribution facilities;
- (iv) duties to take appropriate decisions, actions or steps to implement this Declaration and any Resolution of the Shareholder made pursuant to this Declaration.

IN WITNESS WHEREOF the Shareholder has duly executed this Declaration as of the Effective Date.

HER MAJESTY THE QUEEN IN
RIGHT OF THE PROVINCE OF
ONTARIO, AS REPRESENTED BY
THE MINISTER OF ENERGY

By: 
Brad Duguid
Minister of Energy