

EXECUTIVE SUMMARY

1.0 INTRODUCTION

1.1 APPLICATION OVERVIEW

Application Scope and Requested Approvals

This Application seeks approval of Hydro One Networks Inc.'s ("Hydro One" or the "Company") Distribution rates and Transmission revenue requirement under Custom Incentive Rate-setting ("Custom IR") frameworks for the five-year period from January 1, 2028 to December 31, 2032. It also seeks approval of Hydro One Sault Ste. Marie LP's ("HOSSM") transmission revenue requirement on a final basis for 2027, and under a Custom IR framework for the five-year period from January 1, 2028 to December 31, 2032. Together, the approvals requested for Hydro One Transmission, Hydro One Distribution and HOSSM are referred to as the "Application". This is Hydro One's second joint Transmission and Distribution rate application and builds on the structure accepted in the prior proceeding.

This Application presents Hydro One's integrated plan to meet Ontario's evolving electricity needs over the 2028 to 2032 period. Ontario's electricity system is entering a period of sustained growth and structural change, driven by population and housing growth, industrial and commercial development, electrification, new generation, distributed energy resources, and regional and bulk-system requirements. At the same time, Hydro One must renew aging infrastructure, maintain safe and reliable service, strengthen resilience to severe weather, and respond to increasingly complex operational, security and compliance obligations. The Application therefore addresses both the needs of the existing system and the investments required to support Ontario's future economic growth and electricity demand.

The proposed 2028 revenue requirements for Hydro One Transmission and Distribution are established on a cost-of-service basis, with annual revenue requirement adjustments for 2029 to 2032 determined formulaically under the proposed Custom IR frameworks. Hydro One requests recovery of its proposed Transmission and HOSSM revenue

1 requirements through amendments to the Uniform Transmission Rates, and recovery of
2 its proposed Distribution revenue requirement through approval of the distribution rates
3 and charges set out in the Application.

4
5 The principal approvals requested are:

- 6 • **Transmission:** a 2028 transmission rates revenue requirement of \$2,592.6M;
- 7 • **HOSSM:** a total transmission revenue requirement of \$46.1M for 2027 on a final
8 basis¹ and a 2028 transmission rates revenue requirement of \$49.1M; and
- 9 • **Distribution:** a 2028 base revenue requirement of \$2,640.7M.

10
11 The Application also seeks approval of the associated capital and OM&A plans, cost-of-
12 capital proposals, regulatory accounts, cost allocation and rate design, and the
13 harmonization of the former Peterborough and Orillia distribution rate zones with Hydro
14 One Distribution in 2031. The detailed requests for relief are set out in Exhibit A-02-01.

15 16 **Proposed Investment Plans**

17 Hydro One's proposed capital and OM&A plans respond to system and operating
18 conditions that are materially different from those experienced during the 2023 to 2027
19 period. Sustained inflation, supply-chain constraints, severe weather, evolving policy and
20 market conditions, and increasing customer-connection and system-expansion
21 requirements increased both the cost and volume of necessary work. Hydro One managed
22 these pressures through productivity and cost-control initiatives, portfolio reprioritization,
23 scope and delivery adjustments, and the deferral or re-pacing of selected work. Those
24 actions moderated customer impacts and allowed Hydro One to address the most
25 immediate customer, reliability and compliance requirements towards OEB-approved
26 envelopes, but shifted certain system needs and costs into the next rate period.

27 Hydro One must now deliver a larger and more complex plan to connect new customers
28 and generation; expand and reinforce the transmission and distribution systems; renew

¹ Hydro One is also proposing to return to customers a \$3.1M difference from its OEB-approved interim 2027 transmission revenue requirement of \$49.2M, as an offset to its 2028 revenue requirement.

1 aging and deteriorated assets; maintain or improve reliability, resilience and compliance;
2 and provide the technology, facilities, fleet and other shared capabilities needed to deliver
3 and operate the expanded work programs. Hydro One developed the plans through its
4 established asset-management and investment-planning processes, considering
5 customer preferences, asset condition and performance, system studies, regulatory
6 obligations, alternative solutions, and the costs and risks of delaying work. Hydro One also
7 challenged investment scope and timing, bundled work where efficient, and re-paced
8 investments to moderate customer impacts.

9
10 Hydro One relied upon customer engagement in developing the Investment Plans in this
11 Application as discussed in SPF Section 1.6. This engagement allowed Hydro One to both
12 shape and refine its investments based on customer input and implement explicit
13 trade-offs between spending levels and outcomes. Overall, feedback collected from more
14 than 100,000 customers shows that there is strong support across all customer types for
15 a level of investment at or above Hydro One's 2028-2032 draft plans. Phase II
16 demonstrated that customers are willing to accept rate increases in exchange for prudent
17 investments in the distribution and transmission systems. This feedback, together with
18 consideration of ongoing IESO Bulk Planning studies, updated system and asset data,
19 and updated cost and execution considerations, helped refine the investment plan for this
20 Application.

21
22 The resulting capital, prepaid expenditures related to cloud computing (prepaid) and
23 OM&A expenditures underpinning this Application are provided in Table 1.

1 **Table 1 - Summary of Proposed Investment Plan Investments (\$M)**

	5-Year Capital (2028-2032)	5-Year Prepaid (2028-2032)	2028 Test Year OM&A
Transmission	16,652.4	309.0	634.5
Distribution¹	10,863.3	536.0	958.7
	6-Year Capital (2027-2032)	6-Year Prepaid (2027-2032)	2027 / 2028 Test Year OM&A
HOSSM²	192.0	0.0	10.6 / 10.9

¹ Includes the Orillia and Peterborough rate zones beginning in 2031.

² 2027-2032 are being rebased as part of this Application, with 2027 and 2028 OM&A being the Test Years.

2 **Rate Framework and Customer Protections**

3 The proposed Custom IR frameworks are complemented by revenue requirement features
4 intended to balance funding needs, financial integrity, affordability, and the allocation of
5 risk between Hydro One and its customers. The frameworks establish the 2028 revenue
6 requirements on a cost-of-service basis, with annual adjustments for 2029 to 2032
7 determined through a Custom Revenue Cap Index that reflects inflation, productivity,
8 growth, Hydro One-specific input-price pressures, and the capital funding required to
9 support the proposed System Plans. The productivity factors, including a supplemental
10 stretch factor on capital, provide incentives for Hydro One to achieve incremental capital
11 and OM&A efficiencies while sustaining the ongoing productivity savings embedded in its
12 business plans. Hydro One proposes an Earnings Sharing Mechanism under which
13 customers receive 50% of cumulative earnings over the Custom IR term that exceed the
14 OEB-approved regulatory return on equity by more than 100 basis points.

15
16 To support the significant investment required over the 2028 to 2032 period, Hydro One
17 proposes a measured increase in deemed equity thickness from 40% to 45% for
18 Transmission and Distribution. The proposal responds to increased business and financial
19 risks and is intended to support credit quality and continued access to capital at a
20 reasonable cost. Hydro One's proposed 45% equity thickness remains at the lower end of
21 the 45% to 50% range supported by its independent expert evidence, thereby moderating
22 near-term revenue requirement and customer bill impacts.

1 The Application proposes targeted deferral and variance accounts to address material
2 uncertainty that cannot reasonably be forecast or controlled over a five-year rate period.
3 The accounts address defined circumstances including externally driven work, changes in
4 law, evolving cybersecurity obligations, and essential third-party digital and technology
5 operating costs. The Application also proposes to return approximately \$295.3M, \$4.3M
6 and \$224.0M in forecast regulatory account credit balances to Transmission, HOSSM and
7 Distribution customers, respectively. These credits, together with the resetting of load
8 forecasts and the pacing of proposed investments, moderate the rate and bill impacts
9 associated with the Application.

10
11 Taken as a whole, the Application provides the investment and funding framework required
12 to serve growth, renew critical infrastructure, sustain safe and reliable service, and
13 strengthen the resilience and operational capabilities of Ontario's electricity system. It
14 combines a substantially larger program of necessary work with customer-informed
15 planning, productivity requirements, earnings sharing, measured financial-integrity
16 proposals, and targeted protections against exceptional uncertainty. Hydro One continues
17 to bear the risks that actual costs, demand, inflation, productivity and execution may differ
18 from forecast, while customers receive protections through the design of the proposed
19 frameworks and continued OEB oversight. Hydro One will be accountable for delivering
20 the proposed plans and associated customer outcomes through its Performance
21 Reporting Governance Framework, updated regulatory scorecards and expanded
22 accomplishment measures. The proposed measures are intended to provide transparent
23 reporting on capital delivery, reliability, customer service, responsiveness to evolving
24 system needs and other outcomes over the Custom IR term.

Customer Bill Impacts

The bill impacts for customers are summarized in Table 2.

Table 2 - Estimated Total Monthly Bill Impacts

	Typical R1 Residential Customer Consuming 750 kWh per month		Typical GSe Customer Consuming 2,000 kWh per month	
	First Year	Average Annual	First Year	Average Annual
Transmission	\$0.50	\$1.14	\$1.12	\$2.54
HOSSM	\$0.02	\$0.02	\$0.05	\$0.04
Distribution	(\$3.31) ¹	(\$0.10) ¹	\$34.63	\$20.00

¹ With Distribution Rate Protection (DRP)

Structure of the Executive Summary

This Executive Summary provides an overview of the following key aspects of the Application:

- Section 1 – Introduction
- Section 2 – Key Drivers and Considerations
- Section 3 – Investment Planning Process
- Section 4 – Capital Plans
- Section 5 – OM&A Plans
- Section 6 – Performance Measurement
- Section 7 – Key Financial Components, including Revenue Requirement, Rate Base, Cost of Capital, and Deferral and Variance Accounts
- Section 8 – Custom IR Proposal
- Section 9 – Load Forecasts
- Section 10 – Cost Allocation and Rate Design
- Section 11 – Bill Impacts
- Section 12 – Conclusion

1.1 HYDRO ONE'S BUSINESS

Hydro One owns and operates electricity transmission and distribution facilities across Ontario under licenses issued by the OEB. The Transmission and Distribution businesses are fundamentally different in their functions, operations, customers, system needs, and

1 regulatory requirements, although they rely on common employees and shared assets
2 that are critical to the efficient delivery of safe and reliable service.

3
4 Hydro One's transmission system is the backbone of Ontario's electricity system,
5 comprising 297 transmission stations and approximately 28,488 circuit-km of transmission
6 lines that deliver electricity from generation sources to local distribution companies,
7 including Hydro One's distribution system, and directly connected industrial customers
8 across the province. The system spans a large and diverse geography and must continue
9 to provide reliable bulk transfer capability while accommodating significant new load,
10 generation, and regional infrastructure needs. The system also supports interjurisdictional
11 power transfers through 26 interconnections with neighbouring provinces and U.S. states.

12
13 HOSSM owns and operates transmission assets in Northern Ontario, consisting of 15
14 transmissions stations and 554 circuit-km of overhead transmission lines. Operationally,
15 HOSSM's transmission system is integrated into Hydro One's transmission system, but
16 remains distinct legally, financially and for rate-setting purposes.

17
18 Hydro One's distribution system serves predominantly rural and low-density communities
19 over an exceptionally large service territory. Hydro One's system spans more than
20 960,000 km² and provides service to approximately 1.5 million customers. Hydro One
21 maintains approximately 126,000 circuit-km of distribution line, 104,000 km of rights of
22 way in several remote and rural locations, approximately 1.6 million poles, approximately
23 1,000 distribution and regulating stations, and 549,000 service transformers. These
24 characteristics increase travel, inspection, vegetation-management, maintenance, and
25 storm-restoration requirements and require investment solutions tailored to local
26 conditions. Consistent with this broad and geographically diverse service territory, the
27 former Peterborough and Orillia rate zones will be integrated into Hydro One's distribution
28 forecast and rate structure in 2031.

2.0 KEY DRIVERS AND CONSIDERATIONS

Ontario's electricity system is entering a period of sustained growth and structural change: Population and housing growth, industrial and commercial development, electrification, new generation, distributed energy resources, and regional and bulk-system requirements are increasing demands on Ontario's electricity system. The Application responds to these needs by addressing both the requirements of the existing system and the infrastructure needed to support Ontario's future electricity needs.

Electricity infrastructure is foundational to Ontario's economic growth and investment ambitions: Timely access to available capacity and reliable electricity is increasingly important to Ontario's prosperity, competitiveness, and growth priorities, including housing, advanced manufacturing, mining, agriculture, data centres, transportation, and community development. As a critical enabler of the communities and businesses it serves, Hydro One must strengthen the grid today to support tomorrow's demands. The Application provides the transmission and distribution investments required to connect customers and generation, implement IESO and regional planning outcomes, and enable economic growth and development where needs arise.

Cost pressures have been managed but underlying system needs remain: During 2023 to 2027, Hydro One absorbed significant inflation, supply-chain, growth, and severe-weather pressures by leveraging its supply chain processes, productivity improvements, and reprioritization that deferred or re-paced select work. Hydro One proactively managed these external pressures, but these measures did not eliminate the underlying system needs. Asset condition, maintenance backlogs, connection requirements, and system risks continue to evolve. The Application addresses work carried forward from the current period and the new investments required to serve growth. Further broad deferral would transfer greater cost and risk to future customers.

1 **The required investment is substantial because connection, system expansion, and**
2 **renewal needs are occurring at the same time:** Hydro One must connect new
3 customers and generation, expand and reinforce system capacity, renew aging and
4 deteriorated assets, maintain compliance, and provide the technology, facilities, fleet, and
5 operating capabilities required to deliver a materially larger work program. At the same
6 time, input costs, supply chain constraints, and execution complexity have also increased,
7 placing additional pressure on the delivery of this necessary work. While Hydro One has
8 implemented productivity initiatives, scope optimization, alternative solutions, and prudent
9 re-pacing where feasible, these measures alone cannot fully offset customer-driven,
10 mandatory, or time-sensitive work, nor can they eliminate the risks associated with aging
11 and deteriorating infrastructure.

12
13 **The plans strengthen reliability, resilience, security, and the operational foundation**
14 **on which growth depends:** Customers and communities increasingly depend on a
15 resilient electricity system, while aging assets, severe weather, vegetation exposure,
16 technology obsolescence, and evolving cyber and physical threats continue to increase
17 operational risk. To address these challenges, the Application includes prudent, forward-
18 looking investment in targeted asset renewal, preventive maintenance, vegetation
19 management, system hardening, automation, cybersecurity, and grid modernization. It
20 embraces innovation where new technologies and operating approaches can improve
21 system visibility, flexibility, efficiency, and customer outcomes. Together, these
22 investments are intended to improve outage performance and restoration, protect critical
23 infrastructure, maintain mandatory standards, and sustain the existing platform on which
24 new connection and system-expansion capability depends.

25
26 **The proposed plans are prioritized and paced responses to identified needs, not**
27 **unconstrained expressions of need:** Affordability was a central consideration
28 throughout planning. Hydro One challenged investment scope and timing, distinguished
29 mandatory and time-critical work from work that could be re-paced, considered non-wires
30 and other alternative solutions, bundled work where efficient, and embedded productivity
31 improvements. Following customer engagement and further review, Hydro One also

1 reduced and re-paced selected Distribution and General Plant investments by
2 approximately \$1.5B relative to the draft plans that were supported by customers. The
3 resulting portfolios represent a balanced approach that moderates customer bill impacts
4 without creating long-term costs or operational risks that can result from deferring
5 essential work.

6
7 **Customers informed the plans and broadly support the direction of investment:**

8 Hydro One coordinated customer engagement with investment planning so that customer
9 priorities informed the initial planning assumptions and customers could then assess
10 alternative spending, service, and rate-impact scenarios. In Phase II, majorities across
11 every customer segment supported either the draft plan or higher levels of investment.
12 Hydro One considered this feedback alongside other planning factors and undertook a
13 further re-pacing exercise. As a result, the proposed Distribution plan is below the draft
14 plan presented to customers. This approach reflects both customer preferences for
15 continued investment and Hydro One's responsibility to exercise prudent judgment and
16 moderate bill impacts.

17
18 **Hydro One has the planning discipline, delivery capability, and accountability
19 framework required to execute the plans:**

20 The Application is supported by asset-
21 condition assessments, system studies, benchmarking, independent expert reviews, and
22 established risk-based planning and portfolio challenge processes. Hydro One's current
23 execution portfolio has grown while cost and schedule performance has improved, and
24 the proposed plans expressly consider resource, supply-chain, outage, permitting, and
25 other delivery constraints. Delivery will depend on coordinated planning, disciplined
26 execution, strong partnerships, and the skilled employees who operate the system,
27 respond to customers and emergencies, and build and maintain critical infrastructure
28 across Ontario. Updated scorecards with new measures and the proposed Custom IR
29 frameworks will provide transparent accountability for cost, delivery, customer, reliability,
and public-policy outcomes throughout the 2028 to 2032 period.

3.0 INVESTMENT PLANNING PROCESS

This section summarizes the major drivers and elements of Hydro One's System Plans, the investment planning process, and the proposed capital expenditures over the 2028-2032 period.

3.1 STRATEGY AND CONTEXT

Hydro One's planning process begins with a consideration of Hydro One's Strategic Priorities, the OEB's RRF outcomes, and customer engagement results. These factors establish the focus of the System Plans by identifying areas that are valued by the Company's diverse stakeholders, customers, and regulators. Hydro One's Strategic Priorities are presented in Figure 1 below.

