The Consolidated Financial Statements, Management's Discussion and Analysis (MD&A) and related financial information have been prepared by the management of Hydro One Inc. (Hydro One or the Company). Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles and applicable securities legislation. The MD&A has been prepared in accordance with National Instrument 51-102.

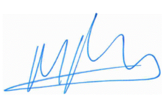
The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected.

Management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over financial reporting as described in the annual MD&A. Management evaluated the effectiveness of the design and operation of disclosure controls and procedures and internal control over financial reporting based on the framework and criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective at a reasonable level of assurance as of December 31, 2021. As required, the results of that evaluation were reported to the Audit Committee of the Hydro One Board of Directors and the external auditors.

The Consolidated Financial Statements have been audited by KPMG LLP, independent external auditors appointed by the shareholders of the Company. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in all material respects in conformity with United States Generally Accepted Accounting Principles. The Report of Independent Registered Public Accounting Firm outlines the scope of their examination and their opinion.

The Hydro One Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control over financial reporting and disclosure. The Audit Committee of Hydro One met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility with respect to the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit findings.

On behalf of Hydro One's management:



Mark Poweska
President and Chief Executive Officer

Christopher Lopez
Chief Financial Officer

To the Shareholder and Board of Directors of Hydro One Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Hydro One Inc. (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the years in the two-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of regulatory assets and liabilities and the impact of rate regulation on the consolidated financial statements

As discussed in Note 2 to the consolidated financial statements, the Company accounts for its regulated operations in accordance with Financial Accounting Standards Board Accounting Standard Codification Topic 980, Regulated Operations (ASC 980). Under ASC 980, the actions of the Company's regulator may result in the recognition of revenue and costs in time periods that are different than non-rate-regulated enterprises. When this occurs, the Company records incurred and allowed costs that it has assessed are probable of recovery in future electricity rates as regulatory assets or property, plant and equipment. Obligations imposed or probable to be imposed by the regulator to refund previously collected revenue or expenditure of revenue collected from customers on future costs are recorded as regulatory liabilities. As disclosed in Note 13 to the consolidated financial statements, as of December 31, 2021, the Company's regulatory assets were $3,787 million and regulatory liabilities were $372 million.

We identified the evaluation of regulatory assets and liabilities and the impact of rate regulation as a critical audit matter. Accounting for regulated operations under ASC 980 affects multiple financial statement accounts and disclosures in the Company's consolidated financial statements. Assessing the accounting for regulated operations requires industry knowledge and significant auditor judgment due to interpretations of regulatory decisions and judgments involved in evaluating the Company's assessment of the probability associated with recovery of regulatory assets and property, plant and equipment, and imposition of regulatory liabilities.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's regulatory accounting process. This included controls over the evaluation of the probability of (1) the recovery in future rates of costs deferred as regulatory assets, and (2) a refund of previously collected revenue or expenditure of revenue collected from customers on future costs that should be reported as regulatory liabilities, and controls over the monitoring and evaluation of regulatory developments that may affect the probability of recovering costs in future rates or imposing of regulatory liabilities. We evaluated the Company's assessment of the probability of recovery of the carrying amount of regulatory assets and property, plant and equipment and the imposition of regulatory liabilities, through consideration of selected on-going regulatory proceedings and decisions. For a selection of regulatory proceedings and decisions, we read the Company's assessment and interpretations and any written advice of management's external specialists with respect to the selected assessments and interpretations. For a selection of regulatory assets and liabilities, we recalculated the amounts recorded based on methodologies approved by the regulator and agreed the data used in the calculations to the Company's underlying books and records. We compared the amounts calculated by the Company to the amounts recorded in the consolidated financial statements.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

We have served as the Company's auditor since 2008.

Toronto, Canada

February 24, 2022

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2021 and 2020

Year ended December 31 *(millions of Canadian dollars, except per share amounts)*	**2021**	**2020**
Revenues		
Distribution (includes $286 related party revenues; 2020 - $283) *(Note 29)*	5,359	5,507
Transmission (includes $1,835 related party revenues; 2020 - $1,721) *(Note 29)*	1,826	1,743
	7,185	7,250
Costs		
Purchased power (includes $2,252 related party costs; 2020 - $2,513) *(Note 29)*	3,579	3,854
Operation, maintenance and administration *(Note 29)*	1,081	1,034
Depreciation, amortization and asset removal costs *(Note 5)*	913	876
	5,573	5,764
Income before financing charges and income tax expense	**1,612**	**1,486**
Financing charges *(Note 6)*	453	469
Income before income tax expense	**1,159**	**1,017**
Income tax expense (recovery) *(Note 7)*	179	(783)
Net income	**980**	**1,800**
Other comprehensive income (loss) *(Note 8)*	16	(24)
Comprehensive income	**996**	**1,776**
Net income attributable to:		
Noncontrolling interest *(Note 28)*	8	8
Common shareholder	972	1,792
	980	**1,800**
Comprehensive income attributable to:		
Noncontrolling interest *(Note 28)*	8	8
Common shareholder	988	1,768
	996	**1,776**
Earnings per common share *(Note 26)*		
Basic	$6,834	$12,599
Diluted	$6,834	$12,599

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS
At December 31, 2021 and 2020

As at December 31 *(millions of Canadian dollars)*	**2021**	**2020**
Assets		
Current assets:		
Cash and cash equivalents	499	712
Accounts receivable *(Note 9)*	697	719
Due from related parties *(Note 29)*	399	422
Other current assets *(Note 10)*	301	181
	1,896	2,034
Property, plant and equipment *(Note 11)*	23,748	22,548
Other long-term assets:		
Regulatory assets *(Note 13)*	3,561	4,571
Deferred income tax assets *(Note 7)*	10	16
Intangible assets *(Note 12)*	567	512
Goodwill *(Note 4)*	373	373
Other assets *(Note 14)*	66	79
	4,577	5,551
Total assets	**30,221**	**30,133**
Liabilities		
Current liabilities:		
Short-term notes payable *(Note 17)*	1,045	800
Long-term debt payable within one year (includes $nil measured at fair value; 2020 - $303) *(Notes 17, 18)*	603	806
Accounts payable and other current liabilities *(Note 15)*	1,042	1,026
Due to related parties *(Note 29)*	255	328
	2,945	2,960
Long-term liabilities:		
Long-term debt *(Notes 17, 18)*	12,593	12,302
Regulatory liabilities *(Note 13)*	362	231
Deferred income tax liabilities *(Note 7)*	367	56
Other long-term liabilities *(Note 16)*	2,694	3,686
	16,016	16,275
Total liabilities	**18,961**	**19,235**
Contingencies and Commitments (Notes 31, 32)		
Subsequent Events (Note 34)		
Noncontrolling interest subject to redemption *(Note 28)*	20	22
Equity		
Common shares *(Note 24)*	2,957	2,957
Retained earnings	8,229	7,877
Accumulated other comprehensive loss	(14)	(30)
Hydro One shareholder's equity	11,172	10,804
Noncontrolling interest *(Note 28)*	68	72
Total equity	**11,240**	**10,876**
	30,221	**30,133**

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:

Timothy Hodgson
Chair

Russel Robertson
Chair, Audit Committee

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2021 and 2020

Year ended December 31, 2021 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Hydro One Shareholder's Equity**	**Non-controlling Interest (Note 28)**	**Total Equity**
January 1, 2021	2,957	7,877	(30)	10,804	72	10,876
Net income	—	972	—	972	6	978
Other comprehensive income *(Note 8)*	—	—	16	16	—	16
Distributions to noncontrolling interest	—	—	—	—	(10)	(10)
Dividends on common shares	—	(620)	—	(620)	—	(620)
December 31, 2021	**2,957**	**8,229**	**(14)**	**11,172**	**68**	**11,240**

Year ended December 31, 2020 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Hydro One Shareholder's Equity**	**Non-controlling Interest (Note 28)**	**Total Equity**
January 1, 2020	3,564	6,086	(6)	9,644	59	9,703
Net income	—	1,792	—	1,792	6	1,798
Other comprehensive loss *(Note 8)*	—	—	(24)	(24)	—	(24)
Distributions to noncontrolling interest	—	—	—	—	(2)	(2)
Contributions from sale of noncontrolling interest *(Note 4)*	—	—	—	—	9	9
Dividends on common shares	—	(1)	—	(1)	—	(1)
Return of stated capital *(Note 24)*	(607)	—	—	(607)	—	(607)
December 31, 2020	**2,957**	**7,877**	**(30)**	**10,804**	**72**	**10,876**

