SUMMARY OF INITIATIVES BASED ON LEGISLATIVE CHANGES

1.0 INTRODUCTION

Hydro One Inc. is subject to direction from its shareholder (the Government of Ontario), Ontario Energy Board decisions and government legislation and regulations. Each one of these sources has the potential to be a driver for change affecting Hydro One policies, processes and work programs, with associated cost implications. Hydro One complies with all regulatory and legislative requirements and incurs costs to do so. When new legislation or regulations are passed, or when OEB decisions are released, Hydro One responds to the directive by developing appropriate programs or initiatives to implement the required changes in a cost-effective fashion. As the electricity industry in Ontario continues to evolve, Hydro One actively participates in the design of industry-related changes with the intent of ensuring that costs are reasonable and that the impacts on customers are manageable. The costs of implementing the outcomes of ongoing industry changes include communicating changes to customers and modifying the impacted business processes, information systems, policies and procedures and staff training programs. The remainder of this Exhibit provides a brief summary of the key pieces of legislation, regulatory requirements, standards and guidelines to which Hydro One's Distribution Business must respond.

2.0 THE DISTRIBUTION SYSTEM AND RETAIL SETTLEMENT CODES

Hydro One is bound by the terms of its Distribution licence to adhere to the requirements of the Distribution System Code (DSC) and the Retail Settlement Code (RSC), both of which are administered by the Ontario Energy Board.

The DSC provides the minimum conditions a distributor must meet in carrying out its obligation to operate, maintain, manage and expand distribution systems and requires Hydro One to operate and maintain its system in accordance with "good utility practice." The DSC sets out the obligations of electricity distributors with respect to their customers, including the rules governing the economic evaluation of distribution system connections and expansions and also the minimum standards for facilities connected to a distribution system. It also includes guidance on the form of the Connection Agreement for load customers, and includes a Connection Agreement template for generator customers, which covers the technical and commercial responsibilities for both Hydro One and the customer.

The RSC sets the minimum obligations that distributors and retailers must meet in determining the costs of electricity services. It sets the rules for Hydro One's customer billing process and its interactions with retailers. The main aspects of the RSC include rules for processing service transaction requests, calculating distribution losses on customer bills, meter reading and billing cycles, and defining and setting timelines for billing options (such as retailer consolidated bills).

Both codes have been periodically amended over time. Hydro One has incorporated, or is in the process of incorporating, these amendments into its work practices and procedures. Recent changes include updates in 2006 to facilitate distributed generation and net metering, and updates in 2007 to connections and expansions, smart metering, and the elimination of Long Term Load Transfers.

3.0 ENVIRONMENTAL MANAGEMENT

Hydro One Distribution is subject to a wide range of legislation. The following are the major acts that govern Hydro One Distribution's activities. Many others can apply in specific circumstances but the following are applicable to most distribution work.

3.1 Federal Legislation

- *Canadian Environmental Protection Act*, which regulates the management of hazardous substances such as Polychlorinated Biphenyls ("PCBs").
- *Fisheries Act*, which regulates fish habitat and pollution prevention in and around water bodies that support fish.

3.2 Provincial Legislation

- *Environmental Protection Act*, which regulates waste management/disposal, spills and Certificates of Approval.
- *Ontario Water Resources Act*, which regulates discharges, sewage works and water works.
- *Pesticides Act*, which regulates the storage, use and application of pesticides.
- *Environmental Assessment Act*, which regulates the planning and environmental approvals of projects, such as high voltage stations that step down to distribution voltages.

3.3 Municipal Legislation

Many municipal by-laws regulate noise, discharges to sewers, pesticide use and the upkeep/maintenance of properties. The application of these will vary depending on the municipality.

3.4 Environmental Management and Governance

In order to comply with all legislated requirements, Hydro One Distribution has developed a number of environmental management programs. In addition, governance activities such as management system maintenance, program monitoring and reporting are provided by staff in the Health, Safety & Environment function.

The following is a summary of the major programs:

3.4.1 Land Assessment and Remediation

- Land and groundwater contamination is a legacy issue from spills, leaks and historical use of persistent herbicides at distribution stations for vegetation control. Underground tanks for fuel storage and dispensing have also been a cause of land and water contamination. At the time that these herbicides were used by the former Ontario Hydro, they were commonly used by North American utilities, and were compliant with regulatory requirements in place at the time. There was no knowledge of their potential negative environmental impact.
- Program management and funding requirements are described in Exhibit C1, Tab 2, Schedule 2.