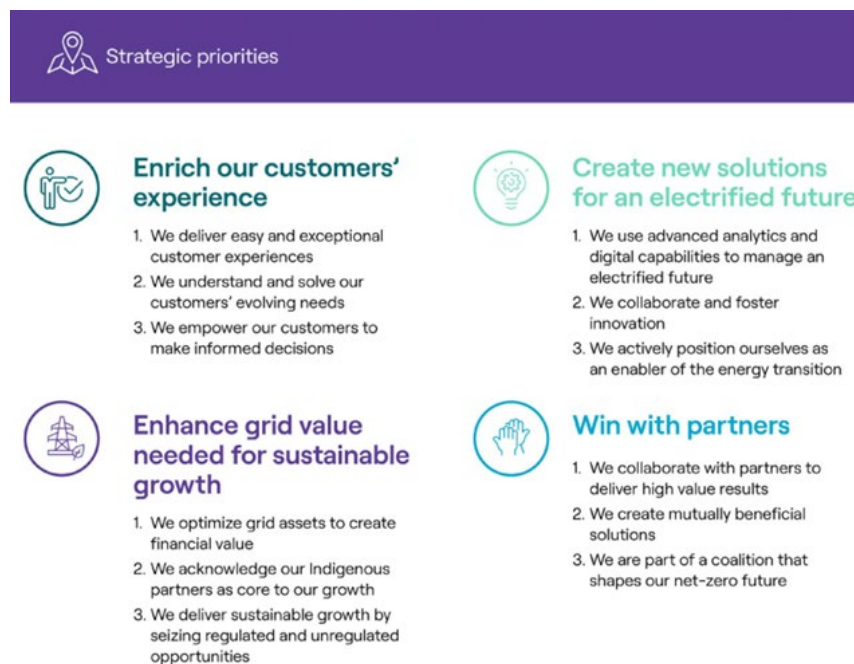


Figure 1: Hydro One's Strategic Priorities

In addition to these Strategic Priorities, Hydro One's System Plans are guided by the four outcomes identified in the OEB's RRF:

- **Customer Focus** – services are provided in a manner that responds to identified needs and customer preferences

- 1 • **Operational Effectiveness** – continuous improvement in productivity and cost
2 performance is achieved; and distributors and transmitters deliver on system
3 reliability and quality objectives
- 4 • **Public Policy Responsiveness** – distributors and transmitters deliver on
5 obligations mandated by government (e.g., in legislation and in regulatory
6 requirements imposed further to Ministerial directives to the Board)
- 7 • **Financial Performance** – Financial viability is maintained; and savings from
8 operational effectiveness initiatives are sustainable

9
10 In managing assets that are critical to customers and Ontario's economy, Hydro One is
11 committed to meeting the RRF outcomes and has integrated them into its Investment
12 Planning Process.

13
14 They inform forecasts and needs assessments, the identification and evaluation of
15 alternatives, risk scoring, project scope and timing, and the enterprise-wide prioritization
16 of investments. This integrated approach helps Hydro One distinguish work that is
17 mandatory or time-critical from work that can be re-paced, while ensuring that short-term
18 affordability decisions do not create disproportionate long-term costs or risks for
19 customers.

20 21 **3.2 ASSET MANAGEMENT**

22 As detailed in SPF Section 1.7, TSP Section 2.7, DSP Section 3.7 and GSP Section 4.7,
23 Hydro One uses its Asset Management Process to monitor its assets and determine the
24 appropriate timing for asset maintenance and capital investments throughout the asset life
25 cycle. The output of the asset management process is a key component of the investment
26 planning process.

27
28 The development of candidate investments is underpinned by a needs assessment which
29 considers: (i) asset-specific investment needs (particularly condition), (ii) customer needs
30 and preferences, and (iii) system needs (including regional planning considerations). Each
31 of these is described below.

3.2.1 ASSET NEEDS ASSESSMENT

Hydro One performs a needs assessment to identify the drivers in the development of candidate investments and collect the data necessary to assess risks and facilitate the subsequent calibration process. The needs assessment process is primarily concerned with the major equipment groups across transmission (e.g., transformers, conductors, breakers, and protection and control systems) and distribution (e.g., station transformers, poles) that directly affect system reliability. Hydro One considers the following principal factors:

- Condition – risk related to the increased probability of failure that assets experience when their condition degrades over time
- Criticality – represents the impact that the failure of a specific asset would have on the transmission or distribution system
- Performance – risk that reflects the historical performance of an asset, typically derived from the frequency and duration of outages
- Utilization – risk that reflects the increased rate of deterioration exhibited by an asset that is highly utilized

Hydro One also considers factors such as load forecasts, equipment ratings, operating restrictions, security incidents, environmental risks and requirements, compliance obligations, equipment defects, obsolescence, and health and safety considerations to help ensure that capital expenditures target the appropriate mix of assets.

Many proposed System Renewal investments are informed by an asset-needs assessment and are driven principally by condition, performance, criticality, utilization, and obsolescence. These are detailed in TSP Section 2.2, DSP Section 3.2, and GSP Section 4.2. Examples include:

1

Table 3 - Examples of System Renewal Investments

ISD	Investment	Principal driver and supporting evidence
T-SR-04	Wood Pole Structure Replacements	Condition. Approximately 7,445 transmission wood poles (~19% of the population) are currently in poor condition, an increase of 7% over the 2023-2027 period. During the 2028-2032 period, 5,560 wood poles are expected to be replaced.
T-SR-13	Transmission Line Renewal	Condition. Approximately 3,079 circuit-km are in poor condition, with another 5,296 circuit-km showing deterioration. Together, 8,375 circuit-km or 30% of the fleet is now verified through testing to have, at minimum, commenced irreversible degradation. During the 2028-2032 period, 1,369 circuit-km are expected to be placed in-service.
Multiple ISDs	Transmission Station Renewal	Condition and Obsolescence. The proportion of poor condition transmission transformers increased from 16% in 2016 to 29% in 2025, and 44% of transmission breakers are obsolete. During the 2028-2032 period, 75 transformers and 293 breakers are expected to be placed in-service through planned material investments.
D-SR-07	Pole Sustainment Program	Condition. There are currently 99,000 poles in poor condition. The number of poles identified as poor condition annually has increased about 50%, from 10,000 in 2021 to approximately 15,000. Without intervention, the total fleet of poor condition poles is projected to increase to more than 200,000 by 2032. The program replaces 54,500 and refurbishes 31,500 poles and incorporates targeted hardening through the installation of approximately 41,000 higher-strength poles in vulnerable areas.
D-SR-04	Distribution Station Refurbishment or Replacement	Condition. Approximately 20% of total station transformers, ¹ or 242, are in poor condition. The program proposes to replace 86 of the 242 poor condition station transformers.
G-GP-04	Transmission Facilities	Condition and criticality. Approximately 33% of high-criticality transmission-station buildings are currently in poor condition; without investment, that proportion is forecast to increase materially.

¹ Accounting for Hydro One, Peterborough rate zone (PRZ) and Orillia rate zone (ORZ)

3.2.2 SYSTEM NEEDS

System needs relate to work that is necessary to maintain and operate the transmission and distribution system to reliably and securely deliver power to customers and meet current and forecast requirements resulting from new load customers, generation facilities and other distributed energy resources. System needs include providing adequate capacity to meet forecast load growth and addressing local area reliability performance, implementing mitigation measures to minimize high-impact events in accordance with mandatory industry standards, implementing IESO Bulk System planning needs and regional transmission facility needs identified as part of the Regional Planning process, and protecting critical infrastructure from physical and cyber threats. System-needs assessments, regional planning, and bulk-system planning result in System Access and System Service investments needed to connect customers, expand capacity, maintain or improve reliability, and satisfy mandatory standards. Examples include:

1 **Table 4 - Examples of System Access and System Service Investments**

ISD	Investment	Principal driver and supporting evidence
T-SA-11	Customer Connections: Regulated Entities	Customer connections and capacity. Constructs new transformer stations, supply lines and station expansions to provide additional capacity requested by LDCs in growing areas, including Markham, Whitby, Oshawa-Clarington, Brant and Middleport.
T-SS-11	Bulk Planning	Capacity, generation connections, and compliance with reliability requirements. Modifies existing network assets or constructs new assets for projects identified through the Bulk System Planning Process and related studies.
T-SS-12	Regional Planning	Capacity and reliability. Constructs or upgrades transmission stations and circuits to address identified capacity, voltage, restoration and reliability needs, as recommended through Ontario's Regional Planning process.
D-SA-02	New Load Connections, Upgrades and Cancellations	Customer connections. Constructs and upgrades service lines, transformers, metering and related facilities to accommodate approximately 93,500 new connections and 38,900 service upgrades while meeting Hydro One's obligation to connect customers.
D-SS-01	System Upgrades Driven by Load Growth	Capacity expansion. Delivers 190 material investments to upgrade, expand or reconfigure stations, feeders and secondary systems, maintaining capacity, voltage and reliability. Forecast load growth is expected to push targeted stations from approximately 90% of their planning limits today to more than 140% by 2032, while targeted feeders could exceed 200% without action.
G-GP-11	Cybersecurity and Digital Protection	Mandatory standards and reliable operation. Upgrades cybersecurity and digital-protection capabilities to address evolving threats and comply with applicable NERC CIP, IESO and other critical-infrastructure requirements.

2 **3.2.3 CUSTOMER NEEDS AND PREFERENCES**

3 Hydro One conducted extensive customer engagement during the development of the
4 2028–2032 plans. Over 100,000 customers participated in focus groups, in-depth
5 interviews, telephone surveys, and online surveys. Engagement also included
6 conversations with First Nations Chiefs or their representatives, Métis Nation of Ontario
7 regional representatives, stakeholders and municipalities.

8
9 The engagement and investment-planning processes were coordinated in a two-phase
10 approach, engaging customers in advance of the investment planning process, in mid-to-

1 late 2024, and again after draft investment plans were prepared, in late 2025. This allowed
2 Hydro One to develop and finalize investment plans that are informed by customer input
3 and have been refined based on specific investment trade-offs to achieve outcomes
4 valued by customers.

5
6 The engagement results indicate strong support for Hydro One's proposed investment
7 plans. As stated in the IRG Overview Report: "Overall, feedback collected from more than
8 100,000 customers shows that there is strong support across all customer types for a level
9 of investment at or above Hydro One's 2028-2032 draft plans."² Depending on customer
10 type, 68% to 88% of customers support spending at or above the level of investment
11 included in the plans.³ Similar levels of support were observed for categories of
12 investments in the transmission and distribution systems, as well as shared services.⁴
13 Further information on customer engagement and its integration into investment planning
14 is provided in SPF Sections 1.6 and 1.7, TSP Sections 2.6 and 2.7, DSP Sections 3.6 and
15 3.7, and GSP Sections 4.6 and 4.7.

16 17 **3.3 INVESTMENT PLANNING**

18 Based on identified investment needs, Hydro One develops a suite of candidate
19 investments for further screening and prioritization. The information and data collected
20 through the asset management process establish the fact base to assess the probability
21 and consequence of safety, reliability and environmental risks at the scoring stage of the
22 investment planning process.

23
24 Hydro One planners determine risk probability (based on asset condition, performance
25 and utilization) and risk consequence (based on asset criticality across three taxonomies
26 of safety, reliability and environmental risks). Planners quantify the risk mitigated by
27 comparing the expected operational risks of not making the investment versus the residual
28 risks that would remain if the investment is made.

² SPF Section 1.6 Attachment 1, IRG Overview Report p. 3

³ SPF Section 1.6 Attachment 1, IRG Overview Report p. 3 and p.14

⁴ SPF Section 1.6 Attachment 1, IRG Overview Report p. 14-18

1 Customer-driven outcomes directly impact this process through the definition of
2 consequence scores and risk taxonomies as well as “flags” that reflect priorities and
3 investment benefits beyond quantified risk mitigation. In alignment with RRF outcomes
4 and corporate priorities, flags are clearly defined to reflect either mandatory obligations
5 (e.g., obligations to regulators, stakeholders or contractual counterparties) or customer
6 preferences and other priorities (e.g., productivity commitments, corrective
7 maintenance/replacements, preventative maintenance/renewal).

8
9 Once candidate investments have been scored and flagged, enterprise-wide calibration
10 sessions are held to ensure consistent evaluation across investments and lines of
11 business. Based on the risk scores and estimated investment costs, candidate
12 investments (broken into mandatory versus non-mandatory groups) are ranked according
13 to risk mitigation achieved per dollar. Challenge sessions take place among a broad set
14 of stakeholders to debate the feasibility and merits of investments on the margin and to
15 ensure that valuable investments (from both a risk and non-risk perspective) are included
16 in the plan. As well, Phase II customer engagement results are incorporated into the final
17 plan at this stage. The output is an investment portfolio that is subject to enterprise
18 engagement with portfolio owners and the executing lines of business, so as to create a
19 realistic and up-to-date plan (i.e. reflecting the latest cost estimates, schedules and
20 investment scope) and account for operational and execution considerations (e.g.,
21 resourcing, material availability and outage feasibility).

22
23 The Investment Planning process is described in greater detail in SPF Section 1.7 (as well
24 as TSP Section 2.7, DSP Section 3.7, and GSP Section 4.7).

25 26 **4.0 CAPITAL PLANS**

27 Applying the investment planning process described above, Hydro One developed
28 prioritized and paced capital plans that respond to materially evolved system conditions.
29 Electricity demand is growing, customer connection requests are increasing in number
30 and complexity, IESO-led regional and bulk planning is identifying substantial new
31 infrastructure requirements, and important asset classes continue to deteriorate. At the

1 same time, severe weather, cybersecurity threats, technology obsolescence, and market-
2 driven cost pressures are increasing the scope and cost of maintaining safe and reliable
3 service. Hydro One's capital plans respond to these factors by focusing on mandatory,
4 time-sensitive and high-value work, while moderating customer impacts through scope
5 optimization, alternative solutions, bundling and re-pacing where appropriate.

6
7 As noted above, the current period has been impacted by an unprecedented set of market
8 forces that have resulted in sustained inflation, significantly increasing the cost of key
9 electrical equipment and materials as discussed in SPF Section 1.8. Hydro One has
10 updated cost estimates to reflect current market prices for materials and equipment,
11 including power transformers, breakers, conductors, and other critical inputs. These
12 updated costs form the basis of the assumptions underlying the capital plans described
13 below.

14 15 **4.1 TRANSMISSION CAPITAL EXPENDITURES**

16 Over the 2028-2032 period, Hydro One plans to invest an average of \$3,330.5M per year
17 in Transmission capital, for a total of \$16,652.4M, to maintain transmission reliability
18 performance, address increasing customer and system needs, respond to government
19 policy and directives related to system expansion, and mitigate asset and operational risks.
20 Hydro One also proposes to invest approximately \$309.0M in prepaid expenditures related
21 to cloud computing discussed in the General Plant section below. Table 5 summarizes
22 Hydro One's planned transmission capital expenditures by OEB investment category.

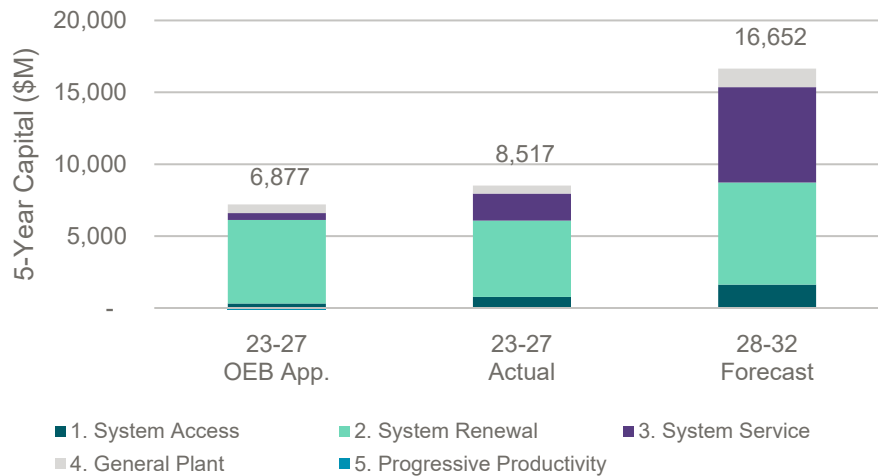
1 **Table 5 - Transmission Forecast Capital Expenditures (\$M)⁵**

OEB Investment Category	Forecast Period					% of Portfolio
	2028	2029	2030	2031	2032	
System Access	286.4	363.5	560.7	320.1	98.1	9.8%
System Renewal	955.2	1,072.4	1,435.0	1,864.4	1,766.6	42.6%
System Service	1,102.4	1,391.9	1,432.4	1,577.5	1,138.9	39.9%
General Plant (Transmission)	287.9	259.0	275.3	247.2	217.6	7.7%
Total Capital	2,631.9	3,086.7	3,703.3	4,009.3	3,221.2	100%
Prepaid Related to Cloud (Transmission)	70.9	65.4	70.4	58.4	44.0	

*Exhibit Reference: TSP Section 2.1, Table 4

2 Hydro One's Transmission capital program is shifting from one driven primarily by system
3 renewal to one increasingly driven by external requirements for customer connections,
4 system expansion and resilience. This shift emerged during the 2023–2027 period and is
5 expected to accelerate over the 2028–2032 period as Hydro One supports Ontario's
6 growing electricity needs and economic development, as illustrated in Figure 2 below.

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



**Figure 2: Transmission Capital Portfolio, 2023-2027 period
Compared with 2028-2032 period**

Relative to the levels of investment approved in Hydro One's prior Application (EB-2021-0110), the actual proportion of System Access investments in 2023-2027 has more than doubled, and the proportion of System Service investments has more than tripled. Together, investments in System Access and System Service are expected to comprise approximately 31.2% of transmission capital investments over the 2023-2027 period, compared to the proportion approved in the prior Application of 11.1%.⁶ This trend is expected to continue into the 2028-2032 period, with System Access and System Service expenditures accounting for approximately 49.7% of capital expenditures.

At the same time, Hydro One must continue to invest in System Renewal work, which was reduced in the current period to facilitate the non-discretionary System Access and System Service investments that emerged. Over the 2028-2032 period, Hydro One will invest to renew critical transmission assets that are in poor condition, have inadequate performance, are functionally obsolete or have failed, and to ensure safety, mitigate reliability risk and maintain compliance with regulatory, environmental and reliability standards.

⁶ Values relative to OEB-approved capital categories before progressive productivity (EB-2021-0110, Settlement Proposal, Table 22, p. 33).

1 The increase in proposed capital spending reflects the transmission system Ontario now
2 requires: one that can connect major new loads and generation, implement IESO regional
3 and bulk-planning outcomes, carry out priority projects designated by the Government of
4 Ontario, and continue to renew aging critical infrastructure. This is consistent with
5 Ontario's Integrated Energy Plan (IEP), *Energy for Generations*, which forecasts a 75%
6 increase in electricity demand by 2050 and calls for accelerated transmission development
7 to support electrification, economic growth, and a reliable and resilient electricity system.

8 9 **System Access**

10 Hydro One proposes \$1,628.8M of System Access expenditures over 2028-2032,
11 representing 9.8% of total Transmission capital and an increase of \$1,316.5M, or 421.6%,
12 from the 2023-2027 OEB-approved expenditures. System Access investments facilitate
13 new load and generation customer connections and address transmission asset
14 modifications to accommodate third-party requests.

15
16 Hydro One is forecasting more than 6,000 MW of connection capacity enablement in
17 2028-2032, reflecting a material increase in requests for new and expanded load
18 connections from LDCs, industrial customers, and large commercial loads. This is
19 equivalent to more than 5% of Ontario's peak demand. Forecasts are underpinned by
20 emerging load and generation connection requests that have increased by 70% to 250%
21 in the current period. The scale and complexity of this activity represent a fundamental
22 step change from the amounts forecast in the prior Application. Proposed investments are
23 aligned with the IEP and the OEB's statutory objective to support economic growth.