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2021 and 2020

Year ended December 31 *(millions of Canadian dollars)*	**2021**	**2020**
Operating activities		
Net income	980	1,800
Environmental expenditures	(30)	(23)
Adjustments for non-cash items:		
Depreciation and amortization *(Note 5)*	806	775
Regulatory assets and liabilities	70	68
Deferred income tax expense (recovery)	155	(821)
Other	58	39
Changes in non-cash balances related to operations *(Note 30)*	69	159
Net cash from operating activities	**2,108**	**1,997**
Financing activities		
Long-term debt issued	900	2,300
Long-term debt repaid	(804)	(653)
Short-term notes issued	4,150	4,070
Short-term notes repaid	(3,905)	(4,413)
Short-term debt repaid *(Note 4)*	—	(20)
Return of stated capital	—	(607)
Dividends paid	(620)	(1)
Distributions paid to noncontrolling interest	(8)	(2)
Contributions received from sale of noncontrolling interest *(Note 4)*	—	9
Costs to obtain financing	(7)	(12)
Net cash from (used in) financing activities	**(294)**	**671**
Investing activities		
Capital expenditures *(Note 30)*		
Property, plant and equipment	(1,908)	(1,709)
Intangible assets	(142)	(126)
Capital contributions received *(Note 30)*	14	—
Acquisitions *(Note 4)*	—	(126)
Other	9	(2)
Net cash used in investing activities	**(2,027)**	**(1,963)**
Net change in cash and cash equivalents	(213)	705
Cash and cash equivalents, beginning of year	712	7
Cash and cash equivalents, end of year	**499**	**712**

See accompanying notes to Consolidated Financial Statements.

1. DESCRIPTION OF THE BUSINESS

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

Rate Setting

The Company's transmission business consists of the transmission system operated by its subsidiaries, Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON), and an approximately 55% interest in Niagara Reinforcement Limited Partnership (NRLP), a limited partnership between Hydro One and Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation (collectively, the First Nations Partners).

Hydro One's distribution business consists of the distribution system operated by its subsidiaries, Hydro One Networks, inclusive of the distribution system of Orillia Power Distribution Corporation (Orillia Power) and the business and distribution assets of Peterborough Distribution Inc., (Peterborough Distribution) and Hydro One Remote Communities Inc. (Hydro One Remote Communities).

Transmission

On March 7, 2019, the Ontario Energy Board (OEB) issued its reconsideration decision (DTA Decision) with respect to Hydro One's rate-setting treatment of the benefits of the deferred tax asset (DTA) resulting from the transition from the payments in lieu of tax regime to tax payments under the federal and provincial tax regimes. On July 16, 2020, the Ontario Divisional Court rendered its decision (ODC Decision) on the Company's appeal of the OEB's DTA Decision. On April 8, 2021, the OEB rendered its decision and order regarding the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period (DTA Implementation Decision). See Note 13 - Regulatory Assets and Liabilities for additional details.

On April 23, 2020, the OEB rendered its decision on Hydro One Networks' 2020-2022 transmission rate application (2020-2022 Transmission Decision). On July 16, 2020, the OEB issued its final rate order for the 2020-2022 transmission rates approving a revenue requirement of $1,630 million, $1,701 million and $1,772 million for 2020, 2021 and 2022, respectively. On July 30, 2020, the OEB issued its decision for Uniform Transmission Rates (UTRs). The 2020 UTRs that were put in place on an interim basis on January 1, 2020 continued for the remainder of 2020 in light of the COVID-19 pandemic. On December 17, 2020, the OEB issued its decision and order setting the final 2021 UTRs effective January 1, 2021, which included the approval of a two-year disposition period for Hydro One Network's 2020 foregone revenue including interest, beginning on January 1, 2021.

On July 31, 2019, B2M LP filed a transmission rate application for 2020-2024. On January 16, 2020, the OEB approved the 2020 base revenue requirement of $33 million, and a revenue cap escalator index for 2021 to 2024.

On October 25, 2019, NRLP filed its revenue cap incentive rate application for 2020-2024. On December 19, 2019, the OEB approved NRLP's proposed 2020 revenue requirement of $9 million on an interim basis effective January 1, 2020. On April 9, 2020, final OEB approval was received.

HOSSM is under a 10-year deferred rebasing period for years 2017-2026, as approved in the OEB Mergers Acquisitions Amalgamations and Divestitures (MAAD) decision dated October 13, 2016.

Distribution

In March 2017, Hydro One Networks filed an application with the OEB for 2018-2022 distribution rates. On March 7, 2019, the OEB rendered its decision on the distribution rates application. In accordance with the OEB decision, the Company filed its draft rate order reflecting updated revenue requirements of $1,459 million for 2018, $1,498 million for 2019, $1,532 million for 2020, $1,578 million for 2021, and $1,624 million for 2022. On June 11, 2019, the OEB approved the rate order confirming these updated revenue requirements.

On April 16, 2020, the OEB approved a 2% increase to Hydro One Remote Communities' 2019 base rates for new rates effective May 1, 2020, with a deferred implementation date of November 1, 2020 due to COVID-19. On October 8, 2020, the OEB authorized Hydro One Remote Communities to implement a rate rider for the recovery of foregone revenues resulting from postponing rate implementation, effective until April 30, 2021. On November 3, 2020, Hydro One Remote Communities filed an application with the OEB seeking approval for a 2% increase to 2020 base rates, effective May 1, 2021, which was subsequently updated to 2.2% in accordance with the OEB's 2021 inflation parameters for electricity distributors issued on November 9, 2020. On March 25, 2021, the OEB approved Hydro One Remote Communities' application for rates and other charges to be effective May 1, 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Presentation

These Consolidated Financial Statements (Consolidated Financial Statements) include the accounts of the Company and its subsidiaries. Inter-company transactions and balances have been eliminated.

Basis of Accounting

These Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) and in Canadian dollars.

Use of Management Estimates

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

Since late March 2020, the impact of the COVID-19 pandemic (COVID-19 or the pandemic) has been reflected in the Consolidated Financial Statements. The Company has analyzed the impact of the pandemic on its estimates and assumptions that affect its financial results as at and for the year ended December 31, 2021 and has determined that there was no material impact. Additional details regarding the impact of the pandemic on the Consolidated Financial Statements are available in Note 9 - Accounts Receivable and Note 13 - Regulatory Assets and Liabilities.

As the duration of the pandemic remains uncertain, the Company continues to assess its impact to the Company's financial results and operations.

Regulatory Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less.

Revenue Recognition

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

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. At the end of each month, electricity delivered to customers since the date of the last billed meter reading is estimated, and the corresponding unbilled revenue is recorded. The unbilled revenue estimate is affected by energy consumption, weather, and changes in the composition of customer classes.

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

Accounts Receivable and Allowance for Doubtful Accounts

Billed accounts receivable are recorded at the invoiced amount, net of allowance for doubtful accounts. Unbilled accounts receivable are recorded at their estimated value, net of allowance for doubtful accounts. Overdue amounts related to regulated billings bear interest at OEB-approved rates. The allowance for doubtful accounts reflects the Company’s current lifetime expected credit losses (CECL) for all accounts receivable balances. The Company estimates the CECL by applying internally developed loss rates to all outstanding receivable balances by aging category. Loss rates applied to the accounts receivable balances are based on historical overdue balances, customer payments and write-offs, which may be further supplemented from time to time to reflect management's best estimate of the loss. Accounts receivable are written-off against the allowance when they are deemed uncollectible. The allowance for doubtful accounts is affected by changes in volume, prices and economic conditions.

Noncontrolling interest

Noncontrolling interest represents the portion of equity ownership in subsidiaries that is not attributable to shareholders of Hydro One. Noncontrolling interest is initially recorded at fair value and subsequently the amount is adjusted for the proportionate share of net income and other comprehensive income (OCI) or other comprehensive loss (OCL) attributable to the noncontrolling interest and any dividends or distributions paid to the noncontrolling interest.