3.4.2 Management of hazardous materials and wastes

- Hazardous materials such as PCBs and wastes (oils, solvents, etc.) are managed in accordance with regulatory requirements and good management practices;
- PCBs are a contaminant in a small percentage of oil-filled electrical equipment. The amount of PCBs has declined due to a program of PCB phase-out and destruction, which began in the mid-1980s. The continued removal of equipment from service in the future will ensure that Hydro One Distribution becomes a PCB-free utility;
- Occasionally spills, leaks and fires occur as a result of equipment failure, adverse weather or other causes. Most spills involve mineral oil from electrical equipment such as transformers. The environmental impact of spills is mitigated by a well-developed spill reporting and response system. This involves the timely reporting of spills to all appropriate authorities and the clean-up and remediation of areas impacted by the spill.
- Management of these programs and funding requirements are described in Exhibit C1, Tab 2, Schedule 2.

3.4.3 Vegetation Management (Herbicide Use)

- Herbicide use is an integral part of the vegetation management program associated with maintenance of the distribution system, including rights-of-way and stations. Environmental impacts are minimized through the use of approved product types, and approved methods and procedures for application. Property owner approval is obtained prior to the application of any herbicide on private properties. Vegetation management programs and funding requirements are fully described in Exhibit C1, Tab 2, Schedule 2.

4.0 ELECTRICAL SAFETY AUTHORITY

The Electrical Distribution Safety Regulation 22/04 established objective-based electrical safety requirements for the design, construction and maintenance of electrical distribution systems owned by licensed distributors. It requires:

- Approval of equipment, designs and plans.
- Inspection and certification of construction before it is put into use.
- An assessment of plant based on the Ontario Electrical Safety Code prior to selling plant to non-distributors.
- Approval by the utility to place objects at a distance less than CSA clearance standards from distribution lines.
- Disconnection of unused lines.
- Reporting of serious electrical incidents.
- Annual compliance audits of processes.
- Safety due diligence inspections conducted by the ESA to ensure safety standards are met.

Electrical safety is a very high priority for Hydro One Distribution as indicated in the strategic goals in Exhibit A, Tab 3, Schedule 1. To address this priority Hydro One Distribution has implemented comprehensive training programs to ensure all Electrical Distribution Safety Regulations are adhered to across the corporation. The associated program management and costs are described in Exhibit C1, Tab 2, Schedule 2.

5.0 SMART METERS

The Government of Ontario, as part of achieving a conservation culture, is proceeding with time-of-use (TOU) electricity pricing and the installation of smart meters throughout

Ontario by 2010. The enactment of the *Energy Conservation Leadership Act*, and changes to the *Electricity Act* and the *Ontario Energy Board Act*, along with new regulations, have defined the Government's Smart Meter Initiative, prescribed the technical and functional requirements of the smart meter solutions (Advanced Metering Infrastructure – AMI), and set the path for mass deployment of the meters across Ontario.

Regulations passed in August, 2006 (O. Reg. 425/06, 426/06 and 427/06), designate the smart metering activities of Hydro One Networks Inc. (among those of other utilities) as authorized discretionary metering activities and prescribe:

- the criteria and requirements for all smart meters and related equipment, systems and technology,
- the principles for related procurement activities and
- the principles and process for cost recovery.

In line with the legislative and regulatory requirements, Hydro One has begun full implementation of its smart metering program, including smart meter deployment, communication network development, and updating the customer information system (CIS) and associated processes to enable it to support TOU and Regulated Price Plan (RPP) implementation. These activities will require on-going investments in 2008 and beyond, as identified in Exhibits C1, Tab 2, Schedule 2 and D1, Tab 3, Schedule 2.

Hydro One's smart metering costs for 2005 through 2007 are included in a deferral account that is being requested in Exhibit F1, Tab 1, Schedule 1.

6.0 CONSERVATION AND DEMAND MANAGEMENT

The CDM program which Hydro One developed to utilize its Market Adjusted Rate of Return (MARR) funding will be substantially complete by the deadline of September 30, 2007. However, on May 22, 2007, Hydro One obtained an extension through April 30, 2008 and will dedicate the additional time to the completion of its Low Income/Social Housing program and also to complete the work on its Distribution Loss Reduction program.