24 25 **System Renewal**

26 Hydro One proposes \$7,093.5M of System Renewal expenditures over 2028-2032,
27 representing 42.6% of total Transmission capital and an increase of \$1,286.6M, or 22.2%,
28 from 2023-2027 OEB-approved expenditures. The increase is necessary to address a
29 significant and growing proportion of poor condition transmission assets across major
30 asset classes, including transformers, breakers, protection systems, conductors and wood
31 structures, which increase the risk of equipment failures, misoperations, extended outages

1 and reduced operational flexibility. Asset condition trends are most pronounced for
2 transformers and wood structures. Between 2016 and 2025, poor condition transformers
3 increased from 16% to 29%, while poor condition wood structures increased from 12% to
4 19%. In addition, 44% of breakers are obsolete, approximately 27% of protection systems
5 are beyond expected service life, and 11% of conductors remain in poor condition.

6
7 Hydro One has prioritized planned System Renewal investments to target the most
8 pressing needs, based on asset condition, criticality, performance, and other factors, at a
9 pace that maintains the population of deteriorated assets at a manageable level or avoids
10 a material negative impact on system operations and reliability. For example, Hydro One
11 will invest \$2,059M in connection stations, which directly supply industrial and commercial
12 customers and LDCs. Investments at these stations are critical to the reliability of directly
13 connected LDCs and industrial and commercial customers. The Company will also invest
14 \$410.3M to replace individual transmission station assets that are in poor condition.

15
16 For transmission lines, Hydro One will invest \$1,035M to replace or refurbish 1,369 circuit-
17 km of transmission lines and place them in service, addressing 45% of the known poor
18 condition conductors in the fleet. This renewal work sustains service to a variety of network
19 and radial line connected customers, including large and small municipalities, First Nations
20 communities, and large load facilities such as petrochemical processing facilities, mines,
21 and paper mills. Hydro One also plans to invest \$1,467M to replace or refurbish various
22 transmission line components such as wood poles, steel structures, foundations,
23 insulators and shieldwires that have been confirmed to be in poor condition. These
24 components are integral parts of the transmission line system required to support the
25 overhead conductors and enable them to perform their functions.

26
27 Hydro One does not propose to replace all deteriorated or obsolete assets during 2028-
28 2032 but has paced its investments to prioritize the highest-risk needs while managing the
29 remaining population over time.

1 **System Service**

2 Hydro One proposes approximately \$6,643.1M of System Service expenditures over
3 2028-2032, representing about 39.9% of total net transmission capital and an increase of
4 \$6,157.4M, or 1,268%, from 2023-2027 OEB-approved expenditures. System Service
5 investments are required to maintain inter-area network transfer capability, ensure local
6 area supply adequacy, mitigate system risks related to safety, security and reliability, and
7 address customer power quality concerns. Most of these investments are non-
8 discretionary with the majority identified through regional planning processes or IESO bulk
9 planning studies.

10
11 During the 2023-2027 rate period, Hydro One experienced unprecedented and
12 unexpected growth in system expansion needs, which is expected to continue and
13 intensify throughout the 2028-2032 period.

14 As a result, Hydro One's planned 2028-2032 System Service expenditures are
15 significantly higher, driven largely by an increase in Transmission Regional Planning and
16 Bulk Planning investments that together will significantly increase system transfer
17 capability by at least 10,000 MW and support the integration of more than 2,500 MW of
18 new generation capacity.

19
20 The System Service portfolio includes 47 material investments that will result in the
21 construction of 8 new HV transmission stations, 26 HV transmission station expansions,
22 and approximately 387 km of new HV lines. These investments generally result from
23 Ontario's Bulk System and Regional Planning Processes, as well as priority project
24 designations by the Government of Ontario, and are essential to supporting housing and
25 population growth in high-growth regions, as well as industrial developments in the
26 manufacturing, agricultural and technology sectors.

27
28 For more information on Hydro One's Transmission System Plan, see TSP Section 2.1.

4.2 HOSSM CAPITAL EXPENDITURES

HOSSM has prepared a comprehensive six-year System Plan covering the 2027-2032 period. HOSSM plans to invest an average of \$32.0M per year in transmission capital, for a total of \$192.0M, summarized in Table 6 below. This plan represents the level of investment required to maintain a reliable and resilient grid and meet Ontario's growing demand.

Table 6 - HOSSM Forecast Capital Expenditures (\$M)

OEB Investment Category	Forecast Period						% of Portfolio
	2027	2028	2029	2030	2031	2032	
System Access	2.2	0.0	0.0	0.0	0.0	0.0	1.1
System Renewal	19.2	35.2	20.7	21.8	22.3	13.4	69.1
System Service	18.3	29.4	9.2	0.3	0.0	0.0	29.8
General Plant	0.0	0.0	0.0	0.0	0.0	0.0	0
Total	39.6	64.6	29.9	22.1	22.3	13.4	100

**Exhibit Reference: TSP Section 2.10, Table 3*

System Access investments account for 1% of the 2027-2032 HOSSM capital plan and include minimal expenditures in 2027 to complete an ongoing customer connection investment.

System Renewal investments account for 69% of HOSSM's 2027-2032 capital plan. HOSSM expects to increase annual System Renewal expenditures driven by asset need and work that was reprioritized from prior years.

System Service investments account for 30% of HOSSM's 2027-2032 capital plan. HOSSM has one System Service investment related to the North Shore Link, which was recommended in the IESO's Northeast Bulk Plan and is being developed pursuant to two Orders in Council issued by the Minister of Energy and Mines.

HOSSM does not have any planned General Plant investments. Generally, General Plant expenditures are provided by Hydro One to HOSSM through services Hydro One carries out.

For more information on HOSSM's System Plan, see TSP Section 2.10.

4.3 DISTRIBUTION CAPITAL EXPENDITURES

Hydro One's Distribution System Plan presents an outcomes-driven and customer-focused portfolio of approximately \$10,863.3M in Distribution capital expenditures over 2028 to 2032. Of this, \$8,835.4M, or approximately 81%, is allocated to System Access, System Renewal, or System Service investments as further described in the DSP. The remaining \$2,027.9M is allocated to General Plant investments and is described in the General System Plan section below.

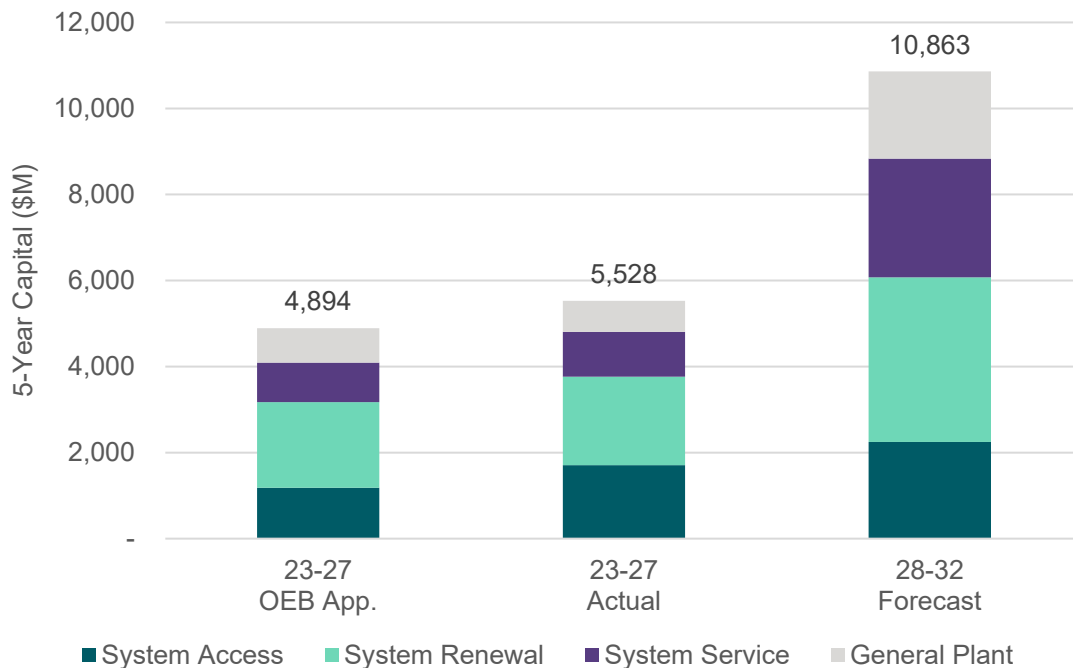
Table 7 below shows the annual and total capital investments planned for the 2028-2032 period, by OEB category. It reflects the integration of the former Peterborough and Orillia rate zones in 2031.

Table 7 - Distribution Capital Expenditure Summary

OEB Investment Category	Forecast Period (\$M)					
	2028	2029	2030	2031	2032	% of Total
System Access	549.6	406.8	416.0	431.4	445.1	20.7%
System Renewal	630.8	711.9	823.4	806.6	852.3	35.2%
System Service	405.2	497.1	708.4	627.3	523.4	25.4%
General Plant	342.1	311.2	342.2	583.3	449.0	18.7%
Total	1,927.8	1,927.0	2,290.1	2,448.6	2,269.9	100.0%

**Exhibit Reference: DSP Section 3.1, Table 8*

Figure 3 below shows the material increase in the scale of Hydro One's Distribution capital plans and the change in their composition for the 2028–2032 period.



**Figure 3: Distribution Capital Portfolio, 2023-2027 period
Compared with 2028-2032 period**

1 During the 2023-2027 period, Hydro One experienced materially higher demand-driven
2 and mandatory work than contemplated in the OEB-approved plan, together with
3 significant storm restoration requirements and higher material and equipment costs. Hydro
4 One responded by reprioritizing available capital and directing resources toward the most
5 immediate customer, safety, reliability, and compliance requirements, and by deferring
6 and re-pacing certain planned condition-based renewal and selected reliability and
7 resiliency work. These measures partially mitigated the expenditure pressures. Following
8 this reprioritization and deferral of planned work, total Distribution capital expenditures for
9 2023-2027 are forecast at \$5,527.6M, compared with the OEB-approved amount of
10 \$4,893.8M, or 13% above plan. The reprioritized asset, reliability, and system
11 requirements continue into 2028-2032 and form part of the broader set of needs
12 addressed by the proposed plan.

1 A material portion of the proposed plan addresses work required by legislative, regulatory
2 and service obligations, leaving Hydro One limited discretion as to whether the work
3 proceeds. Approximately 45% of proposed 2028-2032 Distribution capital expenditures
4 are driven by legislative and regulatory mandates, including requirements associated with
5 customer connections, distributed energy resource connections, third-party access and
6 relocations, metering, broadband and meeting growing customer demand and maintaining
7 service obligations. For certain investments, Hydro One retains some discretion over
8 scope, timing or delivery approach, but the underlying requirements materially constrain
9 whether the work proceeds.

10
11 Within this context, Hydro One applied its risk-informed investment planning process to
12 prioritize and pace the remaining requirements. Customer engagement indicated strong
13 support for Hydro One's proposed distribution plan. Across all customer types, a majority
14 selected a level of investment at or above Hydro One's draft investment plan as it related
15 to investments that improve reliability, improve resilience to severe weather, address
16 deteriorating assets and accommodate future growth, while also identifying affordability
17 as an important consideration. Following customer engagement and further review, Hydro
18 One refined and re-paced select Distribution and General Plant investments to balance
19 customer priorities, system needs, execution considerations, and affordability. The
20 resulting DSP is approximately \$1,500.0M lower than the draft plan presented during
21 customer engagement and supported by a majority of customers.

22
23 The plan responds broadly to three related sets of needs. First, the continued deterioration
24 of the existing asset base is increasing lifecycle intervention requirements. Second, Hydro
25 One must address reliability and resiliency challenges associated with asset performance,
26 long radial supply paths, limited alternate supply, vegetation and severe-weather
27 exposure, and difficult restoration access. Third, customer growth, electrification,
28 economic development and DER adoption are increasing connection, capacity and
29 operational-capability requirements.

1 These needs must be addressed across Hydro One's large, geographically dispersed and
2 predominantly rural distribution system. Hydro One operates approximately 126,000
3 circuit-km of distribution line, approximately 91% of which is overhead and directly
4 exposed to vegetation and severe weather. More than 24,000 line-km are located on
5 feeders longer than 100 km, many with limited alternate-supply capability, and
6 approximately 400 feeders contain significant off-road assets. This combination of
7 extensive overhead infrastructure, long radial supply paths, limited alternate supply and
8 difficult access increases exposure to external hazards, the complexity and duration of
9 fault location and restoration, and the customer consequences of individual failures. These
10 characteristics contribute to the need for sustained asset renewal and targeted
11 investments in system hardening, feeder ties and sectionalization, automation, energy
12 storage and relocation of difficult-to-access infrastructure.

13
14 Hydro One has organized its response to these needs around three distribution investment
15 priorities:

- 16 1. Maintaining the Grid – approximately \$3,437.9M: maintains the safe and reliable
17 operation of the existing distribution system by addressing priority asset-condition,
18 lifecycle and system-sustainment requirements
- 19 2. Improving Reliability and Resiliency – approximately \$1,604.4M: reduces outage
20 exposure and impacts, improves restoration capability and strengthens the
21 system's ability to withstand and recover from equipment failures and severe
22 weather
- 23 3. Meeting Ontario's Growing Demand – approximately \$3,792.3M: provides
24 customer access, system capacity and operational capability to accommodate
25 growth, electrification, economic development and DER integration, while
26 responding to customer-driven and externally driven infrastructure requirements.

27
28 These priorities, and the outcomes they seek to achieve, drive investments in each of the
29 System Access, System Renewal and System Service categories in the DSP.

1 **System Access**

2 Hydro One proposes \$2,248.9M of System Access expenditures over 2028-2032,
3 representing 20.7% of total Distribution capital and an increase of \$541.5M, or 31.7%,
4 relative to 2023-2027 OEB-approved expenditures. System Access investments are
5 primarily customer and externally driven and support Hydro One's obligations to connect
6 new customers, upgrade existing customer services, accommodate customer-driven DER
7 connections, and undertake system modifications required for municipal, provincial,
8 telecommunications and broadband infrastructure. These investments provide timely
9 access to the distribution system and enable customer growth, electrification,
10 infrastructure development and economic activity.

11
12 Over the planning period, Hydro One expects to complete approximately 93,500 new
13 customer connections and 38,900 service upgrades. Relative to 2023-2027, new-
14 connection volumes increase by approximately 6% and service-upgrade volumes by
15 approximately 33%, reflecting customer growth and increasing residential electricity
16 requirements associated in part with EV chargers and heat pumps. Hydro One also
17 forecasts approximately 9,900 customer DER connections. In addition, the portfolio
18 includes municipal and provincial relocations and approximately \$150M of legislatively
19 required broadband make-ready work.

20
21 **System Renewal**

22 Hydro One proposes \$3,825.1M of System Renewal expenditures over 2028-2032,
23 representing 35.2% of total Distribution capital and an increase of \$1,766.1M, or 85.8%,
24 relative to 2023-2027 OEB-approved expenditures. The increase reflects a materially
25 greater volume and broader scope of planned renewal required to address poor condition,
26 aging, damaged, exposed, obsolete and vulnerable assets. The proposed level of
27 investment is intended to manage continued deterioration of the asset base, reduce
28 exposure to unplanned failures and reactive replacement, maintain safe and reliable
29 service, and improve resiliency and restoration capability where renewal provides an
30 opportunity to address existing system vulnerabilities.

1 Hydro One's plan increases pole sustainment investment to 54,500 replacements, 31,500
2 mechanical refurbishments, and 460,000 test-and-treat activities during 2028-2032. Hydro
3 One currently has 99,000 poles identified in poor condition. The investment extends the
4 service life of the pole fleet through a return to the 15-year test-and-treat cycle and
5 targeted refurbishment, while focusing replacement on poles that are currently in poor
6 condition or are expected to deteriorate to poor condition over the planning period. With
7 the proposed investment, Hydro One expects to contain the poor condition pole population
8 at approximately 135,000 by 2032, compared to more than 200,000 without intervention.
9 Where poor condition poles are concentrated in areas vulnerable to severe weather,
10 Hydro One will strengthen selected pole clusters using higher-class poles. Where
11 concentrations of deteriorated pole and line assets occur on difficult-to-access off-road
12 sections, Hydro One will rebuild and, where appropriate, relocate more than 400 km of
13 line to road allowance to improve access for inspection, maintenance and restoration.
14 Where poor condition overhead infrastructure also has significant vegetation, severe-
15 weather, access and customer-consequence risks, Hydro One will selectively
16 underground 120 km of targeted line. Through this coordinated approach, Hydro One
17 addresses the underlying renewal need while improving the resilience, accessibility and
18 restoration performance of the renewed infrastructure.

19
20 Station renewal also increases materially, from eight material investments in the current
21 period to 81 planned station renewal investments in 2028-2032. The plan further
22 coordinates renewal with voltage consolidation where appropriate, including conversion
23 of end of life 4.16kV station transformers and associated line to standardized higher
24 voltages, improving load-serving capability, feeder-transfer capability and operational
25 flexibility.

26
27 Hydro One operates one of the largest underground cable systems in Ontario by total
28 length. As this cable population ages, the plan establishes a proactive approach to cable
29 renewal. Hydro One proposes to replace 250 km of deteriorated underground cable and
30 rejuvenate 500 km through cable injection, focusing on five areas experiencing poor

1 reliability associated with aging and deteriorating cable. The submarine-cable program will
2 replace 1,720 cables and refurbish 1,530 cables.

3
4 **System Service**

5 Hydro One proposes approximately \$2,761.3M of System Service expenditures over
6 2028-2032, representing 25.4% of total Distribution capital and an increase of \$1,722.6M,
7 or 165.8%, relative to 2023-2027 OEB-approved expenditures. The increase responds to
8 higher requirements for system capacity, reliability and resiliency, DER integration, system
9 monitoring and operational capability arising from load growth, electrification, increasing
10 DER penetration and the growing complexity of distribution-system operation.

11
12 Hydro One's reference distribution peak is forecast to increase by approximately 550 MW,
13 or 8%, from 6,903 MW in 2026 to 7,453 MW in 2032. To address identified and forecast
14 capacity constraints associated with this growth, Hydro One plans approximately 190
15 material load-growth investments to construct new or upgrade existing stations and
16 feeders, compared with 123 projects during 2023-2027. The investments address
17 identified capacity, thermal, voltage and operational constraints and provide the
18 infrastructure required to reliably serve increasing customer demand.