If a transaction results in the acquisition of all, or part, of a noncontrolling interest in a subsidiary, the acquisition of the noncontrolling interest is accounted for as an equity transaction. No gain or loss is recognized in consolidated net income or comprehensive income as a result of changes in the noncontrolling interest, unless a change results in the loss of control by the Company.

Income Taxes

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

Deferred Income Taxes

Deferred income tax assets and liabilities are recognized on all temporary differences between the tax bases and carrying amounts of assets and liabilities, including the carry forward unused tax credits and tax losses to the extent that it is more-likely-than-not that these deductions, credits, and losses can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted as at the balance sheet date.

Deferred income taxes associated with its regulated operations which are considered to be more-likely-than-not to be recoverable or refunded in the future regulated rates charged to customers are recognized as deferred income tax regulatory assets and liabilities with an offset to deferred income tax expense.

Investment tax credits are recorded as a reduction of the related expenses or income tax expense in the current or future period to the extent it is more likely than not that the credits can be utilized.

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

Materials and Supplies

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

Property, Plant and Equipment

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

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

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

Transmission

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

Distribution

Distribution assets include assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

Communication

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

Administration and Service

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

Easements

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

Intangible Assets

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

Capitalized Financing Costs

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

Construction and Development in Progress

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

Depreciation and Amortization

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

The Company periodically initiates an external independent review of its property, plant and equipment and intangible asset depreciation and amortization rates, as required by the OEB. Any changes arising from OEB approval of such a review are implemented on a remaining service life basis, consistent with their inclusion in electricity rates. The most recent reviews resulted in changes to rates effective January 1, 2015 and January 1, 2020 for Hydro One Networks' distribution and transmission businesses, respectively. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average	Rate	
	Service Life	Range	Average
Property, plant and equipment:			
Transmission	55 years	1% - 3%	2 %
Distribution	47 years	1% - 7%	2 %
Communication	16 years	1% - 15%	4 %
Administration and service	24 years	1% - 20%	4 %
Intangible assets	10 years	10%	7 %

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

Acquisitions and Goodwill

The Company accounts for business acquisitions using the acquisition method of accounting and, accordingly, the assets and liabilities of the acquired entities are primarily measured at their estimated fair value at the date of acquisition. Costs associated with pending acquisitions are expensed as incurred. Goodwill represents the cost of acquired companies that is in excess of the fair value of the net identifiable assets acquired at the acquisition date. Goodwill is not included in rate base.

Goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require. The Company performs a qualitative assessment to determine whether it is more likely than not that the fair value of the applicable reporting unit is less than its carrying amount. If the Company determines, as a result of its qualitative assessment, that it is not more likely than not that the fair value of the applicable reporting unit is less than its carrying value, no further testing is required. If the Company determines, as a result of its qualitative assessment, that it is more likely than not that the fair value of the applicable reporting unit is less than its carrying amount, a quantitative goodwill impairment assessment is performed. The quantitative assessment compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and as a charge to results of operations.

Based on the assessment performed as at September 30, 2021 and with no significant events since, the Company has concluded that goodwill was not impaired at December 31, 2021.

Long-Lived Asset Impairment

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

Within its regulated business, the carrying costs of most of Hydro One's long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable.

Management assesses the fair value of such long-lived assets using commonly accepted techniques. Techniques used to determine fair value include, but are not limited to, the use of recent third-party comparable sales for reference and internally developed discounted cash flow analysis. Significant changes in market conditions, changes to the condition of an asset, or a change in management's intent to utilize the asset are generally viewed by management as triggering events to reassess the cash flows related to these long-lived assets. As at December 31, 2021 and 2020, no asset impairment had been recorded.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Company defers the external transaction costs related to obtaining financing and presents such amounts net of related debt on the consolidated balance sheets. Deferred issuance costs are amortized over the contractual life of the related debt on an effective-interest basis and the amortization is included within financing charges in the consolidated statements of operations and comprehensive income. Transaction costs for items classified as held-for-trading are expensed immediately.

Comprehensive Income / Loss

Comprehensive income/loss is comprised of net income/loss and OCI/OCL. Hydro One presents net income/loss and OCI/OCL in a single continuous consolidated statement of operations and comprehensive income/loss.

Financial Assets and Liabilities

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

The Company determines the classification of its financial assets and liabilities at the date of initial recognition. The Company designates certain of its financial assets and liabilities to be held at fair value, when it is consistent with the Company's risk management policy disclosed in Note 18 - Fair Value of Financial Instruments and Risk Management.

Derivative Instruments and Hedge Accounting

The Company closely monitors the risks associated with changes in interest rates on its operations and, where appropriate, uses various instruments to hedge these risks. Certain of these derivative instruments qualify for hedge accounting and are designated as accounting hedges, while others either do not qualify as hedges or have not been designated as hedges (hereinafter referred to as undesignated contracts) as they are part of economic hedging relationships.

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

For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, any unrealized gain or loss, net of tax, is recorded as a component of accumulated OCI (AOCI). Amounts in AOCI are reclassified to results of operations in the same period or periods during which the hedged transaction affects results of operations and presented in the same line item as the earnings effect of the hedged item. Any gains or losses on the derivative instrument that represent hedge components excluded from the assessment of effectiveness are recognized in the same line item of the consolidated statements of operations as the hedged item. For fair value hedges, changes in fair value of both the derivative instrument and the underlying hedged exposure are recognized in the consolidated statements of operations and comprehensive income in the current period. The gain or loss on the derivative instrument is included in the same line item as the offsetting gain or loss on the hedged item in the consolidated statements of operations and comprehensive income. The changes in fair value of the undesignated derivative instruments are reflected in results of operations.

Embedded derivative instruments are separated from their host contracts and are carried at fair value on the consolidated balance sheets when: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) the hybrid instrument is not measured at fair value, with changes in fair value recognized in results of operations each period; and (c) the embedded derivative itself meets the definition of a derivative. The Company does not engage in derivative trading or speculative activities and had no embedded derivatives that required bifurcation at December 31, 2021 or 2020.

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

Employee Future Benefits

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

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

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

<u>Defined Benefit Pension</u>

Defined benefit pension costs are recorded on an accrual basis for financial reporting purposes. Pension costs are actuarially determined using the projected benefit method prorated on service and are based on assumptions that reflect management’s best estimate of the effect of future events, including future compensation increases. Past service costs from plan amendments and all actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service period of active employees in the plan, or over the estimated remaining life expectancy of inactive employees in the plan. Pension plan assets, consisting primarily of listed equity securities, marketable and private debt, corporate and government debt securities as well as unlisted real estate and unlisted infrastructure investments, are recorded at fair value at the end of each year. Hydro One records a regulatory asset equal to the net underfunded PBO for its pension plan. Defined benefit pension costs are attributed to labour costs on a cash basis and a portion directly related to acquisition and development of capital assets is capitalized as part of the cost of property, plant and equipment and intangible assets. The remaining defined benefit pension costs are charged to results of operations (OM&A costs).

<u>Post-retirement and Post-employment Benefits</u>

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

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

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

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

Stock-Based Compensation

<u>Share Grant Plans</u>

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

Deferred Share Unit (DSU) Plans

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

Society Restricted Share Unit (RSU) Plan

The Company measures its Society RSU plan based on fair value of share grants as estimated based on Hydro One Limited's grant date common share price. The costs are recognized over the vesting period using the straight-line attribution method. The Company records a regulatory asset equal to the accrued costs of the Society RSU plan recognized in each period. Costs are transferred from the regulatory asset to labour costs at the time the share grants vest and are issued, and are recovered in rates. Forfeitures are recognized as they occur.