Hydro One has participated in all four of the OPA sponsored CDM initiatives: Summer Savings; Residential and Small Commercial Demand Response; Business Incentive Program; and the Great Refrigerator Roundup. Hydro One intends to continue participating in future OPA-administered CDM programs and will look for opportunities to expand those programs, as appropriate, including possibly extending relevant programs to Transmission customers. Hydro One is also actively involved in implementing in-house power cost monitoring devices and a "Double Returns" program, which was in place last Winter and will be adopted for Summer 2007. Initial feedback from these programs shows they were successful, and Hydro One will consider extending these programs into future year, as appropriate. Funding for these initiatives will be recovered through the OPA and is not included in revenue requirement requested in this Application.

7.0 BILL 198 – INTERNAL CONTROLS, DECEMBER 9, 2002

Bill 198 requires that the controls that oversee the processes and systems that impact how the company initiates, records, processes, and reports transactions in significant accounts must be documented and evaluated on an annual basis. The Ontario Securities Commission (OSC) responded to Bill 198 with new Multilateral Instruments (MI) that govern internal controls. These require the CEO and CFO of Hydro One Inc. (as a public

debt issuer) to attest to the appropriateness and effectiveness of internal financial controls and financial disclosure processes for the Company's consolidated financial information.

By the end of 2006, Hydro One completed its project to ensure compliance with Bill 198 requirements. This entailed changes to processes and technologies to ensure appropriate documentation is in place for the first year of compliance (2007). In addition, a unit has been put in place to sustain the Bill 198 requirement on an on-going basis. The Company is currently completing its 2007 compliance process. Further details of Hydro One's work in this area are provided in Exhibit A, Tab 12, Schedule 1, with associated costs in Exhibit C1, Tab 2, Schedule 6.

8.0 DISTRIBUTION CONNECTED GENERATION

The Provincial Government’s objective to achieve a cleaner supply mix, and OPA procurement programs in support of this, have and will substantially increase Hydro One Distribution work and investments related to new generation connecting to the distribution system. The Renewable Energy Standard Offer Program (RESOP), which was launched in November, 2006, has generated some 1,000 projects expressing interest in potential connection to Hydro One’s system, and of these, the Company has had several hundred applications for full Connection Impact Assessments. The OPA has also recommended a Clean Energy Standard Offer Program (CESOP) for combined heat and power and other projects. This project will be launched in the Fall of 2007. Its impact on Hydro One Distribution is uncertain at this time.

Assessing the feasibility of connecting so many potential projects to the system, and particularly the cumulative impact of such projects, has proven to be a technical and administrative challenge. Further challenges are anticipated as projects move to the phase of requesting cost estimates and potentially signing agreements to connect. Hydro

One Distribution has undertaken a number of initiatives to deal with this as outlined in Exhibit D1, Tab 3, Schedule 3.

9.0 ACCESS TO INFORMATION (FIPPA) AND PERSONAL PRIVACY (PIPEDA)

On December 10th, 2003, Hydro One Inc. became subject to Ontario's Freedom of Information and Protection of Privacy (FIPPA) legislation. On January 1st, 2004, Hydro One Inc. also became subject to Canada's Protection of Individual Privacy and Electronic Documents Act (PIPEDA). And most recently, on November 1st, 2004, the Corporation also became subject to Ontario's Personal Health Information Protection Act.

These pieces of legislation require that the Corporation provide public access to business records, as well as appropriate access to (and protection of) personal information. The personal information of customers and, in specific circumstances, employees, is now subject to legislated standards of protection.

Funding for these on-going activities is included in Shared Services OM&A (see Exhibit C1, Tab 2, Schedule 6).

10.0 BILL 100 ELECTRICITY RESTRUCTURING ACT, 2004

Bill 100, the Electricity Restructuring Act, 2004, which was passed at the end of 2004, enabled changes to electricity market settlement and billing processes. These changes included the implementation of the Provincial Benefit for customers billed on spot market commodity price and the introduction of the RPP. Hydro One made changes to its billing and settlement systems in order to calculate, settle and bill the Provincial Benefit, and the RPP. This included adjusting the two-tiered pricing and consumption thresholds in May

and November of each year, plus changes to settlements with the IESO due to differences between the spot price and the two-tiered regulated price. Costs for this initiative are included in the Customer Care OM&A expenditures for 2008 that are detailed in Exhibit C1, Tab 2, Schedule 5.