19
20 Hydro One will use non-wires solutions where they provide a cost-effective alternative to
21 conventional capacity investment. The proposed DSP includes non-wires solutions across
22 16 projects, together with one ongoing project deferral, expected to defer approximately
23 \$103M, or 6.9%, of conventional load-growth investments from the 2028-2032 plan.

24
25 The portfolio materially expands targeted reliability and restoration capability. Energy
26 Storage Solutions increase from one grid-scale project and approximately 360 residential
27 installations during 2023-2027 to 25 grid-scale projects and 5,400 residential installations,
28 providing localized backup supply and improving reliability for up to 9,400 customers.
29 Distribution Automation and Sectionalization expands from 400 remote-operable devices
30 installed during 2023-2027 to 1,150 devices during 2028-2032, increasing remote

1 operational capability from 42% to 90% of Hydro One's sub-transmission feeders and
2 enabling faster fault isolation, sectionalization and restoration.

3
4 DER Hosting Capacity investments will remove micro-generation constraints on
5 approximately 190 feeders, provide more than 43 MW of additional hosting capacity, and
6 enable an estimated 3,600 to 4,300 additional micro-embedded generation customer
7 connections. Hydro One will also expand system monitoring, visibility and operational-
8 control capabilities through System Monitoring, the Intelligent Grid Platform, and Real-
9 Time Distribution Station and Feeder Monitoring. These investments will improve visibility
10 into asset condition and system loading, enable earlier identification of emerging issues,
11 and provide the information and control capabilities required to operate a more complex,
12 electrified and DER-active distribution system.

13
14 Overall, the DSP represents a prioritized and paced response to the system's asset,
15 reliability, resiliency and growth needs, balancing customer outcomes, affordability,
16 regulatory obligations and execution capability. The plan provides the connections and
17 capacity required to support growth, materially increases planned lifecycle intervention on
18 the existing asset base, improves reliability, strengthens resilience to severe weather and
19 enhances restoration capability, and provides the monitoring, automation and operational
20 capabilities required to manage a more electrified and DER-active distribution system.

21
22 For more information on Hydro One's Distribution System Plan, see DSP Section 3.1.

4.4 GENERAL PLANT CAPITAL EXPENDITURES

General Plant assets enable Hydro One to deliver the Transmission and Distribution work programs safely, efficiently, and reliably. The GSP comprises four portfolios: (i) Fleet & Aviation, (ii) Facilities & Real Estate (FRE), (iii) Digital & Technology Solutions (DTS), and (iv) System Operations. Over the 2028 to 2032 planning period, Hydro One plans to invest \$4,159.9M in General Plant investments, including \$3,314.9M in capital expenditures and approximately \$845.0M in prepaid expenditures.

Investments in these portfolios are allocated to Transmission and Distribution using the Shared Asset Allocation Study prepared by Atrium Economics and presented in Exhibit E-04-08 Attachment 1. The plan allocates General Plant expenditures to Transmission, Distribution, or shared functions.

Tables 8 and 9 summarize the planned capital investments and prepaid expenditures related to cloud for the 2028-2032 period by General Plant function, respectively.

Table 8 - GSP 2028-2032 Planned Capital Expenditures⁷

Line of Business	Forecast Period (Planned \$M)					Total 2028-2032	% of Total GP
	2028	2029	2030	2031	2032		
Fleet & Aviation	285.9	158.0	190.7	136.3	132.9	904.0	27.3%
Facilities & Real Estate	131.1	230.1	231.6	225.8	154.3	972.9	29.3%
Digital & Technology Solutions	152.6	150.9	155.4	144.7	137.4	741.1	22.4%
System Operations	18.4	5.5	7.3	10.4	13.5	55.1	1.7%
Other	41.9	25.7	32.5	313.3	228.4	641.8	19.4%
General Plant Total	630.0	570.2	617.5	830.5	666.6	3,314.9	
General Plant - Transmission Allocation	287.9	259.0	275.3	247.2	217.6	1,287.0	38.8%
General Plant - Distribution Allocation	342.1	311.2	342.2	583.3	449.0	2,027.9	61.2%

*Exhibit Reference: GSP Section 4.1, Table 5

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

1

Table 9 - GSP 2028-2032 Planned Prepaid Expenditures

OEB Category	Forecast Period (Planned \$M)					Total 2028-2032	% of Total GP
	2028	2029	2030	2031	2032		
Prepaid Related to Cloud	168.8	190.0	189.3	157.9	138.9	845.0	
General Plant Total	168.8	190.0	189.3	157.9	138.9	845.0	
General Plant - Transmission Allocation	70.9	65.4	70.4	58.4	44.0	309.0	36.6%
General Plant - Distribution Allocation	98.0	124.7	118.9	99.5	94.9	536.0	63.4%

**Exhibit Reference: GSP Section 4.1, Table 6*

2 The plan is organized around four priorities: Workforce Enablement & Safety, Protect and
3 Secure Critical Infrastructure, Reliability & Resiliency of the Grid, and Customer Centricity.
4 Workforce Enablement and Safety investments support the Transmission, Distribution,
5 and corporate support portfolios in achieving their operational and investment objectives.
6 Protect and Secure Critical Infrastructure driven investments strengthen physical and
7 cybersecurity capabilities to ensure the continued delivery of safe and reliable electricity
8 service. Reliability & Resiliency focused investments are aimed at sustaining and
9 improving transmission and distribution system performance. Customer Centricity
10 investments improve the customer experience and service delivery through the
11 modernization of customer service technologies, digital channels, and supporting
12 platforms

13

14 Fleet & Aviation investments total \$904.0M, or 27.3% of the General Plant capital
15 expenditures. Hydro One manages approximately 8,000 vehicles and miscellaneous units,
16 more than 1,000 small off-road units and 10 helicopters that support field work, line
17 inspections and maintenance, outage restoration and access to remote locations. The
18 plan provides \$850.1M for Transport and Work Equipment, including approximately
19 \$611.5M for lifecycle replacement and \$238.6M for additional equipment required by
20 larger Transmission and Distribution work programs, and \$53.8M to renew three aging
21 helicopters. Fleet planning combines age, mileage, engine hours, mechanical condition,

1 maintenance history, downtime, utilization, safety risk and procurement lead times,
2 informed by Utilimarc lifecycle analysis.

3
4 FRE investments total \$972.9M, or 29.3% of the General Plant capital expenditures. The
5 investments are needed to sustain and modernize 1,474 buildings across 529 sites. The
6 portfolio includes 1,085 Transmission facilities at 371 sites and 389 operating-centre and
7 administrative buildings at 158 sites. High-criticality components such as foundations,
8 structures, roofs and HVAC systems are, on average, operating 56% beyond expected
9 useful life. Hydro One has identified approximately \$362M of facility deficiencies, of which
10 about \$210M, or nearly 60%, are high risk. The plan includes \$434.3M of Sustainment,
11 \$339.7M of Growth and \$198.9M of Compliance & Governance investments, including 10
12 new builds, two major renovations and a land purchase. Investments are prioritized using
13 Building Condition Assessments and a risk framework that considers likelihood and
14 consequence of failure, facility and component criticality, safety, reliability, productivity and
15 customer impacts. With the proposed plan, poor condition high-criticality buildings are
16 projected to decline from 238, or approximately 34%, to at least⁸ 130, or approximately
17 18%; under current investment levels, they would increase to at least 284⁹, or
18 approximately 40%.

19
20 DTS investments total approximately \$1,586M including \$741.1M of capital (representing
21 22.4% of the General Plant capital expenditures) and \$845.0M of prepaid expenditures.
22 Hydro One manages more than 600 IT and OT business applications and thousands of
23 supporting hardware assets. The plan renews aging and unsupported platforms and
24 expands the digital capabilities required for grid operations, customer service,
25 cybersecurity, work execution and enterprise decision-making. Key investments include
26 the SAP S/4HANA OneCore Transformation, modernization of customer service and work
27 and asset management platforms, enhancements to cybersecurity and physical security

⁸ In light of limitations associated with forecasting building condition data more than five years beyond a BCA, this figure uses the number of buildings projected to be in poor condition in 2030 as its starting point and incorporates the effects of refurbishment work planned through 2032. Accordingly, it does not reflect any additional building deterioration that would occur throughout 2031 and 2032.

⁹ *Ibid.*

1 capabilities, and investments in data, analytics, and AI. Together, these investments
2 strengthen grid reliability and resilience, improve customer outcomes, enhance
3 cybersecurity, and support efficient and effective utility operations.

4
5 System Operations investments total \$55.1M, or 1.7% of the General Plant capital
6 expenditures, and focus on the Integrated System Operations Centre (ISOC) and Backup
7 Ontario Grid Control Centre (BU-OGCC). The approximately 120,000-square-foot ISOC,
8 opened in 2021, is Hydro One's primary 24/7 control centre; the BU-OGCC has operated
9 since 2003 and provides continuity if the ISOC or its systems are unavailable. Planned
10 work addresses end of life or poor condition generators, breakers, roofs, elevators, HVAC
11 systems and uninterruptible power-supply batteries, while adding control-room desks and
12 data-hall cooling capacity to support growing operational needs.

13
14 Together, these Transmission and Distribution General Plant plans deliver the
15 investments needed to manage lifecycle and operational risks, maintain regulatory
16 compliance, and deliver reliable service and customer value over 2028–2032.

17
18 For more information on Hydro One's General Plant System Plan, see GSP Section 4.1.

19 20 **5.0 OM&A PLANS**

21 Hydro One's proposed OM&A expenditures establish the baseline required to safely and
22 reliably operate and maintain the Transmission and Distribution systems, serve customers,
23 respond to emergencies, comply with regulatory requirements, and enable the delivery of
24 larger capital programs. The proposed 2028 levels represent a step change from the
25 current period, driven by Hydro One's return to a sustainable operating model following
26 the temporary reprioritization and deferral measures adopted during 2023-2027. The
27 proposal responds to higher input costs, increasing system complexity, growing vegetation
28 management needs, evolving cyber and physical security risks, and increasing operational
29 and investment demands across the business.

5.1 TRANSMISSION OM&A EXPENDITURES

Hydro One Transmission is proposing \$634.5M of OM&A expenditures for the 2028 Test Year, representing an increase of \$200.8M over the 2023 OEB-approved amount of \$433.7M. Of the increase, \$82.0M is attributable to inflation based on applicable I-X factors.¹⁰ The remaining \$118.8M, which is 23.0% above the inflation-adjusted benchmark, reflects the funding required to restore sustainable maintenance levels and respond to increasing system needs. Table 10 sets out Hydro One Transmission's OM&A for the Historical, Bridge, and Test Years. Further details are provided in Exhibit E-02-01.

Table 10 - Transmission OM&A Summary (\$M)

Transmission		Historical				Bridge Year	Test Year
	2023	2023	2024	2025	2026	2027	2028
	OEB Approved	Actual	Actual	Actual	Forecast	Forecast	Forecast
Sustainment	N/A	241.1	237.1	224.5	231.4	229.7	305.9
Development		12.7	12.0	8.2	11.7	11.3	13.0
Customer Care		6.3	6.6	6.8	5.0	4.9	6.8
Common and Other OM&A ¹		175.1	162.4	148.7	178.7	187.3	219.1
Property Taxes and Rights Payments		72.4	68.8	73.5	77.8	79.2	89.7
Total	433.7	507.7	487.0	461.7	504.6	512.5	634.5

*Exhibit Reference: E-02-01, Table 1

¹ This includes Common Corporate Functions & Services (CCF&S), Asset Management (Planning) costs, Digital & Technology Solutions (DTS), Operations, and Cost of Sales for external work and Other OM&A.

During the 2023-2027 period, Hydro One Transmission faced increased funding requirements driven by demand-driven work and mandatory compliance, security, and telecommunications requirements. Where critical work could not prudently be deferred or

¹⁰ Inflationary impacts were calculated by applying the applicable OEB I-X factors to the 2023 OEB-approved OM&A amount to derive an inflation-adjusted benchmark for comparison to the 2028 Test Year OM&A requirement. Where 'I' is the applicable annual OEB Inflation Factor, and 'X' is the 0.15% productivity factor approved in EB-2021-0110.

1 reprioritized, Hydro One proceeded with the work, resulting in approximately \$119.9M of
2 expenditures above amounts funded in rates over the 2023-2027 period.¹¹

3
4 Hydro One took active steps to moderate these pressures through productivity and cost-
5 control initiatives, while reducing, deferring, or re-pacing selected work where doing so
6 would not create unacceptable near-term safety, reliability, compliance or operational risk.
7 These measures helped manage cumulative spending, but required temporary reductions
8 in preventive maintenance, condition assessments, patrols, vegetation work and
9 transformer refurbishments. These activities must now be restored because they provide
10 critical asset condition information used to identify deficiencies, prioritize corrective work,
11 and inform replacement decisions.

12
13 Deferrals can no longer continue without increasing longer-term risk and cost. Hydro One
14 must transition from short-term reprioritization to sustainable maintenance levels that
15 restore maintenance cycles and address accumulated deferred work. The principal
16 increase is in Sustainment OM&A, which rises from \$229.7M in 2027 to \$305.9M in 2028.
17 The largest drivers of the 2028 Sustainment OM&A forecast are Vegetation Management,
18 Power Equipment Maintenance, and Protection, Automation and Telecom Maintenance.

19
20 The 2028 Vegetation Management forecast is \$68.4M, which is \$30.0M above the 2023-
21 2027 annual average.¹² During the current period, Hydro One prioritized brush control
22 activities on NERC-applicable transmission circuits while deferring work on portions of the
23 115 kV network. Recent vegetation patrols and LiDAR assessments have increased
24 visibility into vegetation risk and confirmed the consequences of deferred maintenance.
25 The deferred work consistently ranked among the rights-of-way with the highest
26 concentrations of urgent vegetation defects. Approximately 28% of urgent vegetation
27 defects are associated with rights-of-way already one year beyond their target

¹¹ Calculated as cumulative 2023–2027 actual and forecast expenditures of \$2,473.4M less cumulative funding available in rates of \$2,353.5M, including applicable annual I-X adjustments, resulting in a variance of \$119.9M, rounded to \$120M.

¹² Refer to Exhibit E-02-01, Section 3.3.

1 maintenance cycle, and a further 26% are associated with rights-of-way where
2 maintenance is currently due.

3
4 The 2028 Power Equipment Maintenance forecast is \$66.1M, which is \$16.7M above the
5 2023-2027 annual average.¹³ It addresses maintenance activities deferred during the
6 2023-2027 period, including preventive maintenance on transformers, circuit breakers,
7 and switches. This work is required to restore planned maintenance cycles and generate
8 the condition information needed to identify deficiencies, prioritize corrective work, and
9 inform capital replacement decisions. Hydro One's transmission system includes 722
10 transformers and 4,691 circuit breakers across 297 transmission stations.

11
12 The 2028 Protection, Automation and Telecom Maintenance forecast is \$63.6M, which is
13 \$12.7M above the 2023-2027 annual average.¹⁴ It reflects higher Protection and
14 Automation expenditures required to complete the final 2028 implementation milestone
15 under NERC PRC-005-6 and clear deferred non-Bulk Electric System preventive
16 maintenance activities. It also reflects higher Power System Telecom expenditures
17 associated with increased preventive and corrective maintenance expenditures.

18
19 Beyond Sustainment OM&A, the other material contributor to the increase in Transmission
20 OM&A is Common and Other OM&A, with \$219.1M allocated to Transmission. The
21 increase over recent spending primarily reflects higher Digital & Technology Solutions
22 costs to sustain vendor-supported systems, cloud services and cybersecurity capabilities;
23 additional corporate services, planning and system-operations resources required to
24 support a substantially larger and more complex transmission work program; and evolving
25 regulatory, reliability and security obligations. These increases are partly offset by higher
26 overhead capitalization associated with the expanded capital program. Further details are
27 provided in Exhibit E-04-01.

¹³ *Ibid.*

¹⁴ *Ibid.*

1 Hydro One's proposed Transmission OM&A expenditures are reasonable and reflect the
2 funding required to establish a sustainable operating baseline for 2028. They are the
3 product of an integrated planning process informed by customer and system needs and
4 are paced to balance operational requirements against customer rate impacts. Having
5 managed expenditures during the 2023-2027 period as closely as possible to the rate-
6 period envelope, Hydro One now requires funding to restore deferred work where needed,
7 support a substantially larger capital program, maintain reliable and resilient service, and
8 build the capabilities required for Ontario's electricity transition.

9 10 **5.2 HOSSM OM&A EXPENDITURES**

11 HOSSM is proposing OM&A expenditures of \$10.6M and \$10.9M for the 2027 and 2028
12 Test Years, respectively. Both amounts are lower than HOSSM's last OEB-approved
13 OM&A amount for 2016, reflecting efficiencies and synergies achieved, notwithstanding
14 accumulated inflation over the 10-year deferred rebasing period.

15
16 Since October 1, 2018, HOSSM's operational integration with Hydro One has provided
17 access to specialized resources and expertise, and has standardized business processes.
18 These efficiencies reduce duplication and enable HOSSM to address asset and system
19 needs cost-effectively.

20
21 HOSSM's proposed 2027 and 2028 Test Year OM&A expenditures are required mainly
22 to: (i) perform preventive and corrective maintenance on station equipment, assess asset
23 condition, and maintain safety and reliability; (ii) maintain protection, automation, and
24 telecom systems required to protect, monitor, control, and operate the transmission
25 system; (iii) maintain aging facilities and site infrastructure in a safe and functional
26 condition; (iv) undertake vegetation management to maintain required clearances, support
27 reliability, and comply with NERC requirements; (v) inspect and maintain overhead lines
28 and address defects; and (vi) fund HOSSM's share of Common Corporate Functions &
29 Services.

- 1 Table 11 sets out HOSSM's OM&A for the Historical, Bridge, and Test Years. Further
- 2 details are included in Exhibit E-02-06.

Table 11 - HOSSM Summary of OM&A (\$M)

Description	Historical											Bridge	Test Years	
	2016	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	OEB Approved	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast
Sustainment					7.2	7.9	8.0	8.0	7.1	7.2	7.0	8.4	8.5	9.1
Common and Other*					3.7	2.1	1.7	1.3	1.9	2.2	2.2	2.4	2.1	1.8
Total	11.4¹	11.1	9.4	9.1	10.9	10.1	9.7	9.3	9.1	9.4	9.2	10.8	10.6	10.9

*Exhibit Reference: E-02-06, Table 1

*This includes Common Corporate Functions & Services (CCF&S), Asset Management (Planning), Digital & Technology Solutions (DTS), Operations, and Other OM&A

¹ EB-2014-0238, Decision, December 18, 2014, Great Lakes Power Transmission Rate Application for 2015 and 2016 rates, Appendix A-1, p.19. The approved amount comprises \$11.1M, and \$0.2M for Property Taxes, with rounding equals \$11.4M.