Long-term Incentive Plan (LTIP)

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

Loss Contingencies

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

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

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

Environmental Liabilities

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

Asset Retirement Obligations

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

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

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

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

Leases

At the commencement date of a lease, the minimum lease payments are discounted and recognized as a lease obligation. Discount rates used correspond to the Company's incremental borrowing rates. Renewal options are assessed for their likelihood of being exercised and are included in the measurement of the lease obligation when it is reasonably certain they will be exercised. The Company does not recognize leases with a term of less than 12 months. A corresponding Right-of-Use (ROU) asset is recognized at the commencement date of a lease. The ROU asset is measured as the lease obligation adjusted for any lease payments made and/or any lease incentives and initial direct costs incurred. ROU assets are included in other long-term assets, and corresponding lease obligations are included in other current liabilities and other long-term liabilities on the consolidated balance sheets.

Subsequent to the commencement date, the lease expense recognized at each reporting period is the total remaining lease payments over the remaining lease term. Lease obligations are measured as the present value of the remaining unpaid lease payments using the discount rate established at commencement date. The amortization of the ROU assets is calculated as the difference between the lease expense and the accretion of interest, which is calculated using the effective interest method. Lease modifications and impairments are assessed at each reporting period to assess the need for a remeasurement of the lease obligations or ROU assets.

3. NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASU 2018-14	August 2018	Disclosure requirements related to single-employer defined benefit pension or other post-retirement benefit plans are added, removed or clarified to improve the effectiveness of disclosures in financial statement notes.	January 1, 2021	Resulted in the modification of certain disclosures associated with post-retirement and post-employment benefits that were previously included in the annual financial statements.
ASU 2019-12	December 2019	The amendments simplify the accounting for income taxes by removing certain exceptions to the general principles and improving consistent application of Topic 740 by clarifying and amending existing guidance.	January 1, 2021	No impact upon adoption
ASU 2020-01	January 2020	The amendments clarify the interaction of the accounting for equity securities under Topic 321, investments under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815.	January 1, 2021	No impact upon adoption
ASU 2020-10	October 2020	The amendments are intended to improve the Codification by ensuring the guidance required for an entity to disclose information in the notes of financial statements are codified in the disclosure sections to reduce the likelihood of disclosure requirements being missed.	January 1, 2021	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated Impact on Hydro One
ASU 2020-06	August 2020	The update addresses the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. The amendments reduce the number of accounting models for convertible debt instruments and convertible preferred stock.	January 1 2022	No impact upon adoption
ASU 2021-05	July 2021	The amendments are intended to align lease classification requirements for lessors under Topic 842 with Topic 840's practice.	January 1, 2022	No impact upon adoption
ASU 2021-08	October 2021	The amendments address how to determine whether a contract liability is recognized by the acquirer in a business combination.	January 1, 2023	Under assessment
ASU 2021-10	November 2021	The update addresses the diversity on the recognition, measurement, presentation and disclosure of government assistance received by business entities.	January 1, 2022	Under assessment

4. BUSINESS COMBINATIONS

Acquisition of Peterborough Distribution Assets

On August 1, 2020, Hydro One completed the acquisition of the business and distribution assets of Peterborough Distribution, an electricity distribution company located in east central Ontario, from the City of Peterborough, for a purchase price of $104 million, including the assumption of agreed upon liabilities and closing adjustments. The purchase price is comprised of a cash payment of $105 million, including a deposit of $4 million paid in 2018 and $101 million paid on closing of the transaction, partially offset by a purchase price adjustment of $1 million. As the acquired business and distribution assets of Peterborough Distribution meet the definition of a business, the acquisition has been accounted for as a business acquisition.

The following table summarizes the determination of the fair value of the assets acquired and liabilities assumed:

(millions of dollars)	
Working capital	7
Property, plant and equipment	64
Regulatory assets	1
Goodwill	33
Other long-term liabilities	(1)
	104

The determination of the fair value of assets acquired and liabilities assumed is based upon management's estimates and assumptions and reflects the fair value of consideration paid.

The goodwill of $33 million arising from the Peterborough Distribution acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and Peterborough Distribution. All of the goodwill was assigned to Hydro One's Distribution Business segment. Peterborough Distribution contributed revenues of $51 million and net income of $nil to the Company's consolidated financial results for the year ended December 31, 2020. All costs related to the acquisition have been expensed through the statement of operations and comprehensive income.

Acquisition of Orillia Power

On September 1, 2020, Hydro One completed the acquisition of Orillia Power, an electricity distribution company located in Simcoe County, Ontario, from the City of Orillia for a purchase price of $28 million, including closing adjustments. The purchase price is comprised of a cash payment of $26 million, including a deposit of $1 million paid in 2016, $25 million paid on closing of the transaction, as well as a purchase price adjustment of $2 million.

The following table summarizes the determination of the fair value of the assets acquired and liabilities assumed:

(millions of dollars)	
Working capital	2
Property, plant and equipment	32
Deferred income tax assets	1
Goodwill	15
Short-term debt	(20)
Regulatory liabilities	(1)
Other long-term liabilities	(1)
	28

The determination of the fair value of assets acquired and liabilities assumed is based upon management's estimates and assumptions and reflects the fair value of consideration paid. In September 2020, Hydro One repaid the $20 million of short-term debt assumed as part of the Orillia Power acquisition.

The goodwill of $15 million arising from the Orillia Power acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and Orillia Power. All of the goodwill was assigned to Hydro One's Distribution Business segment. Orillia Power contributed revenues of $15 million and net income of $nil to the Company's consolidated financial results for the year ended December 31, 2020. All costs related to the acquisition have been expensed through the statement of operations and comprehensive income.

NRLP

On January 31, 2020, the Mississaugas of the Credit First Nation purchased an additional 19.9% equity interest in NRLP partnership units from Hydro One Networks for total cash consideration of $9 million. Following this transaction, Hydro One's interest in the equity portion of NRLP partnership units was reduced to 55%, with the Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation owning 25% and 20%, respectively, of the equity interest in NRLP partnership units.

NRLP is fully consolidated in these Consolidated Financial Statements as it is controlled by Hydro One. The First Nations Partners' noncontrolling interest in NRLP is classified within equity. See Note 28 - Noncontrolling Interest for additional information.

5. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Depreciation of property, plant and equipment	700	683
Amortization of intangible assets	76	69
Amortization of regulatory assets	30	23
Depreciation and amortization	806	775
Asset removal costs	107	101
	913	876

6. FINANCING CHARGES

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Interest on long-term debt	499	495
Realized loss on cash flow hedges (interest-rate swap agreements) *(Notes 8, 18)*	12	7
Interest on short-term notes	1	8
Interest on regulatory accounts	5	3
Other	11	10
Less: Interest capitalized on construction and development in progress	(60)	(49)
DTA carrying charges *(Note 13)*	(12)	—
Interest earned on cash and cash equivalents	(3)	(5)
	453	469

7. INCOME TAXES

As a rate regulated utility company, the Company recovers income taxes from its ratepayers based on estimated current income tax expense in respect of its regulated business. The amounts of deferred income taxes related to regulated operations which are considered to be more likely-than-not to be recoverable from, or refundable to, ratepayers in future periods are recognized as deferred income tax regulatory assets or liabilities, with an offset to deferred income tax recovery or expense, respectively. The Company's consolidated tax expense or recovery for the period includes all current and deferred income tax expenses for the period net of the regulated accounting offset to deferred income tax expense arising from temporary differences to be recovered from, or refunded to, customers in future rates. Thus, the Company's income tax expense or recovery differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate.

The reconciliation between the statutory and the effective tax rates is provided as follows:

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Income before income tax expense	1,159	1,017
Income tax expense at statutory rate of 26.5% (2020 - 26.5%)	307	270
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(81)	(102)
Impact of tax deductions from deferred tax asset sharing[1]	(38)	(41)
Impact of tax recovery from deferred tax asset sharing[2]	47	—
Overheads capitalized for accounting but deducted for tax purposes	(22)	(21)
Interest capitalized for accounting but deducted for tax purposes	(16)	(13)
Environmental expenditures	(8)	(6)
Pension and post-retirement benefit contributions in excess of pension expense	(9)	(4)
Other	(1)	—
Net temporary differences attributable to regulated business	(128)	(187)
Net permanent differences	—	1
Recognition of deferred income tax regulatory asset *(Note 13)*	—	(867)
Total income tax expense (recovery)	179	(783)
Effective income tax rate	15.4 %	(77.0)%

[1] Prior to the ODC Decision, the impact represents tax deductions from deferred asset tax sharing given to ratepayers as previously mandated by the OEB. Subsequent to the ODC Decision, and pursuant to the DTA Implementation Decision, the impact represents the additional amounts shared in respect of the fiscal period that is recoverable from ratepayers. See Note 13 - Regulatory Assets and Liabilities.