5.3 DISTRIBUTION OM&A EXPENDITURES

Hydro One Distribution is proposing \$958.7M of OM&A expenditures for the 2028 Test Year, representing an increase of \$342.4M over the 2023 OEB-approved amount of \$616.3M. Of the increase, \$104.0M is attributable to inflation based on the applicable I-X factors.¹⁵ The remaining \$238.4M, which is 33.1% above the inflation-adjusted benchmark, reflects the funding required to restore sustainable maintenance levels, address accumulated work requirements, support a materially larger capital program and respond to a more complex operating environment. Table 12 sets out Hydro One Distribution's OM&A for the Historical, Bridge, and Test Years. Further details are provided in Exhibit E-03-01.

Table 12 - Distribution OM&A Summary (\$M)

Distribution	Historical					Bridge	Test
	2023	2023	2024	2025	2026	2027	2028
	OEB-Approved	Actual	Actual	Actual	Forecast	Forecast	Forecast
Sustainment	N/A	366.2	365.9	319.3	359.4	358.2	523.0
Development		9.5	10.0	10.6	12.4	12.4	17.6
Customer Care		94.8	106.7	102.1	115.9	120.0	139.6
Common and Other OM&A ¹		200.1	220.7	193.9	181.4	186.3	271.1
Property Taxes		6.2	5.8	6.4	6.7	7.0	7.5
Cost Containment Efforts					-17.0	-37.0	
Total	616.3	676.8	709.1	632.4	658.9	646.9	958.7

^{*}Exhibit Reference E-03-01, Table 1

¹ This includes Common Corporate Functions & Services (CCF&S), Asset Management (Planning) costs, Digital & Technology Solutions (DTS), Operations, and Cost of Sales for external work and Other OM&A

During the 2023-2027 period, Hydro One experienced higher volumes of demand-driven work and market cost pressures. In 2023, actual Distribution OM&A expenditures were \$676.8M, \$60.5M above the OEB-approved envelope, primarily due to incremental demand-driven Sustainment work and sector-wide market-based cost pressures following

¹⁵ Inflationary impacts were calculated by applying the applicable OEB I-X factors to the 2023 OEB-approved OM&A amount to derive an inflation-adjusted benchmark for comparison to the 2028 Test Year OM&A requirement. Where 'I' is the applicable annual OEB Inflation Factor, and 'X' is the 0.45% productivity factor approved in EB-2021-0110.

1 the COVID-19 pandemic. These pressures continued throughout the current rate period:
2 annual average expenditures during 2023-2027 for Trouble Calls, Cable Locates and
3 Disconnects/Reconnects were 41%, 115% and 105%, respectively, above planned levels.
4

5 Hydro One responded by prioritizing mandatory, safety-critical, customer service and
6 compliance activities while reducing, deferring or re-pacing work where near-term risks
7 could be managed. Hydro One also implemented substantial productivity and cost-control
8 measures. Distribution OM&A programs achieved \$125.2M in productivity savings from
9 2023 to 2025, while the Enterprise Cost Optimization Program contributed a further
10 \$17.0M in 2025. Additional cost containment targets of \$17.0M and \$37.0M are reflected
11 in the 2026 and 2027 forecasts. As a result of these efforts, Hydro One expects cumulative
12 expenditures from 2023 to 2027 to exceed total available funding by only \$13.9M.
13

14 These measures are not sustainable over the longer term. Vegetation continues to grow,
15 asset defects and maintenance backlogs accumulate, demand-driven work remains
16 elevated, and Hydro One's OM&A programs must scale to support growing work volumes,
17 electrification, DER adoption and increasing exposure to severe weather.
18

19 The 2028 plan marks the transition from short-term reprioritization to a sustainable
20 operating model, requiring a \$293.9M increase in Distribution OM&A expenditures from
21 the 2023-2027 annual average to the 2028 Test Year. The increase is driven primarily by
22 Sustainment OM&A and Common and Other OM&A, with Customer Care OM&A and
23 Development OM&A also contributing.
24

25 Sustainment OM&A is forecast at \$523.0M in 2028, which is \$169.1M, or 47%, above the
26 2023-2027 annual average. Vegetation Management is the largest driver of this increase.
27 Hydro One's 104,000 km overhead network traverses heavily forested terrain, and
28 vegetation remains a leading cause of outages. Reduced work volumes during the current
29 rate period extended the average vegetation-management cycle to approximately 8.3
30 years, compared with the five-year cycle targeted through Hydro One's Optimal Cycle
31 Protocol. Key indicators of system risk and program performance also deteriorated:

1 density defects increased from 26 defects per km in 2022 to 60 defects per km by year-
2 end 2025, driving higher unit costs. Hydro One is proposing \$230.9M for Vegetation
3 Management in 2028, \$123.7M above the 2023-2027 annual average, to reduce the cycle
4 to 6.6 years, eliminate the accumulated brush backlog across the province, and move the
5 program toward a sustainable and cost-efficient trajectory.

6
7 Within Sustainment OM&A, Hydro One is also proposing \$218.8M for Lines and Other
8 Maintenance, \$22.9M above the 2023-2027 annual average. These expenditures will
9 address additional defect corrections to mitigate a growing backlog of more than 400,000
10 system deficiencies, reintroduce insulator washing, patrol overhead lines to maintain
11 compliance with the Distribution System Code, and establish a new underground cable
12 diagnostics program to support the capital program and mitigate growing reliability risks in
13 targeted parts of Hydro One's aging underground system.

14
15 Meters, Telecom and Smart Grid is forecast at \$46.4M in 2028, \$19.1M above the 2023-
16 2027 annual average. These expenditures will sustain the digital and communications
17 platforms required for Distribution Intelligence and Automation, AMI 2.0, ADMS, DERMS,
18 non-wires solutions and battery energy storage systems.

19
20 Beyond Sustainment OM&A, the other material contributor to the increase in Distribution
21 OM&A is Common and Other OM&A, with \$271.1M allocated to Distribution, representing
22 a \$74.6M increase relative to the 2023-2027 annual average. The increase is primarily
23 driven by Digital & Technology Solutions costs associated with cloud subscriptions,
24 licensing, application sustainment and cybersecurity, together with additional system-
25 operations and planning capabilities needed to support grid modernization, DER
26 integration, growing work volumes and increasingly complex outage and system-
27 management requirements. These increases are partly offset by higher overhead
28 capitalization and lower external-work costs. Further details are provided in Exhibit E-04-
29 01.

1 Customer Care OM&A is forecast at \$139.6M in 2028, which is \$31.6M above the 2023-
2 2027 annual average. The increase supports Hydro One's 1.5 million customers as
3 interaction volumes and complexity increase, while maintaining billing, collections, meter-
4 to-cash operations, affordability programs and customer participation in emerging energy
5 initiatives.

6
7 Development OM&A is forecast at \$17.6M in 2028, which is \$6.6M above the 2023-2027
8 annual average. The increase supports higher DER connection volumes, hosting-capacity
9 requirements, engineering studies, technical standards and power-quality monitoring.

10
11 The proposed 2028 Distribution OM&A expenditures were developed through a bottom-
12 up planning process grounded in asset condition, customer needs, operational
13 requirements and coordination with the DSP. They establish the sustainable operating
14 baseline required to preserve asset health, support capital delivery and continue providing
15 safe, reliable, resilient, secure, and customer-focused distribution services.

16 17 **5.4 COMPENSATION AND WORKFORCE PLANNING**

18 Hydro One has taken steps to manage compensation costs and limit workforce growth
19 relative to its growing capital and operational work programs for both Transmission and
20 Distribution. Hydro One has reduced compensation program costs through amendments
21 to pension rules and mutually beneficial collective bargaining outcomes related to wage
22 increases, pension contribution rates, lump-sum payments, and equity grants. Hydro
23 One's workforce planning also reflects disciplined FTE¹⁶ growth relative to the growth in
24 its investment plan. Over the 2028-2032 period, FTEs are forecast to increase by
25 approximately 15%, compared with approximately 60% growth in the investment plan.
26 Most of the workforce growth is expected to come from casual employees, who have lower
27 compensation costs than regular employees.

¹⁶ A Full-time Equivalent or 'FTE' represents the average monthly headcount over a 12-month period. A regular status employee who is budgeted for one year of work, represents one FTE. For casual employees, one FTE equates to 12 person months of work. For example, if one casual employee worked for six months they would account for 0.5 FTEs.

Hydro One engaged Mercer to conduct an updated compensation benchmarking study. The study shows that Hydro One's overall compensation position improved from 9% above the P50 market median and 4% above the market competitive range in 2020 to 6% above the P50 market median and 1% above the market competitive range in 2026. A position within $\pm 5\%$ of the P50 market median is considered "at market". Further details regarding the steps taken by Hydro One to manage its overall compensation costs and the updated Mercer benchmarking study are provided in Exhibit E-06-01. Hydro One's approach to workforce planning and forecast FTE levels for the 2028-2032 period are discussed in Exhibit E-06-02.

Hydro One's Transmission and Distribution allocated compensation costs for 2027 and 2028 are summarized in the tables below.¹⁷

Table 13 - Summary of Total Transmission-Allocated Compensation Costs

(\$M)	2027 Bridge	2028 Test	Change
Capital – Transmission Compensation	729.9	861.8	131.9
OM&A – Transmission Compensation	155.0	183.0	28.0
Total Transmission Compensation	885.0	1,044.9	159.9

**Exhibit reference: E-06-01-01A*

Table 14 - Summary of Total Distribution-Allocated Compensation Costs

(\$M)	2027 Bridge	2028 Test	Change
Capital – Distribution Compensation	754.4	831.3	76.9
OM&A – Distribution Compensation	304.6	335.6	31.2
Total Distribution Compensation	1,059.0	1,166.9	107.9

**Exhibit reference: E-06-01-01A*

¹⁷ In EB-2021-0110, the OEB approved a settlement proposal filed by the parties on October 24, 2022, as updated November 16, 2022. The settlement included approved OM&A envelopes for Distribution and Transmission. The OEB did not approve specific Distribution nor Transmission compensation amounts.

5.5 SERVICE LEVEL AGREEMENT (SLA) FEE ALLOCATION STRUCTURE AND SUMMARY

All Affiliate Services are provided or received by Hydro One Networks pursuant to affiliate service level agreements (Affiliate SLAs). The Affiliate Services are directly charged by the applicable service provider to the applicable service recipient. A portion of the revenues received by Hydro One Networks from providing Affiliate Services are accounted for as Other External Revenues. Exhibit D-02-03 provides a summary of the shared and directly charged Affiliate Services that Hydro One Networks provides to, and receives from, its affiliates under Affiliate SLAs. Details on the SLA Fee Allocation Structure are included in Exhibit E-04-01, Attachment 1.

6.0 PERFORMANCE MEASUREMENT

Hydro One maintains four regulatory scorecards to assess performance relative to the OEB's RRF outcomes: the Transmission Scorecard, the HOSSM Scorecard, the Hydro One Distribution OEB Scorecard, and the OEB Electricity Distributor Scorecard. Collectively, these scorecards comprise more than 60 measures that align with the RRF outcomes of Customer Focus, Operational Effectiveness, Public Policy Responsiveness and Financial Performance. Together, the scorecards provide a comprehensive framework for monitoring operational performance, service quality, regulatory outcomes, and the delivery of Hydro One's capital and OM&A investment plans, with performance targets established based on the proposed investments for the 2028-2032 period.

Hydro One's proposed scorecards build on the scorecards approved in prior rate applications. In addition to the previously approved metrics, Hydro One is introducing or expanding four measures for the Transmission Scorecard and introducing five new measures for the Hydro One Distribution OEB scorecard. These new and expanded measures increase transparency regarding the delivery of the proposed capital plan and provide greater visibility into areas of growing importance, including reliability, system capacity, customer participation, and regional planning.

1 For Transmission, Hydro One is proposing three new measures to strengthen tracking of
2 resource enablement, stakeholder engagement, and responsiveness within the regional
3 planning process. Hydro One is also proposing to expand its Transmission Capital
4 Accomplishment Index measure to provide greater coverage of the capital plan and
5 strengthen transparency regarding the delivery of planned investments.
6
7 HOSSM's scorecard remains consistent with its existing measures and planned
8 investments. Since the integration of HOSSM, several scorecard measures are
9 consolidated into Hydro One's Transmission Scorecard and are now reported on a
10 combined basis, including the three new measures introduced in this Application.

Table 15 - Additional Transmission Scorecard Measures Proposed for 2028-2032

Measure	Alignment with Capital Plan
Transmission Capital Accomplishment Index (TCAI)	Expands the TCAI measure to include all planned major unit accomplishments, providing broader coverage of the transmission capital portfolio. The revised metric places greater emphasis on larger, higher-value investments, strengthening transparency and accountability for delivery of the proposed transmission capital plan.
Resource Enablement (Connections & MW Enabled)	Aligns with planned investments to connect new generation resources and support Ontario's evolving electricity needs. The metric provides visibility into Hydro One's delivery of generation connection projects and its ability to enable the capacity additions contemplated in the capital plan.
Email communication sent to municipalities with a request for electricity planning input prior to the start of Regional Planning	Supports effective identification and prioritization of future transmission investments by ensuring municipal growth plans and local electricity needs are incorporated into regional planning. This strengthens alignment between capital investment decisions and anticipated customer, community, and system requirements.
Regional Planning Responsiveness	Supports proactive identification and prioritization of future transmission investments by accelerating regional planning in response to unforeseen growth, LDC requests, and government directives. This strengthens alignment between capital investment decisions and emerging customer, community, and system needs while enabling timely planning to support future electricity demand.

1 For Distribution, Hydro One is proposing five new measures that complement the existing
2 scorecard by providing a more comprehensive view of capital plan execution, asset risk
3 mitigation, grid modernization, capacity planning, and customer-focused energy initiatives.
4 Collectively, these measures strengthen the linkage between planned investments and
5 expected customer, reliability, and system-capacity outcomes, while enhancing
6 transparency regarding Hydro One's progress in delivering the proposed distribution
7 capital program and supporting Ontario's evolving electricity needs.

Table 16 - Additional Distribution Scorecard Measures Proposed for 2028-2032

Measure	Alignment with Capital Plan
Kilometres of Forestry Managed	Supports delivery of Hydro One's vegetation management investments by providing visibility into the assessment and mitigation of vegetation-related reliability risks. The measure helps ensure forestry resources are prioritized to the highest-risk areas, maximizing the reliability benefits of planned forestry investments.
Distribution Capital Program Work Composite Index (DCAI)	Provides a portfolio-level measure of Hydro One's delivery of planned distribution capital investments by comparing actual accomplishments against the approved capital plan. The metric enhances transparency and accountability for the execution of System Access and System Renewal investments across the distribution network.
Flexibility & Local Energy Efficiency Programs	Supports Hydro One's investment strategy by tracking participation in programs that help manage demand growth, improve system utilization, and enable non-wires alternatives. The measure provides visibility into initiatives that can complement traditional infrastructure investments while supporting the energy transition.
Enabling Remote Operable Capabilities	Aligns with grid modernization investments by tracking progress in expanding remote operational capabilities across the distribution network. The measure provides visibility into investments that improve system resiliency, operational flexibility, outage response, and overall reliability.
Load Capacity Constrained Distribution Stations	Supports Hydro One's capacity expansion investments by measuring progress in addressing distribution station constraints. The metric provides visibility into the effectiveness of capital investments intended to meet growing electricity demand and maintain reliable service for customers.

1 For more information on Hydro One's Performance Reporting Governance Framework,
2 see SPF Section 1.5. Hydro One's Transmission Scorecard is found at TSP Section 2.5;
3 the Hydro One Distribution OEB Scorecard and OEB Electricity Distributor Scorecard are
4 addressed in DSP Section 3.5; and HOSSM's Transmission Scorecard is found at TSP
5 Section 2.10, Attachment 3.

6 7 **7.0 KEY FINANCIAL COMPONENTS**

8 Hydro One's proposed revenue requirements, rate bases, and cost of capital will provide
9 the funding required to operate the Transmission and Distribution systems and deliver the
10 proposed capital plans. The financial components of the Application reflect the increase
11 in investment needs during the 2028–2032 period to renew deteriorating assets and meet
12 growing customer demand, higher costs for materials and equipment, the timing of assets
13 going into service, and the continuing need to maintain Hydro One's financial integrity and
14 access to capital at a reasonable cost.

15 16 **7.1 REVENUE REQUIREMENT**

17 Hydro One calculated the Transmission and Distribution revenue requirements, as well as
18 the HOSSM revenue requirements, using established cost-of-service methodologies for
19 the 2028 Test Year (and the 2027 Test Year in respect of HOSSM). The revenue
20 requirements include OM&A, depreciation and amortization, income taxes, return on
21 capital, and the amortization associated with prepaid cloud-computing arrangements. For
22 Hydro One Transmission and Distribution, the amortization of prepaid cloud costs for the
23 2028-2032 term is proposed to be included in the revenue requirement calculation and
24 aligns with the period over which customers receive the associated services. See Exhibits
25 D-01-01 and D-01-01A for details on the revenue requirement and Exhibit E-08-01 for
26 treatment of prepaid cloud costs in the revenue requirement.

27 28 **7.1.1 TRANSMISSION REVENUE REQUIREMENT**

29 Hydro One's proposed 2028 Transmission revenue requirement is \$2,726.6M, an increase
30 of \$774.1M, or 39.6%, relative to the 2023 OEB-approved rebasing year. In comparison

1 to the latest approved revenue requirement in 2026, the 2028 revenue requirement is
2 \$444.1M, or 19.5% higher.

Table 17 - Transmission Revenue Requirement (\$M) ¹⁸

Components	2023 OEB- Approved ¹	2024 ²	2025 ³	2026 ⁴	2027 ⁵	2028 Test Year	Reference
OM&A	433.7	-	-	-	-	634.5	Exhibit E-02-01
Depreciation and Amortization	531.3	-	-	-	-	738.4	Exhibit E-08-01
Income Taxes	65.2	-	-	-	-	103.7	Exhibit E-09-02 Attachment 1
Return on Capital	922.2	-	-	-	-	1,250.1	Exhibit F-01-03
Total Revenue Requirement	1,952.5	2,079.8	2,174.5	2,282.5	2,363.3	2,726.6	

**Exhibit Reference: D-01-01, Table 1*

¹ Represents OEB-approved 2023 revenue requirement in EB-2021-0110

² Represents OEB-approved 2024 revenue requirement in 2024 Annual Update in EB-2023-0127

³ Represents OEB-approved 2025 revenue requirement in 2025 Annual Update in EB-2024-0217

⁴ Represents OEB-approved 2026 revenue requirement in 2026 Annual Update in EB-2025-0159

⁵ 2027 revenue requirement = \$2,282.5M (2026 Revenue Requirement) * (1 + (2.90% inflation factor – 0.15% stretch factor + 0.79% capital factor)) = \$2,363.3M. 2027 OEB approved revenue requirement to be established as part of the 2027 Annual Update in EB-2026-0169.

3 Compared with the 2023 rebasing year, the principal drivers of the increase are
4 approximately \$475.4M from rate-base growth, \$200.7M from higher OM&A, \$44.1M from
5 the proposed capital-structure change, \$24.1M from cloud-computing amortization and
6 return, and \$29.8M from increased taxes and other changes. These increases reflect the
7 cost of operating a larger and more complex system and placing into service the assets
8 required to connect customers, support growing demand across Ontario, reinforce the grid,
9 and renew aging infrastructure.

¹⁸ Figures presented in the tables may not sum to the totals shown due to rounding

7.1.2 HOSSM REVENUE REQUIREMENT

HOSSM's proposed revenue requirements for 2027 (\$46.1M) and 2028 (\$50.0M) represent increases of 16% and 25%, respectively, compared to the OEB-approved 2016 amounts of \$39.9M. These increases are predominantly driven by rate base growth. In comparison to the 2027 interim approved revenue requirement of \$49.2M, the proposed 2027 and 2028 revenue requirements are \$3.1M, or 6% lower and \$0.8M or 2% higher, respectively.

Table 18 - HOSSM Revenue Requirement (\$M)¹⁹

Components	2016 OEB Approved ¹	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027 Test Year	2028 Test Year	Reference
OM&A	11.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10.6	10.9	E-02-06
Depreciation and Amortization	9.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	13.0	14.3	E-08-02
Income Taxes	2.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.1	0.4	E-09-04
Return on Capital	16.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	22.4	24.3	F-02-03
Total Revenue Requirement	39.9	39.9	39.9	40.3	40.9	41.6	42.5	44.0	46.2	47.8	49.4	46.1	50.0	

*Exhibit Reference: D-01-01a, Table 1

¹ Excludes "Other Revenue" that is not part of the Service Revenue Requirement in 2016 GLPT application, escalated every year for Revenue Cap Index (RCI) based on OEB-approved inflation factor.

7.1.3 DISTRIBUTION REVENUE REQUIREMENT

Hydro One's proposed 2028 Distribution revenue requirement is \$2,694.8M, an increase of \$967.6M, or approximately 56.0%, relative to the 2023 OEB-approved rebasing year. In comparison to the latest approved revenue requirement in 2026, the 2028 revenue requirement is \$703.6M, or 35.3% higher.

¹⁹ Figures presented in the tables may not sum to the totals shown due to rounding

1 **Table 19 - Distribution Revenue Requirement (\$M)²⁰**

Components	2023 OEB Approved ¹	2024 ²	2025 ³	2026 ⁴	2027 ⁵	2028 Test Year	Reference
OM&A	616.3	-	-	-	-	958.7	Exhibit E-03-01
Depreciation and Amortization	461.4	-	-	-	-	753.7	Exhibit E-08-01
Income Taxes	53.7	-	-	-	-	42.7	Exhibit E-09-02 Attachment 1
Return on Capital	595.8	-	-	-	-	939.8	Exhibit F-01-03
Total Revenue Requirement	1,727.2	1,819.8	1,892.6	1,991.2	2,073.4	2,694.8	

*Exhibit Reference: D-01-01, Table 7

¹ Represents OEB-approved 2023 revenue requirement in EB-2021-0110

² Represents OEB-approved 2024 revenue requirement in 2024 Annual Update in EB-2023-0030

³ Represents OEB-approved 2025 revenue requirement in 2025 Annual Update in EB-2024-0032

⁴ Represents OEB-approved 2026 revenue requirement in 2026 Annual Update in EB-2025-0030

⁵ 2027 revenue requirement = \$1,991.2M (2026 Revenue Requirement) * (1 + (3.00% inflation factor – 0.45% stretch factor + 1.58% capital factor)) = \$2,073.4M. 2027 OEB-approved revenue requirement to be established as part of the 2027 Annual Update in EB-2026-0049.

2 Compared with the 2023 rebasing year, the principal drivers are approximately \$558.7M
3 from rate-base growth, \$342.4M from higher OM&A, \$46.0M from cloud-computing
4 amortization, and \$33.2M from the proposed capital-structure change, partially offset by
5 approximately \$12.6M from decreased taxes and other changes.

6
7 The proposed increase supports the work required to sustain the grid, connect customers,
8 accommodate growth, improve reliability and resilience, and operate a system with
9 increasing technology and cybersecurity requirements. Hydro One has moderated the
10 proposed increase through Enterprise Cost Optimization and productivity (see Exhibit SPF
11 Section 1.4), investment re-pacing (see DSP Section 3.7, GSP Section 4.7), and use of
12 non-wires alternatives (see DSP Section 3.11, D-SS-01).

14 **7.2 RATE BASE**

15 Rate base represents the net investment in utility assets used to provide service to
16 customers, together with the applicable working-capital allowance. Hydro One's
17 Transmission and Distribution rate bases, as well as HOSSM's rate base, increase during

²⁰ Figures presented in the tables may not sum to the totals shown due to rounding.

the 2028–2032 period as capital investments are completed and placed in service. The higher 2028 rate base, relative to the current rate period, is attributable to the significant increase in planned capital investments. The timing of rate-base growth reflects the construction and in-service profiles of the Transmission, Distribution, and General Plant portfolios.

- Hydro One's proposed 2028 Transmission rate base is \$19,199.2M, an increase of \$895.6M or 4.9% relative to the 2027 OEB-approved rate base.
- Hydro One's proposed 2028 Distribution rate base is \$14,434.6M, an increase of \$1,389.1M or 10.6% relative to the 2027 OEB-approved rate base.
- HOSSM's proposed 2027 and 2028 rate bases are \$345.6M and \$376.1M, an increase of \$127.0M or 58% and an increase of \$157.4M or 72.0%, relative to the 2016 OEB-approved rate base.

Table 20 - Transmission, HOSSM and Distribution Rate Base (\$M)

Description	2027	2028	2029	2030	2031	2032
Transmission Rate Base	18,303.6	19,199.2	20,660.8	22,267.9	24,204.8	28,469.6
Distribution Rate Base	13,045.5	14,434.6	15,795.3	17,135.8	18,957.7	20,712.4
HOSSM Rate Base	345.6	376.1	425.3	456.4	463.0	474.7

**Exhibit reference: C-01-01, Table 4B (Transmission), Table 10B (Distribution) and C-1-2, Table 4B*

Rate base growth reflects capital assets placed in service, rather than capital expenditures alone. The increase supports customer and generation connections, regional and bulk-system reinforcements, additional distribution capacity, renewal of deteriorating assets, grid modernization, and improved reliability and resilience. It also reflects the General Plant assets required to deliver and operate these expanded work programs.

Further information may be found at Exhibits C-01-01 and C-02-01.

7.3 COST OF CAPITAL

This section provides an overview of Hydro One's proposed cost of capital (CoC) including capital structure, cost of debt and return on equity. Together, these make up the return on capital in the Transmission and Distribution revenue requirements, as well as the HOSSM revenue requirement, for each year of this Application. Hydro One proposes the same approach for Transmission and Distribution, which is a change from EB-2021-0110. Hydro One proposes, for both Transmission and Distribution, a deemed capital structure of 45% common equity and 55% debt, with the debt portion being 51% long-term debt and 4% short-term debt. In addition, Hydro One proposes that the long-term debt rate calculated for each year of this Application, as summarized in Exhibit F-01-03 and calculated in F-01-04, be applied to the return on debt for each specific year. This differs from EB-2021-0110, where the long-term debt rate established for the first test year was applied consistently across the remaining test years. No change to the cost of capital parameters is requested for HOSSM.

Hydro One applies the OEB's established methodology to the remaining components of the cost of capital. As a placeholder, Hydro One has used the OEB's 2026 ROE and the deemed short-term debt rate. It will update its ROE, short-term debt cost and long-term debt cost when the OEB releases its 2028 cost of capital parameters. Hydro One's proposal maintains all elements of the OEB's established framework except for capital structure. The proposed change responds to the increasing business and financial risks facing the Company during the next rate period, including elevated competition for investment capital in North American and international markets.

Capital Structure

Hydro One proposes an increase in its deemed equity ratio from the OEB's default 40% to 45% starting in 2028, for both Transmission and Distribution. The current 60% debt and 40% equity capital structure was approved for Hydro One in EB-2021-0110 and reaffirmed as the default structure in EB-2024-0063²¹ (the "OEB Generic CoC Decision"). In that proceeding, the OEB noted that departures from its deemed capital structure may be

²¹ Decision and Order, March 27, 2025

appropriate where a utility demonstrates an increase in business or financial risk. The evidence in this Application demonstrates such an increase and supports the proposed capital structure as the appropriate mechanism for reflecting those risks.

In its Cost of Capital Report provided in Exhibit F-01-01, Appendix 1 (the “Concentric Report”), Concentric found that a reasonable range for Hydro One's equity ratio is 45% to 50%, and within this range recommended 47.5%. Hydro One has proposed an equity ratio at the lower end of the range supported by the evidence, reflecting an appropriate balance between maintaining credit quality and recognizing affordability considerations. Accordingly, Hydro One is not seeking the full increase in equity thickness that is supported by its expert evidence.

Table 21 - Transmission 2028 Cost of Capital Parameters

Particulars	Amount (\$M)	Capital Structure	Cost Rate	Return (\$M)
Long-term debt	13,168.4	68.6%	4.52%	594.6
Short-term debt	768.0	4.0%	2.72%	20.9
Deemed long-term debt (Notional)	(3,376.8)	(17.6%)	4.52%	(152.5)
Total debt	10,559.5	55.0%	4.38%	463.0
Common equity	8,639.6	45.0%	9.11%	787.1
Total rate base	19,199.2	100.0%	6.51%	1,250.1

*Exhibit reference: F-01-03 (page 4a)

Table 22 - Distribution 2028 Cost of Capital Parameters

Particulars	Amount (\$M)	Capital Structure	Cost Rate	Return (\$M)
Long-term debt	8,419.4	58.3%	4.51%	380.1
Short-term debt	577.4	4.0%	2.72%	15.7
Deemed long-term debt (Notional)	(1,057.73)	(7.3%)	4.51%	(47.7)
Total debt	7,939.0	55.0%	4.38%	348.0
Common equity	6,495.6	45.0%	9.11%	591.7
Total rate base	14,434.6	100.00%	6.51%	939.8

*Exhibit reference: F-01-03 (page 3a)

1 **Hydro One's Risk Profile Has Changed**

2 The most significant change in Hydro One's risk since EB-2021-0110 is the scale of its
3 capital investments for Transmission and Distribution. Those investments bring related
4 execution, financing and cost-recovery risks. The IESO forecasts that Ontario electricity
5 demand will grow by about 65% between 2026 and 2050. The Province has advanced
6 new priority transmission projects in addition to the transmission lines already scheduled
7 for completion by 2032. As a result, Construction Work in Progress (CWIP) balances that
8 include Affiliate Transmission Partnership (ATP) projects will reach unprecedented levels.
9 Hydro One develops and finances ATP projects on its own balance sheet until the
10 applicable assets are transferred to partnerships with First Nations. In addition, capital
11 work was deferred from the 2023–2027 period because of limits in the approved capital
12 envelope, which adds further pressure going forward.

13
14 Concentric's conclusion is based on the combined effect of business and financial risk. In
15 particular, Concentric considers the financial risk associated with supporting a significant
16 capital investment plan under a capital structure that places pressure on the Company's
17 credit quality and credit metrics.

18
19 **The Importance of Financial Integrity and Credit Quality**

20 Credit quality is a key determinant of the cost of capital borne by customers. The Credit-
21 Focused Capital Markets Analysis Report, provided in Exhibit F-01-01, Appendix 2 (the
22 “Capital Markets Report”) explains that credit ratings directly influence debt costs and are
23 an important indicator of risk for investors. Rating agencies see authorized return on equity
24 and capital structure as the two most important parts of the revenue requirement. They
25 view the two together as a signal of the regulator's attitude toward capital providers.

26
27 While Hydro One currently maintains strong credit quality, its credit metrics provide limited
28 buffer relative to downgrade thresholds. The Capital Markets Report explains that Hydro
29 One's financial metrics rank near the bottom of S&P's comparable A-rated utilities and its
30 current ratings rely, in part, on rating agency adjustments and assumptions regarding

1 provincial support. Moody's has also identified Hydro One's relatively low authorized
2 equity ratio as a key factor contributing to its weaker financial metrics.

3
4 Ratings are forward-looking. Agencies do not wait for deterioration to occur before
5 downgrading, and ratings are easier to lose than to regain. The Capital Markets Report
6 concludes that adopting the proposed capital structure would help Hydro One and its
7 customers withstand growing risks. It concludes that, without the proposed capital
8 structure, Hydro One would be susceptible to a downgrade.

9 The Concentric Report confirms that, under the existing 40% equity ratio, key credit
10 metrics remain below rating agency downgrade thresholds throughout the rate period. The
11 proposed 45% equity ratio would meaningfully strengthen these metrics and improve
12 Hydro One's ability to maintain credit quality. While Concentric identifies higher equity
13 ratios as further reducing financial risk, Hydro One has proposed the lower end of the
14 recommended range to balance financial integrity with customer affordability. Accordingly,
15 the proposal represents a measured and necessary step to support Hydro One's financial
16 profile and access to capital.

17 18 **Comparability With Peer Group**

19 Hydro One's current 40% equity ratio no longer satisfies the Fair Return Standard,
20 particularly the requirement that returns be comparable to those available for investments
21 of similar risk. Concentric's analysis shows that authorized and actual equity ratios among
22 comparable North American utilities are significantly higher than Hydro One's, with median
23 equity ratios generally ranging from approximately 50% to 53%. Concentric found no basis
24 for a material risk discount relative to these peers.

25
26 Hydro One competes for capital in an integrated North American market and comparable
27 utility capital structures are an important indicator of investor expectations. While Ontario
28 is recognized by credit ratings agencies as a highly credit-supportive jurisdiction,
29 Concentric concludes that regulatory support alone does not fully offset the increased
30 business and financial risks facing utilities.

1 Taken together, the evidence from the Concentric Report and the Capital Markets Report
2 demonstrates that Hydro One's current capital structure provides limited support for
3 maintaining strong credit quality and efficient access to capital. The proposed 45% equity
4 ratio represents a measured response that strengthens financial integrity, supports
5 continued access to capital on reasonable terms, and enables Hydro One to finance the
6 significant investments required to support Ontario's electricity infrastructure needs for the
7 benefit of customers and the province.

8 9 **Long-Term Debt**

10 In line with the proposed capital structure, Hydro One proposes a deemed long-term debt
11 component of 51% of rate base. For each test year, Transmission and Distribution long-
12 term debt rates will be calculated as the weighted average rate on embedded, new and
13 forecast debt. The rates differ between the two businesses because their annual
14 borrowing needs differ. Hydro One will update these rates after the OEB issues its 2028
15 cost of capital parameters. The update will reflect actual 2026 and 2027 issuances and
16 forecast coupons for 2028 to 2032 based on the Consensus Economics forecast, the
17 same method used in prior applications. However, as mentioned above, Hydro One is
18 seeking approval to update the long-term debt rates for Transmission and Distribution for
19 each of the 2028 to 2032 test years due to the large volume of debt forecast to be issued
20 in the rate application period in support of the significant capital buildout required in the
21 Province over this period.

22
23 Consistent with past practice in EB-2021-0110, the weighted average long-term debt rate
24 also applies to any notional debt. Hydro One will continue to access the Canadian bond
25 market and expects to access the US bond market on a consistent basis in the future,
26 given the large scale of debt financing requirements expected during the 2028 to 2032
27 period.

28 29 **HOSM**

30 HOSM proposes to use the OEB's deemed capital structure of 40% equity and 60% debt,
31 consisting of 4% short-term debt and 56% long-term debt. HOSM also proposes to use

OEB's 2026 ROE and the OEB's deemed short-term debt rate as a placeholder, both of which will be updated with the 2028 OEB cost of capital parameters.

HOSSM will update the long-term debt rate for each year of this Application based on actual issuances of debt, which are planned in 2027 and are discussed in Exhibit F-02-02 Section 1.0.

Table 23 - HOSSM 2028 Cost of Capital Parameters

Particulars	Amount (\$M)	Capital Structure	Cost Rate	Return (\$M)
Long-term debt	193.5	51.5%	4.86%	9.4
Short-term debt	15.0	4.0%	2.72%	0.4
Deemed long-term debt (Notional)	17.1	4.5%	4.86%	0.8
Total debt	225.7	60.0%	4.71%	10.6
Common equity	150.4	40.0%	9.11%	13.7
Total Rate Base	376.1	100.00%	6.47%	24.3

*Exhibit reference: F-02-03 (page 2b)

7.4 DEFERRAL AND VARIANCE ACCOUNTS

Hydro One requests approval to dispose of specified regulatory account balances based on audited balances as at December 31, 2025, adjusted for prior OEB-approved dispositions and forecast carrying charges through December 31, 2027. Hydro One intends to update the balances during the proceeding to reflect 2026 audited actuals. Please see Table 24 below and Exhibit G-01-01 for details.

Table 24 - Summary of Regulatory Account Disposition

	Forecast Balance at December 31, 2027 (\$M)	Proposed Disposition Period	Treatment
Hydro One Transmission	295.3	5 years	Credit
HOSSM	4.3	5 years	Credit
Hydro One Distribution – Group 1	209.8	1 year	Credit
Hydro One Distribution – Group 2	14.2	5 years	Credit

1 **7.4.1 REGULATORY ACCOUNTS – TRANSMISSION**

2 Hydro One Transmission requests final disposition to customers of a \$295.3M credit
3 balance, comprised of a \$274.5M credit principal balance and \$20.8M of net credit
4 carrying charges through to December 31, 2027. The credit will be returned to customers
5 over five years, from 2028 to 2032, at approximately \$59.1M annually, before interest
6 improvement during the disposition period. The proposed five-year disposition period
7 aligns with the Custom IR term and helps moderate customer rate impacts.