[2] Pursuant to the DTA Implementation Decision, the impact represents the amounts recovered from ratepayers in respect of tax deductions previously shared with ratepayers. See Note 13 – Regulatory Assets and Liabilities.

The major components of income tax expense are as follows:

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Current income tax expense	30	29
Deferred income tax expense (recovery)	149	(812)
Total income tax expense (recovery)	179	(783)

Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities reflect the future tax consequences attributable to temporary differences between the tax bases and the financial statement carrying amounts of the assets and liabilities including the carry forward amounts of tax losses and tax credits. Deferred income tax assets and liabilities attributable to the Company's regulated business are recognized with a corresponding offset in deferred income tax regulatory assets and liabilities to reflect the anticipated recovery or repayment of these balances in the future electricity rates. At December 31, 2021 and 2020, deferred income tax assets and liabilities consisted of the following:

As at December 31 *(millions of dollars)*	2021	2020
Deferred income tax assets		
Post-retirement and post-employment benefits expense in excess of cash payments	655	680
Pension obligations	257	607
Non-capital losses	213	275
Non-depreciable capital property	273	271
Tax credit carryforwards	147	118
Investment in subsidiaries	99	100
Environmental expenditures	44	48
	1,688	2,099
Less: valuation allowance	(378)	(380)
Total deferred income tax assets	1,310	1,719
Deferred income tax liabilities		
Capital cost allowance in excess of depreciation and amortization	1,354	1,029
Regulatory assets and liabilities	308	728
Other	5	2
Total deferred income tax liabilities	1,667	1,759
Net deferred income tax liabilities	(357)	(40)

The net deferred income tax assets are presented on the consolidated balance sheets as follows:

As at December 31 *(millions of dollars)*	2021	2020
Long-term:		
Deferred income tax assets	10	16
Deferred income tax liabilities	(367)	(56)
Net deferred income tax liabilities	(357)	(40)

The valuation allowance for deferred tax assets as at December 31, 2021 was $378 million (2020 - $380 million). The valuation allowance primarily relates to temporary differences for non-depreciable assets and investments in subsidiaries. As of December 31, 2021 and 2020, the Company had non-capital losses carried forward available to reduce future years' taxable income, which expire as follows:

Year of expiry *(millions of dollars)*	2021	2020
2035	—	170
2036	481	550
2037	121	121
2038	5	5
2039	183	185
2040	2	5
2041	8	—
Total losses	800	1,036

8. OTHER COMPREHENSIVE INCOME (LOSS)

Year ended December 31 *(millions of dollars)*	2021	2020
Gain (loss) on cash flow hedges (interest-rate swap agreements) *(Notes 6, 18)*[1]	12	(20)
Gain (loss) on transfer of other post-employment benefits (OPEB) *(Note 20)*	—	(6)
Other	4	2
	16	(24)

[1] Includes $8 million after-tax realized loss (2020 - $5 million), $12 million before-tax (2020 - $7 million), on cash flow hedges reclassified to financing charges.

9. ACCOUNTS RECEIVABLE

As at December 31 *(millions of dollars)*	**2021**	**2020**
Accounts receivable - billed	344	344
Accounts receivable - unbilled	409	421
Accounts receivable, gross	753	765
Allowance for doubtful accounts	(56)	(46)
Accounts receivable, net	697	719

The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2021 and 2020:

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Allowance for doubtful accounts – beginning	(46)	(22)
Write-offs	15	11
Additions to allowance for doubtful accounts[1]	(25)	(35)
Allowance for doubtful accounts – ending	(56)	(46)

[1] Additions to allowance for doubtful accounts for the year ended December 31, 2020 included an incremental $14 million related to the COVID-19 pandemic. There were no additional COVID-19 related amounts included in the allowance for doubtful accounts for the year ended December 31, 2021.

10. OTHER CURRENT ASSETS

As at December 31 *(millions of dollars)*	**2021**	**2020**
Regulatory assets *(Note 13)*	226	105
Prepaid expenses and other assets	53	50
Materials and supplies	22	23
Derivative assets *(Note 18)*	—	3
	301	181

11. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2021 *(millions of dollars)*	**Property, Plant and Equipment**	**Accumulated Depreciation**	**Construction in Progress**	**Total**
Transmission	18,970	6,307	1,183	13,846
Distribution	12,045	4,163	95	7,977
Communication	1,246	981	46	311
Administration and service	1,963	1,022	78	1,019
Easements	679	84	—	595
	34,903	12,557	1,402	23,748

As at December 31, 2020 *(millions of dollars)*	**Property, Plant and Equipment**	**Accumulated Depreciation**	**Construction in Progress**	**Total**
Transmission	18,213	5,989	876	13,100
Distribution	11,544	3,949	101	7,696
Communication	1,184	945	39	278
Administration and service	1,729	959	113	883
Easements	671	80	—	591
	33,341	11,922	1,129	22,548

Financing charges capitalized on property, plant and equipment under construction were $57 million in 2021 (2020 - $46 million).

12. INTANGIBLE ASSETS

As at December 31, 2021 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	1,094	657	130	567
Other	5	5	—	—
	1,099	662	130	567

As at December 31, 2020 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	1,033	581	59	511
Other	6	5	—	1
	1,039	586	59	512

Financing charges capitalized to intangible assets under development were $3 million in 2021 (2020 - $3 million). The estimated annual amortization expense for intangible assets is as follows: 2022 - $76 million; 2023 - $65 million; 2024 - $55 million; 2025 - $53 million; and 2026 - $50 million.

13. REGULATORY ASSETS AND LIABILITIES

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

As at December 31 *(millions of dollars)*	2021	2020
Regulatory assets:		
Deferred income tax regulatory asset	2,509	2,343
Pension benefit regulatory asset	713	1,660
Deferred tax asset sharing	204	204
Post-retirement and post-employment benefits - non-service cost	125	113
Environmental	122	133
Stock-based compensation	38	41
Foregone revenue deferral	25	63
Conservation and Demand Management (CDM) variance	8	16
Debt premium	7	12
Post-retirement and post-employment benefits	—	59
Other	36	32
Total regulatory assets	3,787	4,676
Less: current portion	(226)	(105)
	3,561	4,571
Regulatory liabilities:		
Tax rule changes variance	86	70
Retail settlement variance account	58	92
External revenue variance	52	7
Earnings sharing mechanism deferral	42	37
Asset removal costs cumulative variance	36	19
Post-retirement and post-employment benefits	33	—
Pension cost differential	30	31
Green energy expenditure variance	13	22
Deferred income tax regulatory liability	4	4
Other	18	15
Total regulatory liabilities	372	297
Less: current portion	(10)	(66)
	362	231

Deferred Income Tax Regulatory Asset and Liability

Deferred income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. The Company has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Company's income tax expense would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the 2021 income tax expense would have been higher by approximately $127 million (2020 - $187 million). The $127 million (2020 - $187 million) impact is offset against deferred income tax regulatory asset and liability, deferred tax asset sharing, and post-retirement and post-employment benefits - non-service cost.

On July 16, 2020, the Ontario Divisional Court rendered its decision on the Company's appeal of the OEB's DTA Decision, which was initially issued on September 28, 2017.

In connection with the ODC Decision, the Company recorded a reversal of the previously recognized impairment charge of Hydro One Networks' distribution and transmission deferred income tax regulatory asset in its financial statements for the year ended December 31, 2020. The reversal of the previously recognized impairment charge included the regulatory asset relating to the cumulative deferred tax asset amounts shared with ratepayers (deferred tax asset sharing) up to and including June 30, 2020 by Hydro One Networks' distribution and transmission segments of $58 million and $118 million, respectively. Hydro One recognized deferred income tax regulatory assets of $504 million and $673 million for Hydro One Networks distribution and transmission segments, respectively, and associated deferred income tax liability of $310 million. The Company also recorded an increase in net income of $867 million as deferred income tax recovery during the year ended December 31, 2020.