8
9 As set out in Exhibit G-01-03, Hydro One Transmission also seeks approval to continue
10 13 and discontinue five existing accounts, as well as to modify six existing accounts and
11 establish three targeted new accounts for the 2028 to 2032 rate period. The proposed new
12 accounts and the proposed modifications to existing accounts address defined risks that
13 cannot reasonably be forecast or managed through the revenue requirement:

14
15 **Cyber Security Variance Account (New):** To record revenue requirement impacts
16 associated with material incremental capital and prepaid investments required by new or
17 amended cybersecurity compliance obligations that were not known or reasonably
18 foreseeable when the Application was prepared.

19
20 **Change of Laws Deferral Account (New):** To record material cost and revenue impacts
21 resulting from changes in legal or regulatory requirements that are not reflected in the
22 approved revenue requirement and are not captured by another regulatory account.

23
24 **Digital and Technology Services Operations Variance Account (New):** To record the
25 difference between actual third-party technology contract costs and the funding provided
26 through the Custom IR framework. Eligible costs would include software licences, cloud
27 services, telecommunications, cybersecurity tools and other vendor-supported
28 technologies required to sustain digital operations.

29
30 **Externally Driven Transmission Projects Variance Account (Modified):** To clarify the
31 inclusion criteria for qualifying externally driven work and to expand it to include

1 development work and projects arising from legislation, regulations, codes, licences,
2 government or planning-authority directions, and IESO regional and bulk-system planning.

3
4 **External Secondary Land Use Revenue Variance Account (Modified):** To modify the
5 account to record secondary land-use revenue variances on a net basis by including the
6 incremental cost of sales required to generate and administer the applicable revenues.

7
8 **Transmission Sale of Properties Deferral Account (Modified):** To modify the account
9 to record revenue requirement impacts and after-tax gains or losses related to land and
10 buildings that are sold during the 2028-2032 period, but only where in connection with the
11 purchase of new land and the purchase or construction of new buildings for purposes of
12 consolidating or replacing the land and buildings that are sold.

13
14 **Long-Term Transmission Studies Deferral Account (Modified):** To expand the scope
15 of the account beyond the cost of undertaking transmission planning and studies
16 associated with preliminary consideration of corridor routing for new transmission
17 infrastructure, to also include the costs of undertaking transmission planning and studies
18 related to transmission stations at the request of governmental authorities, to inform
19 studies, reports, plans and other evaluations including but not limited to informing bulk
20 system planning and regional system planning.

21
22 **Earnings Sharing Mechanism (ESM) Deferral Account (Modified):** To modify the
23 account so that amounts for earnings sharing are calculated cumulatively over the five-
24 year Custom IR term using actual rate base, whereby 50% of any cumulative earnings in
25 excess of the approved ROE by more than 100 basis points would be recorded in the
26 account for the benefit of customers.

27
28 **Depreciation Expense, Asset Removal Costs Variance Account (Modified):** To
29 modify the account to operate as a symmetrical cumulative variance account so that both
30 overspending and underspending of actual asset removal costs relative to the approved
31 forecasts are recorded for future disposition.

1 **7.4.2 REGULATORY ACCOUNTS – HOSSM**

2 HOSSM requests final disposition of a \$4.3M credit balance, comprised of a \$3.9M credit
3 principal balance and \$0.4M of credit carrying charges through to December 31, 2027.
4 The balance will be returned to customers over five years, from 2028 to 2032, at \$0.86M
5 annually during the disposition period.

6
7 As set out in Exhibit G-01-04, HOSSM is also seeking to continue three accounts,
8 discontinue two accounts, and modify and establish the following accounts to be effective
9 in 2027, and to continue in 2028 and for the duration of the Custom IR term. The proposed
10 new account and modification are as follows:

11
12 **Externally Driven Transmission Projects Variance Account (New):** To establish an
13 account similar to Hydro One Transmission's Externally Driven Transmission Projects
14 Variance Account, which will be used to record development work and projects arising
15 from legislation, regulations, codes, licences, government or planning-authority directions,
16 and IESO regional and bulk-system planning. HOSSM has limited ability to absorb these
17 costs through reasonable reprioritization without materially deferring other planned
18 investments.

19
20 **ESM Deferral Account (Modified):** To modify the account to calculate earnings sharing
21 cumulatively over the 2027 to 2032 term using actual rate base, whereby 50% of any
22 cumulative earnings in excess of the approved ROE by more than 100 basis points would
23 be returned to customers.

24
25 **7.4.3 REGULATORY ACCOUNTS – DISTRIBUTION**

26 Hydro One Distribution requests final disposition to customers of a \$224.0M credit balance,
27 comprising a \$209.8M credit balance from Group 1 accounts and a \$14.2M credit balance
28 from Group 2 accounts, subject to different disposition periods as follows.

29
30 As set out in Exhibit G-01-05, Hydro One Distribution's Group 1 balance is comprised of
31 a credit balance of \$199.3M in principal and \$10.5M in carrying charges, which will be

1 returned to customers over a one-year period beginning January 1, 2028. The Group 2
2 balance is comprised of a \$1.4M debit principal balance, which is more than offset by a
3 \$15.6M credit balance from carrying charges, resulting in a net credit balance of \$14.2M.
4 This balance will be returned to customers over a five-year period from 2028 to 2032, at
5 \$2.8M annually during the disposition period.

6
7 As detailed in Exhibit G-01-01, Hydro One Distribution's Group 2 accounts include the
8 disposition of three legacy Chapleau Group 2 balances and the proposed closure of the
9 remaining legacy Chapleau²² accounts effective January 1, 2028. Hydro One is not
10 requesting disposition of the Orillia and Peterborough Rate Zones Group 2 balances in
11 this Application. Those balances are expected to be brought forward for disposition in the
12 2030 IRM application before those rate zones are harmonized with Hydro One Distribution
13 in 2031.

14
15 As set out in Exhibit G-01-03, Hydro One Distribution requests approval to continue 22
16 and discontinue 25 existing accounts, as well as to modify four existing accounts and
17 establish four targeted new accounts for the 2028 to 2032 rate period. Like Hydro One
18 Transmission, Hydro One Distribution is requesting new regulatory accounts to manage
19 and address potential risks arising from incremental costs incurred for Cybersecurity,
20 Change of Laws, and Digital and Technology Services Operations that cannot reasonably
21 be forecast or managed through the revenue requirement. Hydro One Distribution is also
22 seeking to modify the Distribution Sale of Properties and ESM accounts consistent with
23 the modifications proposed by Hydro One Transmission to its equivalent accounts. The
24 other new and modified accounts proposed by Hydro One Distribution are:

25
26 **Non-Wires Solutions (NWS) Implementation Cost Variance Account (New):** To
27 address capital and OM&A variances arising when NWS replace planned wires
28 investments, when a planned NWS must revert to a traditional investment, or when new

²² The OEB approved the sale of CPUC's distribution system assets to Hydro One in EB-2023-0328 with the transaction closing on August 1, 2024. Chapleau integrated into Hydro One Distribution rates in 2025.

1 non-wires opportunities emerge. The account would also record incremental OM&A
2 expenditures incurred to implement and operate NWS to offset capital projects, and any
3 Margin on Payments incentives associated with qualifying third-party distributed energy
4 resources.

5
6 **Externally Driven Distribution Projects Variance Account (Modified):** To expand the
7 account scope to include additional externally driven load and DER connections,
8 distribution work required by externally driven Transmission projects, and their associated
9 asset-removal costs. The account would remain symmetrical against the approved capital,
10 in-service addition and asset removal baselines.

11
12 **Designated Broadband Project Impacts Variance Account (Modified):** To convert the
13 existing deferral account to a variance account to record differences between approved
14 forecasts and actual project impacts over the extended provincial broadband
15 implementation period.

16 17 **8.0 CUSTOM IR PROPOSAL**

18 Hydro One's proposed rates framework is an evolved Custom Incentive Rate-setting
19 (Custom IR) framework for determining annual revenue requirement adjustments after the
20 2028 rebasing year, together with broader revenue requirement features addressing cost
21 of capital, earnings sharing, uncertainty and the allocation of risk between Hydro One and
22 its customers. The proposed framework is designed to provide the funding required to
23 deliver safe and reliable service and undertake the investments needed to support
24 electrification, customer connections, economic growth, and system reliability and
25 resilience. The framework also incorporates meaningful productivity incentives,
26 affordability considerations, and customer protections. The development of the framework
27 involved balancing various priorities.

28
29 There is strong need for a Custom IR framework, including taking into account Hydro
30 One's experience during the rate period and forecast business conditions, and that a

1 standard I-X revenue cap index approach would significantly underfund Hydro One's
2 Transmission and Distribution businesses in the 2029-2032 period (by billions of dollars).

3
4 Under the proposal, revenue requirement for 2028 would be established on a cost-of-
5 service basis, with revenue requirements for 2029 to 2032 determined through a Custom
6 Revenue Cap Index (RCI). The proposed methodology is an evolved and updated
7 framework that contains elements of and builds upon the approved framework in Hydro
8 One's prior rate Application (EB-2021-0110). The Custom RCI is expressed as follows:

9
10
$$RCI = I - X + G + IPD_{OM\&A} + C$$

11 Where:

- 12 • **I** is the Inflation Factor, based on the OEB's two factor input-price index;
- 13 • **X** is the Productivity Factor, equal to the sum of Hydro One's base productivity
14 factor informed by Clearspring's Industry Total Factor Productivity study, and
15 Hydro One's Custom Productivity Stretch Factor informed by Clearspring's total
16 cost benchmarking study, but without allowing the X-factor to become negative;
- 17 • **G** is the Growth Factor, based on increasing real (non-inflated) costs driven by
18 growth in the measured outputs applicable to each business - transmission line
19 length and transmission peak demand for Transmission, and increasing customer
20 count and increasing system peak demand for Distribution;
- 21 • **IPD_{OM&A}** is an Input Price Differential capturing the difference between OEB-
22 established Inflation Factors and inflation factors more specific to Hydro One,
23 scaled to reflect the OM&A portion of revenue requirement; and
- 24 • **C** is the Custom Capital Factor, designed to recover incremental revenue each
25 year necessary to support Hydro One's proposed system plans, beyond the
26 amount of revenue recovered through the I – X adjustment, but reduced by a
27 supplemental stretch factor on capital of 0.15%.

28
29 The Tables below summarize the Custom RCI by component that Hydro One
30 Transmission, HOSSM and Hydro One Distribution propose to determine the total revenue
31 requirement for rate-making purposes for 2029 to 2032.

Table 25 - Transmission Custom Revenue Cap Index (%)

Component	2029	2030	2031	2032
Inflation Factor	1.84%	1.84%	1.84%	1.84%
Productivity Factor	0.00%	0.00%	0.00%	0.00%
Growth Factor	0.99%	0.99%	0.99%	0.99%
Input Price Differential scaled to OM&A	0.06%	0.06%	0.06%	0.05%
Capital Factor	4.61%	5.78%	2.75%	5.60%
Custom Revenue Cap Index	7.50%	8.67%	5.64%	8.48%

*Exhibit Reference: A-04-02, Table 2

Table 26 - HOSSM Custom Revenue Cap Index (%)

Component	2029	2030	2031	2032
Inflation Factor	1.84%	1.84%	1.84%	1.84%
Productivity Factor	0.00%	0.00%	0.00%	0.00%
Growth Factor	0.89%	0.89%	0.89%	0.89%
Input Price Differential scaled to OM&A	0.05%	0.05%	0.05%	0.05%
Capital Factor	1.88%	9.05%	-1.23%	1.44%
Custom Revenue Cap Index	4.66%	11.83%	1.55%	4.22%

*Exhibit Reference: A-04-02, Table 6

Table 27 - Distribution Custom Revenue Cap Index (%)

Component	2029	2030	2031	2032
Inflation Factor	1.96%	1.96%	1.96%	1.96%
Productivity Factor	0.29%	0.29%	0.29%	0.29%
Growth Factor	1.17%	1.17%	1.17%	1.17%
Input Price Differential scaled to OM&A	0.09%	0.08%	0.08%	0.07%
Capital Factor	8.33%	5.32%	1.56%	1.18%
Custom Revenue Cap Index	11.26%	8.24%	4.48%	4.10%

*Exhibit Reference: A-04-03, Table 2

- 1 The Distribution framework includes a one-time adjustment in 2031 to incorporate the
- 2 OM&A costs of the former Peterborough and Orillia rate zones when they are integrated
- 3 for rate-making purposes. Thereafter, the combined amount is escalated through the
- 4 Custom RCI. Orillia and Peterborough rate zones' capital related revenue requirement will
- 5 be based on the Distribution rate base which includes the Orillia and Peterborough rate
- 6 base in 2031 and 2032.

1 In respect of productivity incentives, the proposed X-factors and supplemental stretch
2 factor on capital for Hydro One and HOSSM, as described in Exhibit A-04-01, provide an
3 incentive to achieve incremental productivity improvements, in addition to sustained and
4 ongoing productivity savings already embedded in the investment plans as described in
5 SPF Section 1.4. Hydro One and HOSSM bear the risk of achieving these productivity
6 requirements.

7
8 Hydro One and HOSSM also propose additional revenue requirement features to align its
9 interests with those of customers and to provide additional elements of protection for them.
10 These include: an Earnings Sharing Mechanism under which customers receive 50% of
11 cumulative earnings above the approved return on equity plus 100 basis points, while
12 Hydro One and HOSSM bear all downside earnings risk; an equity thickness proposal for
13 Hydro One that is at the lower end of the range recommended by an independent expert
14 (Concentric); and certain deferral and variance accounts to manage material uncertainty
15 that cannot be reasonably forecast or controlled over a five-year rate period.

16
17 The proposed framework evolves the prior approach to reflect the scale, cost, growth, and
18 uncertainty of the 2028 to 2032 period while retaining strong incentives for cost control
19 and continuous improvement.

20 21 **9.0 LOAD FORECASTS**

22 Hydro One's load and customer forecast methodology uses established industry practices
23 and methods, such as econometric and end-use approaches, Conservation and Demand
24 Management (CDM) inputs from the IESO, and weather normalization based on a 31-year
25 average of relevant weather data. The forecast methodology has been used and approved
26 by the OEB in Hydro One's Transmission and Distribution rate applications since 2006.
27 Together with a refined end-use analysis that has been incorporated to account for current
28 and available information, the methodology remains appropriate.

29
30 The load forecasts use the base year (2025) as the starting point, and include consensus
31 information available as of April 2026 for provincial/commercial/industrial GDP, population,

housing starts, and disposable income forecasts over the Application period. The load forecasts also account for changes in electricity usage trends as well as the load impacts of electrification.

Detailed descriptions of the methodologies, assumptions and all of the inputs to the econometric and end-use approaches used for load forecasting are provided in Exhibits D-03-01 (Key Economic and Demographic Assumptions), D-04-01 (Transmission Load Forecast and Methodology) and D-05-01 (Distribution Load Forecast and Methodology).

9.1 TRANSMISSION LOAD FORECAST

The monthly average transmission peak load is projected to grow at an average annual rate of 1.2% over the 2028-2032 period, largely driven by economic and population growth, and electrification, as presented in Table 28 below.

**Table 28 – 2027-2032 Weather-Normal Transmission Load Forecast
(Net of CDM and Embedded Generation)**

Measure	2027	2028	2029	2030	2031	2032
Average Monthly Peak (MW) - OEB Approved	19,392					
Average Monthly Peak (MW) - Forecast	20,658	20,800	20,970	21,251	21,586	21,949
% change over prior year - Forecast		+0.7%	+0.8%	+1.3%	+1.6%	+1.7%

**Exhibit reference: D-04-01 (Table 3a and Section 5.0)*

For Hydro One Transmission, the transmission load forecast was last approved by the OEB in 2022 for the 2023 to 2027 period. Resetting of the current OEB-approved 2027 forecast as proposed in this Application is estimated to contribute to a 9.5% decrease in transmission rates in 2028, while increasing peak demand over the remaining four years of the Application period (2029 to 2032) is expected to result in an average decrease in transmission rates of 1.3% per year, as shown in Section 11.1 (Transmission Bill Impacts) below.

For HOSSM, resetting of the current OEB-approved forecast as proposed in this Application is estimated to contribute to a 7.5% increase in HOSSM's transmission rates in 2028, while increasing peak demand over the remaining four years of the Application period (2029 to 2032) is expected to result in an average decrease in HOSSM's

transmission rates of 1.3% per year, as shown in Section 11.1 (Transmission Bill Impacts) below.

This transmission load forecast is used to derive the charge determinants for the Network, Line Connection and Transformation Connection rate pools for Hydro One Transmission and HOSSM, which are provided in Exhibit H-07-01 (Tables 1 and 2).

9.2 DISTRIBUTION LOAD AND CUSTOMER FORECAST

Distribution sales are projected to grow at an average annual rate of 1.7% over the 2028-2032 period, including a 2.8% increase in 2031 that reflects underlying growth as well as the integration of the Orillia and Peterborough rate zones into Hydro One's forecast. The number of customers is expected to grow at an average rate of 1.4% over the 2028-2032 period, including a 4.4% increase in 2031 that likewise reflects underlying growth as well as the integration of the Orillia and Peterborough rate zones. Aside from growth driven by including the Orillia and Peterborough rate zones in Hydro One's load forecast, the expected load growth over the Application period is driven by economic and population growth, and electrification.

**Table 29 - 2027-2032 Weather-Normal Distribution Load and Customer Forecast
(Net of CDM and Embedded Generation)**

Measure	2027	2028	2029	2030	2031	2032
Sales (GWh) – OEB Approved	33,672					
Sales (GWh) – Forecast	38,723	39,053	39,673	40,279	41,415	42,023
% change over prior year		+0.9%	+1.6%	+1.5%	+2.8%	+1.5%
Customer # (M) – OEB Approved	1.453					
Customer # (M) – Forecast	1.480	1.490	1.501	1.512	1.578	1.589
% change over prior year		+0.7%	+0.7%	+0.7%	+4.4%	+0.7%

*Exhibit reference: D-05-01 (Tables E.6 and E.3)

Hydro One's distribution load forecast was last approved by the OEB in EB-2021-0110 for the 2023 to 2027 period. The number of customers, sales and peak demand are forecast to increase relative to the OEB-approved 2027 forecast, which contributes to lower rates when the distribution forecast is reset in this Application. The impact of the load forecast

1 on individual rate classes depends on the forecast customer count, sales and, for demand-
2 billed rate classes, peak demand for each rate class. The total bill impacts by rate class,
3 including the effects of the load forecast, are shown in Section 11.2 (Distribution Bill
4 Impacts) below.