Pension Benefit Regulatory Asset

In accordance with OEB rate orders, pension costs are recovered on a cash basis as employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act* (Ontario). The Company recognizes the net unfunded status of pension obligations on the consolidated balance sheets with an offset to the associated regulatory asset. A regulatory asset is recognized because management considers it to be probable that pension benefit costs will be recovered in the future through the rate-setting process. The pension benefit obligation is remeasured to the present value of the actuarially determined benefit obligation at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, OCI would have been higher by $1,017 million (2020 - OCL higher by $470 million) and OM&A expenses would have been higher by $132 million (2020 - $89 million).

Deferred Tax Asset Sharing

On October 2, 2020, the OEB issued a procedural order to implement the direction of the Ontario Divisional Court which required Hydro One to submit its proposal for the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period. On April 8, 2021, the OEB rendered the DTA Implementation Decision, in which the OEB approved recovery of the DTA amounts allocated to ratepayers for the 2017 to 2021 period, plus carrying charges over a two-year period, commencing on July 1, 2021. In addition, Hydro One was approved to adjust the transmission revenue requirement and the base distribution rates beginning January 1, 2022 to eliminate any further amounts of future tax savings flowing to customers. As at December 31, 2021, Hydro One has a regulatory asset of $204 million for the cumulative DTA amounts shared with ratepayers since 2017 to date, net of the amount recovered from ratepayers pursuant to the DTA Implementation Decision. The regulatory asset of $204 million (2020 - $204 million) consists of $74 million (2020 - $70 million) and $130 million (2020 - $134 million) for Hydro One Networks' distribution and transmission segments, respectively. As a result of the OEB's procedural order, the $204 million regulatory asset relating to the cumulative DTA amounts allocated to ratepayers since 2017 has been separately presented from the deferred income tax regulatory asset. The balance of this regulatory account will continue to decrease as amounts are recovered over the next 18 months.

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

Hydro One has recorded a regulatory asset relating to the future recovery of its post-retirement and post-employment benefits other than service costs. The regulatory asset includes the applicable tax impact to reflect taxes payable. Prior to adoption of ASU 2017-07 in 2018, these amounts were capitalized to property, plant and equipment and intangible assets. As part of Hydro One Networks' 2020-2022 Transmission Decision, the OEB concluded that the non-service cost component of Hydro One's OPEB costs shall be recognized as OM&A for both its transmission and distribution businesses. Furthermore, Hydro One Networks distribution will continue to record the non-service cost component of OPEBs in this account until the end of 2022. The OEB approved the disposition of Hydro One Networks transmission's account balance as at December 31, 2018, including accrued interest, which is being collected from ratepayers over a three-year period ending December 31, 2022.

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate environmental contamination. A regulatory asset is recognized because management considers it to be probable environmental expenditures will be recovered in the future through the rate-setting process. The Company has recorded an equivalent amount as a regulatory asset. In 2021, the revaluation adjustment increased the environmental regulatory asset by $18 million (2020 - increased by $12 million) to reflect related changes in the Company's PCB and LAR environmental liabilities. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudency and the timing of recovery of all of Hydro One's actual environmental expenditures. In the absence of rate-regulated accounting, with respect to the revaluation adjustment, 2021 OM&A expenses would have been higher by $18 million (2020 - higher by $12 million). In addition, 2021 amortization expense would have been lower by $30 million (2020 - lower by $23 million), and 2021 financing charges would have been higher by $1 million (2020 - higher by $3 million).

Stock-based Compensation

The Company recognizes costs associated with share grant plans and Society RSUs in a regulatory asset as management considers it probable that share grant plans' and Society RSU costs will be recovered in the future through the rate-setting process. In the absence of rate-regulated accounting, OM&A expenses would be lower by $1 million (2020 - $1 million). Share grant and Society RSU costs are transferred to labour costs at the time they vest and are issued, and are recovered in rates in accordance with recovery of these labour costs.

Foregone Revenue Deferral

As at December 31, 2020, the foregone revenue deferral account was primarily made up of the difference between revenue earned by Hydro One Networks transmission, NRLP, B2M LP, and HOSSM under the approved UTRs based on OEB-approved 2020 rates revenue requirement and load forecast and the revenues earned under interim 2020 UTRs. Hydro One Networks transmission's foregone revenue, including accrued interest, is being collected from ratepayers over a two-year period ending December 31, 2022. NRLP, B2M LP, and HOSSM's foregone revenue, including accrued interest, was collected from ratepayers over a one-year period ended December 31, 2021. The December 31, 2021 balance in this account is comprised of the remaining Hydro One Networks transmission foregone revenue to be collected from ratepayers by December 31, 2022.

CDM Variance

The CDM variance account tracks the impact of actual CDM and demand response programs on the actual load forecast compared to the estimated load forecast included in revenue requirement. As per the OEB's decision on Hydro One Networks' transmission rates for 2017 to 2019, this account was maintained to record any variances for 2017, 2018, and 2019. A CDM variance amount for 2017 was calculated and proposed for disposition in Hydro One Networks' 2020-2022 transmission rate application. In April 2020, the amount as at December 31, 2018, including accrued interest, was approved for disposition by the OEB and was recognized as a regulatory asset. The amount was approved to be recovered from ratepayers over a three-year period ending December 31, 2022.

Debt Premium

The value of debt assumed in the acquisition of HOSSM has been recorded at fair value in accordance with US GAAP - Business Combinations. The OEB allows for recovery of interest at the coupon rate of the Senior Secured Bonds and a regulatory asset has been recorded for the difference between the fair value and face value of this debt. The debt premium is recovered over the remaining term of the debt.

Tax Rule Changes Variance

The 2019 federal and Ontario budgets (Budgets) provided certain time-limited investment incentives permitting Hydro One to deduct accelerated capital cost allowance of up to three times the first-year rate for capital investments acquired after November 20, 2018 and placed in-service before January 1, 2028 (Accelerated Depreciation). Following the enactment of the Budget measures in the second quarter of 2019, the OEB directed all Ontario regulated utilities including Hydro One to track the full revenue impact of the tax benefits related to the Accelerated Depreciation rules to ratepayers. The tax benefit to be returned to ratepayers in the future gave rise to a regulatory liability and resulted in a decrease in revenues as current rates do not include the benefit of the Accelerated Depreciation; therefore, the revenue subject to refund cannot be recognized.

Retail Settlement Variance Account (RSVA)

Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. The RSVA account tracks the difference between the cost of power purchased from the Independent Electricity System Operator (IESO) and the cost of power recovered from ratepayers. The balance as at December 31, 2019, including accrued interest, was approved by the OEB for disposition over a one-year period ending December 31, 2021 as part of Hydro One Networks distribution 2021 annual update rate application.

External Revenue Variance

The external revenue variance account balance reflects the difference between Hydro One Networks transmission's actual export service revenue and external revenues from secondary land use, and the OEB-approved amounts. The account also records the difference between actual net external station maintenance, engineering and construction services revenue, and other external revenue, and the OEB-approved amounts. In April 2020, the OEB approved the disposition of the external revenue variance account as at December 31, 2018, including accrued interest, which is being returned to ratepayers over a three-year period ending December 31, 2022.

Earnings Sharing Mechanism Deferral

In March 2019, the OEB approved the establishment of an earnings sharing mechanism deferral account for Hydro One Networks' distribution segment to record over-earnings including tax impacts, if any, realized for any year from 2018 to 2022. Under this mechanism, Hydro One shares 50% of regulated earnings that exceed the OEB-approved regulatory return-on-equity by more than 100 basis points with distribution ratepayers. This account is asymmetrical to the benefit of ratepayers. The balance as at December 31, 2019, including accrued interest, was approved by the OEB for disposition on an interim basis over a one year period ending December 31, 2021 as part of Hydro One Networks distribution 2021 annual update rate application. A similar account was also approved for B2M LP in January 2020, and Hydro One Networks transmission and NRLP in April 2020. The balance in the account as at December 31, 2021 primarily relates to Hydro One Networks distribution.

Asset Removal Costs Cumulative Variance

In April 2020, the OEB approved the establishment of an asset removal costs cumulative variance account for Hydro One Networks transmission to record the difference between the revenue requirement associated with forecast asset removal costs included in depreciation expense and actual asset removal costs incurred from 2020 to 2022. This account is asymmetrical to the benefit of ratepayers on a cumulative basis over the 2020-2022 rate period.

Post-Retirement and Post-Employment Benefits

In accordance with OEB rate orders, post-retirement and post-employment benefits costs are recovered on an accrual basis. The Company recognizes the net unfunded status of post-retirement and post-employment obligations on the consolidated balance sheets with an incremental offset to the associated regulatory asset or regulatory liability, as the case may be. A regulatory asset or liability is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered or returned in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to the present value of the actuarially determined benefit obligation at each year end based on an annual actuarial report, with an offset to the associated regulatory asset or liability as the case may be, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2021 OCI would have been higher by $94 million (2020 - OCL lower by $46 million).

Pension Cost Differential

Variances between the pension cost recognized and the cost embedded in rates as part of the rate-setting process for Hydro One Networks' transmission and distribution businesses are recognized as a regulatory asset or regulatory liability, as the case may be. In March 2019, the OEB approved the disposition of the distribution business portion of the balance as at December 31, 2016, including accrued interest, and the balance was recovered from ratepayers by the end of 2020. In April 2020, the OEB approved the disposition of the transmission business portion of the balance as at December 31, 2018, including accrued interest, which is being returned to ratepayers over a three-year period ending December 31, 2022. In the absence of rate-regulated accounting, 2021 revenue would have been higher by $1 million (2020 - higher by $1 million).

Green Energy Expenditure Variance

In April 2010, the OEB requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and the actual recoveries received. The smart grid variance account balance as at December 31, 2016, including accrued interest, was approved for disposition by the OEB in March 2019, and the balance was returned to ratepayers by the end of 2020.

COVID-19 Emergency Deferral

On June 17, 2021, the OEB issued its Report: Regulatory Treatment of Impact Arising from the COVID-19 Emergency which outlines the OEB’s final guidance on the rules and operation of the deferral account established for utilities to track the impacts arising from the COVID-19 pandemic. The OEB has determined that eligibility for recovery of most balances recorded in the account will be subject to a means test based on a utility’s achieved regulatory return on equity (ROE). Based on management's assessment of the OEB’s final guidance, no amounts related to the COVID-19 pandemic have been recognized as regulatory assets.

14. OTHER LONG-TERM ASSETS

As at December 31 *(millions of dollars)*	**2021**	**2020**
Right-of-Use assets *(Note 23)*	53	71
Other long-term assets	13	8
	66	79

15. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

As at December 31 (millions of dollars)	**2021**	**2020**
Accrued liabilities	606	557
Accounts payable	249	232
Accrued interest	123	116
Environmental liabilities *(Note 21)*	34	33
Regulatory liabilities *(Note 13)*	10	66
Lease obligations *(Note 23)*	12	11
Derivative liabilities *(Note 18)*	8	11
	1,042	1,026

16. OTHER LONG-TERM LIABILITIES

As at December 31 (*millions of dollars)*	**2021**	**2020**
Post-retirement and post-employment benefit liability *(Note 20)*	1,784	1,781
Pension benefit liability *(Note 20)*	713	1,660
Environmental liabilities *(Note 21)*	88	100
Lease obligations *(Note 23)*	44	65
Due to related parties *(Note 29)*	29	32
Asset retirement obligations *(Note 22)*	14	13
Derivative liabilities *(Note 18)*	—	14
Long-term accounts payable	3	5
Other long-term liabilities	19	16
	2,694	3,686

17. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under its Commercial Paper Program which has a maximum authorized amount of $2,300 million. These short-term notes are denominated in Canadian dollars with varying maturities up to 365 days. The Commercial Paper Program is supported by the Company's committed and unsecured revolving standby credit facilities totalling $2,300 million (Operating Credit Facilities).

At December 31, 2021, Hydro One's Operating Credit Facilities consisted of the following:

(millions of dollars)	**Maturity**	**Total Amount**	**Amount Drawn**
Revolving standby credit facilities	June 2026[1]	2,300	—

[1] On June 1, 2021, the maturity dates for the Operating Credit Facilities was extended from June 2024 to June 2026.

The Company may use the Operating Credit Facilities for working capital and general corporate purposes. If used, interest on the Operating Credit Facilities would apply based on Canadian benchmark rates. The obligation of each lender to make any credit extension under its credit facility is subject to various conditions including that no event of default has occurred or would result from such credit extension.

Long-Term Debt

The following table presents long-term debt outstanding at December 31, 2021 and 2020:

As at December 31 *(millions of dollars)*	2021	2020
1.84% Series 34 notes due 2021	—	500
2.57% Series 39 notes due 2021[1]	—	300
3.20% Series 25 notes due 2022	600	600
0.71% Series 48 notes due 2023	600	600
2.54% Series 42 notes due 2024	700	700
1.76% Series 45 notes due 2025	400	400
2.97% Series 40 notes due 2025	350	350
2.77% Series 35 notes due 2026	500	500
3.02% Series 43 notes due 2029	550	550
2.16% Series 46 notes due 2030	400	400
7.35% Debentures due 2030	400	400
1.69% Series 49 notes due 2031	400	400
2.23% Series 50 notes due 2031	450	—
6.93% Series 2 notes due 2032	500	500
6.35% Series 4 notes due 2034	385	385
5.36% Series 9 notes due 2036	600	600
4.89% Series 12 notes due 2037	400	400
6.03% Series 17 notes due 2039	300	300
5.49% Series 18 notes due 2040	500	500
4.39% Series 23 notes due 2041	300	300
6.59% Series 5 notes due 2043	315	315
4.59% Series 29 notes due 2043	435	435
4.17% Series 32 notes due 2044	350	350
5.00% Series 11 notes due 2046	325	325
3.91% Series 36 notes due 2046	350	350
3.72% Series 38 notes due 2047	450	450
3.63% Series 41 notes due 2049	750	750
2.71% Series 47 notes due 2050	500	500
3.64% Series 44 notes due 2050	250	250
3.10% Series 51 notes due 2051	450	—
4.00% Series 24 notes due 2051	225	225
3.79% Series 26 notes due 2062	310	310
4.29% Series 30 notes due 2064	50	50
Hydro One long-term debt (a)	13,095	12,995
6.6% Senior Secured Bonds due 2023 (Principal amount - $98 million)	105	113
4.6% Note Payable due 2023 (Principal amount - $36 million)	37	38
HOSSM long-term debt (b)	142	151
	13,237	13,146
Add: Net unamortized debt premiums	9	10
Add: Unrealized mark-to-market loss[1]	—	3
Less: Unamortized deferred debt issuance costs	(50)	(51)
Total long-term debt	13,196	13,108

[1] At December 31, 2021, there was no unrealized mark-to-market loss. At December 31, 2020, the unrealized mark-to-market net loss of $3 million related to $300 million Series 39 notes repaid in June 2021. At December 31, 2020, the unrealized mark-to-market net loss was offset by a $3 million unrealized mark-to-market net gain on the related fixed-to-floating interest-rate swap agreements, which were accounted for as fair value hedges.

(a) Hydro One long-term debt

At December 31, 2021, long-term debt of $13,095 million (2020 - $12,995 million) was outstanding, the majority of which was issued under Hydro One's Medium Term Note (MTN) Program. In April 2020, Hydro One filed a short form base shelf prospectus in connection with its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, expiring in May 2022. At December 31, 2021, $1,900 million remained available for issuance under the MTN Program prospectus.

In 2021, Hydro One issued long-term debt totalling $900 million (2020 - $2,300 million) and repaid long-term debt of $800 million (2020 - $650 million) under the MTN Program.

(b) HOSSM long-term debt

At December 31, 2021, HOSSM long-term debt of $142 million (2020 - $151 million), with a principal amount of $134 million (2020 - $138 million) was outstanding. In 2021, no long-term debt was issued (2020 - $nil), and $4 million (2020 - $3 million) of long-term debt was repaid.