6 **10.0 COST ALLOCATION AND RATE DESIGN**

7 Hydro One has applied established cost allocation and rate design methodologies,
8 previously approved by the OEB, to translate the proposed Transmission, HOSSM and
9 Distribution rates revenue requirements into rates. The proposals are intended to recover
10 costs from the rate pools or rate classes (as applicable) that cause them, maintain
11 continuity with approved approaches, and implement the integration of the Orillia and
12 Peterborough rate zones into Hydro One's rate structure in 2031 in a fair and transparent
13 manner.

15 **10.1 TRANSMISSION COST ALLOCATION**

16 Hydro One Transmission's rates revenue requirement is allocated among the Network,
17 Line Connection, and Transformation Connection rate pools using the methodology
18 approved by the OEB since 2006 and as described in Exhibits H-01-02 and H-01-03.
19 HOSSM's rates revenue requirement is allocated to the rate pools based on Hydro One
20 Transmission's rates revenue requirement percentages, as previously approved by the
21 OEB. The resulting rates revenue requirements by rate pool, as shown in Exhibit H-05-01,
22 are inputs to the calculation of Uniform Transmission Rates in Exhibit H-06-01. This
23 approach preserves cost causality and consistency across Ontario's transmitters and
24 transmission customers. The rates revenue requirements reflect offsets for external
25 revenues, Export Transmission Service (ETS) revenue, disposition of regulatory accounts
26 and low voltage switchgear credit amounts, as applicable, as detailed in Exhibit H-01-01.
27 As directed by the OEB in EB-2021-0243, Hydro One has also prepared an updated cost
28 allocation study for the ETS rate, as described in Exhibit H-08-01.

10.2 DISTRIBUTION COST ALLOCATION

Hydro One prepared its Distribution cost allocation evidence in accordance with the OEB's filing requirements and the OEB's 2027 cost allocation model. Hydro One has populated two cost allocation models, for the 2028 and 2031 test years. Costs are allocated among rate classes using the approved methodology, with updates for, among other items, forecast customers, loads, costs, and the proposed integration of the former Orillia Power Distribution Corporation (OPDC) and Peterborough Distribution Inc. (PDI) in 2031, as detailed in Exhibits L-01-02 and L-01-03. Where required, Hydro One's proposal seeks to move revenue-to-cost ratios toward the OEB-prescribed ranges while considering bill impacts and avoiding unnecessary rate instability.

10.2.1 HARMONIZATION OF FORMER OPDC AND PDI CUSTOMERS

The customers of the former OPDC and PDI will be harmonized into Hydro One's rate structure effective January 1, 2031. The proposed harmonization plan places these customers in the appropriate Hydro One rate classes and allocates the costs of serving them using the same cost allocation principles applied to legacy Hydro One customers. Exhibits L-01-02, L-01-03 and L-03-01 describe the customer classifications, cost allocation, and resulting benefits for acquired and legacy Hydro One customers.

Former OPDC and PDI residential and general service customers will move to Hydro One's Acquired Urban Residential, Acquired Urban General Service Energy and Acquired Urban General Service Demand rate classes; eligible large use customers will move to the Sub-Transmission (ST) rate class; and Street Lights, Sentinel Lights and Unmetered Scattered Load customers will move to the corresponding Hydro One rate classes. Former OPDC's Standby Power classification will be eliminated.

As detailed in Exhibit L-03-01, the integration will produce total annual benefits of approximately \$12.6M in 2031, such that acquired customers would pay approximately \$6.1M less than under the status quo, while legacy Hydro One customers would benefit by approximately \$6.5M. This is because the \$41.0M in revenues collected from acquired customers is (i) below the status quo revenue requirement of \$47.1M for the former OPDC

1 and PDI, and (ii) greater than Hydro One's estimated \$34.5M incremental cost to serve
2 them. To moderate customer impacts, Hydro One proposes to phase in the revenue-to-
3 cost ratio adjustment for the Acquired Urban Residential rate class over 2031 and 2032,
4 limiting the estimated 2031 total bill increase for former PDI residential customers to no
5 more than 10%.

6 7 **10.3 DISTRIBUTION RATE DESIGN**

8 Hydro One's proposed Distribution rate design in Exhibit L-02-01 implements the cost
9 allocation results and recovers the revenue requirement allocated to each rate class
10 through fixed and variable charges. The proposal maintains established rate design
11 principles, reflects forecast billing determinants, and considers customer bill impacts.

12
13 Hydro One has sought to avoid abrupt or unwarranted changes in rates. Where required,
14 transition or mitigation measures are proposed to manage significant impacts while
15 continuing to move revenue-to-cost ratios toward the OEB-prescribed ranges.

16
17 Residential distribution rates are all-fixed, except for the Low Density Residential (R2) rate
18 class, which will continue to have a small volumetric charge until 2032, consistent with the
19 previously approved bill impact mitigation for former Seasonal customers.

20 21 **10.3.1 SPECIFIC SERVICE CHARGES**

22 In this Application, Hydro One is not requesting any new Specific Service Charges (SSCs)
23 and proposes to maintain SSCs at their current amounts with the exception of pole rental
24 charges for generators and LDCs where Hydro One proposes to update the charges
25 based on the 2025 OEB-approved inflationary adjustment applied to the telecom pole
26 rental rate.

27 28 **11.0 BILL IMPACTS**

29 Customer bill impacts reflect the combined effect of, among other items, the proposed
30 revenue requirements, load and customer forecasts, cost allocation and rate design, and
31 disposition of regulatory account balances.

1 Exhibits H-09-01 and L-06-01 provide the detailed Transmission (including HOSSM) and
2 Distribution bill impacts resulting from approval of the Application, respectively.

3

4 **11.1 TRANSMISSION BILL IMPACTS**

5 Tables 30 and 31 show the estimated average bill impacts of the proposed changes in
6 Hydro One Transmission's rates revenue requirement and load forecast on transmission-
7 and distribution-connected customers over the Application period. Tables 32 and 33 show
8 this view for HOSSM.

Table 30 - Average Rate and Bill Impacts on Transmission Connected Customers
Hydro One Transmission

Hydro One Transmission	2027¹	2028	2029	2030	2031	2032
Revenue Requirement (\$M)	2,363.3	2,726.6	2,931.0	3,185.2	3,364.8	3,650.2
Revenue Requirement Offsets (\$M) ²	-57.5	-134.0	-131.5	-128.4	-127.1	-124.8
Rates Revenue Requirement (\$M)	2,305.8	2,592.6	2,799.5	3,056.8	3,237.8	3,525.5
% Increase in Rates Revenue Requirement over prior year		12.4%	8.0%	9.2%	5.9%	8.9%
% Impact of load forecast change		-9.5%	-0.8%	-1.3%	-1.5%	-1.6%
Net Impact on Average Transmission Rates³		2.6%	6.5%	7.1%	4.0%	6.6%
Transmission as a % of Tx-Connected Customer's Total Bill		12.8%	12.8%	12.8%	12.8%	12.8%
Estimated Average Bill Impact		0.3%	0.8%	0.9%	0.5%	0.8%

¹ The 2027 OEB-approved rates revenue requirement will be established as part of the 2027 Annual Update (EB-2026-0169).

² Adjustments include non-rate revenues, export revenues, disposition of regulatory accounts and funding for the low voltage switchgear credit.

³ The calculation of net impact on transmission rates accounts for Hydro One's revenue disbursement allocation factor of 90.4% as approved for 2026 UTR Revenue Requirement (EB-2025-0232 issued on January 15, 2026).

Table 31 - Average Rate and Bill Impacts on Typical Distribution Connected Customers Hydro One Transmission

Total Monthly Bill Impact from Transmission Rates	Impacts	2028	2029	2030	2031	2032	5-year Average
R1 Residential (750 kWh)	\$	\$0.50	\$1.28	\$1.49	\$0.89	\$1.53	\$1.14
	%	0.3%	0.9%	1.0%	0.6%	1.0%	0.8%
GSe (2,000 kWh)	\$	\$1.12	\$2.84	\$3.32	\$1.98	\$3.41	\$2.54
	%	0.2%	0.6%	0.7%	0.4%	0.7%	0.5%

*Exhibit reference (Tables 30, 31): H-09-01, (Tables 2, 4 and 6)

1 The impact on transmission rates of Hydro One's proposals in this Application is estimated
2 to be an increase of 2.6% in 2028, resulting in an average annual increase of 5.4% over
3 the Application period. This translates into average bill impacts on transmission-connected
4 customers of 0.3% in 2028 and 0.7% on average over the Application period. For
5 distribution-connected customers, the monthly bill impact in 2028 is estimated at 0.3% or
6 \$0.50 for a typical R1 residential customer consuming 750 kWh and 0.2% or \$1.12 for a
7 typical GSe customer consuming 2,000 kWh, with average annual impacts of 0.8% and
8 0.5%, respectively, over the Application period.

Table 32 - Average Rate and Bill Impacts on Transmission Connected Customers HOSSM

HOSSM	2027 ¹	2028	2029	2030	2031	2032
Revenue Requirement (\$M)	49.2	50.0	52.3	58.5	59.4	61.9
Revenue Requirement Offsets (\$M) ²	0.0	-0.9	-0.9	-0.9	-0.9	-0.9
Rates Revenue Requirement (\$M)	49.2	49.1	51.4	57.6	58.5	61.0
% Increase in Rates Revenue Requirement over prior year		-0.3%	4.7%	12.0%	1.6%	4.3%
% Impact of load forecast change		7.5%	-0.8%	-1.3%	-1.5%	-1.6%
Net Impact on Average Transmission Rates³		0.1%	0.1%	0.2%	0.0%	0.0%
Transmission as a % of Tx-Connected Customer's Total Bill		12.8%	12.8%	12.8%	12.8%	12.8%
Estimated Average Bill Impact		0.02%	0.01%	0.03%	0.00%	0.01%

¹ OEB approved the use of 2026 base revenue requirement for 2027 on an interim basis (EB-2026-170).

² Adjustments include disposition of regulatory accounts.

³ The calculation of net impact on transmission rates accounts for HOSSM's revenue disbursement allocation factor of 1.9% as approved for 2026 UTR Revenue Requirement (EB-2025-0232 issued on January 15, 2026).

Table 33 - Average Rate and Bill Impacts on Typical Distribution Connected Customers HOSSM

Total Monthly Bill Impact from HOSSM Rates	Impacts	2028	2029	2030	2031	2032	5-year Average
R1 Residential (750 kWh)	\$	\$0.02	\$0.01	\$0.04	\$0.00	\$0.01	\$0.02
	%	0.02%	0.01%	0.02%	0.00%	0.01%	0.01%
GSe (2,000 kWh)	\$	\$0.05	\$0.03	\$0.08	\$0.00	\$0.02	\$0.04
	%	0.01%	0.01%	0.02%	0.00%	0.00%	0.01%

**Exhibit reference (Tables 32, 33): H-09-01, (Tables 3, 5 and 7)*

The impact on transmission rates of HOSSM's proposals in this Application is estimated to be an increase of 0.1% in 2028 and 0.1% on average over the Application period. This translates into average bill impacts on transmission-connected customers of 0.02% in 2028 and 0.01% on average over the Application period. For distribution-connected customers, the monthly bill impact in 2028 is estimated at 0.02% or \$0.02 for a typical R1 residential customer consuming 750 kWh and 0.01% or \$0.05 for a typical GSe customer consuming 2,000 kWh, with average annual impacts of 0.01% for each over the Application period.

11.2 DISTRIBUTION BILL IMPACTS

Distribution bill impacts vary by rate class because they reflect each rate class's allocated costs, rate design, forecast consumption or demand, and any applicable rate riders and bill impact mitigation. Table 34 summarizes the 2028 to 2032 total bill impacts for customers at typical or average consumption levels in all rate classes resulting from Hydro One's Distribution-related proposals in this Application. Bill impacts across a range of consumption levels are provided in Exhibit L-06-01, Attachments 1 to 5.

For a typical R1 residential customer consuming 750 kWh per month, the estimated total monthly bill impact in 2028 is a decrease of 2.1% or \$3.31 with DRP, with an average annual decrease of 0.1% or \$0.10 over the Application period. For a typical GSe customer consuming 2,000 kWh per month, the estimated total monthly bill impact in 2028 is an

- 1 increase of 7.2% or \$34.63, with an average annual increase of 3.9% or \$20.00 over the
- 2 Application period.

Table 34 - 2028-2032 Total Bill Impacts for Distribution Customers

Rate Class	2028		2029		2030		2031		2032		Average	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
UR	\$6.68	4.4%	\$8.48	5.3%	\$4.13	2.5%	\$1.66	1.0%	\$2.03	1.2%	\$4.60	2.9%
R1 (with DRP) ¹	(\$3.31)	-2.1%	\$3.22	2.1%	\$0.00	0.0%	(\$0.43)	-0.3%	\$0.00	0.0%	(\$0.10)	-0.1%
R2 (with DRP) ¹	(\$3.48)	-2.2%	\$3.22	2.1%	\$0.00	0.0%	(\$0.37)	-0.2%	\$0.00	0.0%	(\$0.13)	-0.1%
Seasonal-R2 ²	\$15.51	9.9%	\$23.11	13.4%	\$25.89	13.3%	\$28.62	13.0%	\$35.77	14.3%	\$25.78	12.8%
GSe	\$34.63	7.2%	\$32.17	6.2%	\$18.26	3.3%	\$6.97	1.2%	\$7.96	1.4%	\$20.00	3.9%
UGe	\$13.72	3.5%	\$21.32	5.3%	\$9.95	2.3%	\$3.93	0.9%	\$4.73	1.1%	\$10.73	2.6%
GSd	\$252.77	2.8%	\$842.06	9.2%	\$280.01	2.8%	\$61.95	0.6%	\$83.81	0.8%	\$304.12	3.3%
UGd	(\$98.01)	-0.9%	\$965.50	8.9%	\$191.32	1.6%	\$88.32	0.7%	\$94.00	0.8%	\$248.23	2.2%
St Lgt	\$25.49	9.4%	\$20.69	7.0%	\$12.78	4.0%	\$6.94	2.1%	\$6.33	1.9%	\$14.45	4.9%
Sen Lgt ²	\$2.51	14.5%	\$1.64	8.3%	\$1.15	5.4%	\$0.14	0.6%	\$0.55	2.4%	\$1.20	6.2%
USL	\$4.18	3.5%	\$8.32	6.7%	\$4.87	3.7%	(\$2.26)	-1.6%	\$1.83	1.4%	\$3.39	2.7%
DGen ²	\$73.24	10.6%	\$73.81	9.7%	\$40.78	4.9%	\$15.69	1.8%	\$20.04	2.2%	\$44.71	5.8%
ST	(\$12,693.39)	-6.0%	\$16,900.84	8.5%	\$8,205.21	3.9%	\$164.83	0.1%	\$339.24	0.2%	\$2,583.34	1.3%
AUR	\$4.83	3.3%	\$7.64	5.1%	\$3.42	2.2%	(\$16.51)	-10.2%	\$6.68	4.6%	\$1.21	1.0%
AUGe	\$11.72	3.4%	\$16.66	4.7%	\$6.09	1.6%	(\$18.91)	-4.9%	\$2.46	0.7%	\$3.60	1.1%
AUGd	(\$485.24)	-5.2%	\$781.91	8.9%	\$65.13	0.7%	\$203.66	2.1%	\$35.41	0.4%	\$120.17	1.4%
AR	\$6.63	4.3%	\$8.50	5.3%	\$4.14	2.5%	\$1.88	1.1%	\$2.03	1.2%	\$4.64	2.9%
AGSe	\$8.72	2.3%	\$18.44	4.8%	\$7.70	1.9%	\$3.58	0.9%	\$3.76	0.9%	\$8.44	2.2%
AGSd	(\$190.05)	-1.7%	\$1,006.56	8.9%	\$110.34	0.9%	\$105.68	0.8%	\$56.41	0.4%	\$217.79	1.9%

1

2

Rate Class	2028		2029		2030		2031		2032		Average	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Former OPDC Customers to Hydro One Rate Classes³												
AUR-OPDC	-	-	-	-	-	-	\$8.17	6.0%	\$6.68	4.6%	\$7.42	5.3%
AUGe-OPDC	-	-	-	-	-	-	\$7.21	2.0%	\$2.46	0.7%	\$4.84	1.3%
AUGd-OPDC	-	-	-	-	-	-	(\$32.72)	-0.3%	\$37.03	0.3%	\$2.15	0.0%
St Lgt-OPDC	-	-	-	-	-	-	(\$22,487.78)	-69.4%	\$176.76	1.8%	(\$11,155.51)	-33.8%
USL-OPDC ²	-	-	-	-	-	-	\$52.45	70.1%	\$1.79	1.4%	\$27.12	35.8%
Former PDI Customers to Hydro One Rate Classes³												
AUR-PDI	-	-	-	-	-	-	\$12.73	9.6%	\$6.68	4.6%	\$9.71	7.1%
AUGe-PDI	-	-	-	-	-	-	\$26.23	7.8%	\$2.46	0.7%	\$14.34	4.2%
AUGd-PDI	-	-	-	-	-	-	(\$54.70)	-0.6%	\$32.71	0.3%	(\$11.00)	-0.1%
St Lgt-PDI	-	-	-	-	-	-	\$4,411.76	5.0%	\$1,641.95	1.8%	\$3,026.86	3.4%
Sen Lgt-PDI ²	-	-	-	-	-	-	\$35.10	95.5%	\$1.64	2.3%	\$18.37	48.9%
USL-PDI ²	-	-	-	-	-	-	\$54.77	57.4%	\$1.90	1.3%	\$28.34	29.3%

*Exhibit reference: L-06-01, (Tables 1 to 5)

¹ R1 (with DRP) and R2 (with DRP) impacts assume the Distribution Rate Protection (DRP) cap remains at its estimated July 1, 2027 level over the 2028 to 2032 period.

² Rate classes with total bill impacts above 10% at typical or average consumption levels, and Hydro One's proposed approach to mitigation, are discussed in Exhibit L-06-01, Section 2.

³ Former OPDC and PDI customers are harmonized into Hydro One's rate structure effective January 1, 2031; their 2028 to 2030 rates are set under the deferred rebasing period and are not part of this Application.

1 **12.0 CONCLUSION**

2 The Application presents a balanced and evidence-based plan to address Ontario's
3 evolving electricity needs by enabling growth, supporting electrification, renewing aging
4 infrastructure, and maintaining reliability and resilience. The proposed investments reflect
5 deliberate choices regarding scope, timing, productivity, and affordability, informed by
6 extensive planning, independent analysis, benchmarking, and customer engagement.
7 Approval of the Application would provide the funding framework needed to meet future
8 demand, manage growing asset and system risks, and deliver long-term value for
9 customers.