The total long-term debt is presented on the consolidated balance sheets as follows:

As at December 31 *(millions of dollars)*	**2021**	**2020**
Current liabilities:		
Long-term debt payable within one year	603	806
Long-term liabilities:		
Long-term debt	12,593	12,302
Total long-term debt	13,196	13,108

Principal and Interest Payments

At December 31, 2021, future principal repayments, interest payments, and related weighted-average interest rates were as follows:

	Long-Term Debt Principal Repayments *(millions of dollars)*	**Interest Payments** *(millions of dollars)*	**Weighted-Average Interest Rate** *(%)*
Year 1	603	501	3.2
Year 2	731	485	1.7
Year 3	700	470	2.5
Year 4	750	452	2.3
Year 5	500	437	2.8
	3,284	2,345	2.5
Years 6-10	2,200	2,046	3.2
Thereafter	7,745	4,004	4.6
	13,229	8,395	3.9

18. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

Non-Derivative Financial Assets and Liabilities

At December 31, 2021 and 2020, the Company's carrying amounts of cash and cash equivalents, accounts receivable, due from related parties, short-term notes payable, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at December 31, 2021 and 2020 are as follows:

As at December 31 *(millions of dollars)*	2021 Carrying Value	2021 Fair Value	2020 Carrying Value	2020 Fair Value
Long-term debt measured at fair value - $300 million MTN Series 39 notes	—	—	303	303
Other notes and debentures	13,196	15,162	12,805	15,795
Long-term debt, including current portion	13,196	15,162	13,108	16,098

Fair Value Measurements of Derivative Instruments

Fair Value Hedges

At December 31, 2021, Hydro One had no fair value hedges. At December 31, 2020, Hydro One had interest-rate swaps with a total notional amount of $300 million that were used to convert fixed-rate debt to floating-rate debt. These swaps were designated as fair value hedges. Hydro One's fair value hedge exposure at December 31, 2020 was approximately 2% of its total long-term debt.

Cash Flow Hedges

At December 31, 2021 and 2020, Hydro One had a total of $800 million in pay-fixed, receive-floating interest-rate swap agreements designated as cash flow hedges. These cash flow hedges are intended to offset the variability of interest rates on the issuances of short-term commercial paper between January 9, 2020 and March 9, 2023.

At December 31, 2021 and 2020, the Company had no derivative instruments classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at December 31, 2021 and 2020 is as follows:

As at December 31, 2021 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Long-term debt, including current portion	13,196	15,162	—	15,162	—
Derivative instruments *(Notes 15,16)*					
Cash flow hedges, including current portion	8	8	—	8	—
	13,204	15,170	—	15,170	—

As at December 31, 2020 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Derivative instruments *(Note 10)*					
Fair value hedges	3	3	—	3	—
	3	3	—	3	—
Liabilities:					
Long-term debt, including current portion	13,108	16,098	—	16,098	—
Derivative instruments *(Notes 15,16)*					
Cash flow hedges, including current portion	25	25	—	25	—
	13,133	16,123	—	16,123	—

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

There were no transfers between any of the fair value levels during the years ended December 31, 2021 or 2020.

Risk Management

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

Market Risk

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

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company may utilize interest-rate swaps designated as fair value hedges as a means to manage its interest rate exposure to achieve a lower cost of debt. The Company may also utilize interest-rate derivative instruments, such as cash flow hedges, to manage its exposure to short-term interest rates or to lock in interest-rate levels on forecasted financing.

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's net income for the years ended December 31, 2021 and 2020.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the consolidated statements of operations and comprehensive income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the years ended December 31, 2021 and 2020 were not material.

For derivative instruments that are designated and qualify as cash flow hedges, the unrealized gain or loss, after tax, on the derivative instrument is recorded as OCI or OCL and is reclassified to results of operations in the same period during which the hedged transaction affects results of operations. During the year ended December 31, 2021, a $4 million after-tax unrealized gain (2020 - $28 million loss), $5 million before-tax (2020 - $38 million loss), was recorded in OCI, and a $8 million after-tax realized loss (2020 - $5 million), $12 million before-tax (2020 - $7 million), was reclassified to financing charges. This resulted in an accumulated other comprehensive loss (AOCL) of $6 million related to cash flow hedges at December 31, 2021 (2020 - $18 million). The Company estimates that the amount of AOCL, after tax, related to cash flow hedges to be reclassified to results of operations in the next 12 months is $6 million. Actual amounts reclassified to results of operations depend on the interest rate risk in effect until the derivative contracts mature. For all forecasted transactions, at December 31, 2021, the maximum term over which the Company is hedging exposures to the variability of cash flows is approximately one year.

The Pension Plan manages market risk by diversifying investments in accordance with the Pension Plan's Statement of Investment Policies and Procedures (SIPP). Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the Pension Plan's financial instruments. In addition, changes in interest rates can also impact discount rates which impact the valuation of the pension and post-retirements and post-employment liabilities. Currency risk is the risk that the value of the Pension Plan's financial instruments will fluctuate due to changes in foreign currencies relative to the Canadian dollar. Other price risk is the risk that the value of the Pension Plan's investments in equity securities will fluctuate as a result of changes in market prices, other than those arising from interest rate risk or currency risk. All three factors may contribute to changes in values of the Pension Plan investments. See Note 20 - Pension and Post-Retirement and Post-Employment Benefits for further details.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At December 31, 2021 and 2020, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a material amount of revenue from any single customer. At December 31, 2021 and 2020, there was no material accounts receivable balance due from any single customer.

At December 31, 2021, the Company's allowance for doubtful accounts was $56 million (2020 - $46 million). The allowance for doubtful accounts reflects the Company's CECL for all accounts receivable balances, which are based on historical overdue balances, customer payments and write-offs. At December 31, 2021, approximately 5% (2020 - 4%) of the Company's net accounts receivable were outstanding for more than 60 days. Please see Note 9 - Accounts Receivable for additions to allowance for doubtful accounts related to the impact of the COVID-19 pandemic.

Hydro One manages its counterparty credit risk through various techniques including (i) entering into transactions with highly rated counterparties, (ii) limiting total exposure levels with individual counterparties, (iii) entering into master agreements which enable net settlement and the contractual right of offset, and (iv) monitoring the financial condition of counterparties. The Company monitors current credit exposure to counterparties on both an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the consolidated balance sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The maximum credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts in an asset position at the reporting date. At December 31, 2021 and 2020, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At December 31, 2021, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, was with two financial institutions with investment grade credit ratings as counterparties.

The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade corporate and government bonds and with respect to derivative instruments by transacting only with highly rated financial institutions and by ensuring that exposure is diversified across counterparties.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term operating liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the Operating Credit Facilities. The short-term liquidity under the commercial paper program, the Operating Credit Facilities, and anticipated levels of funds from operations are expected to be sufficient to fund the Company's operating requirements. The Company's currently available liquidity is also expected to be sufficient to address any reasonably foreseeable impacts that the COVID-19 pandemic may have on the Company's cash requirements.

In April 2020, Hydro One filed a short form base shelf prospectus in connection with its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, expiring in May 2022. At December 31, 2021, $1,900 million remained available for issuance under the MTN Program prospectus. A new MTN Program prospectus is expected to be filed in the first half of 2022.

The Pension Plan's short-term liquidity is provided through cash and cash equivalents, contributions, investment income and proceeds from investment transactions. In the event that investments must be sold quickly to meet current obligations, the majority of the Pension Plan's assets are invested in securities that are traded in an active market and can be readily disposed of as liquidity needs arise.

19. CAPITAL MANAGEMENT

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. In order to ensure ongoing access to capital, the Company targets to maintain strong credit quality. At December 31, 2021 and 2020, the Company's capital structure was as follows:

As at December 31 *(millions of dollars)*	2021	2020
Long-term debt payable within one year	603	806
Short-term notes payable	1,045	800
Less: cash and cash equivalents	(499)	(712)
	1,149	894
Long-term debt	12,593	12,302
Common shares	2,957	2,957
Retained earnings	8,229	7,877
Total capital	24,928	24,030

Hydro One and HOSSM have customary covenants typically associated with long-term debt. Long-term debt and credit facility covenants limit permissible debt to 75% of its total capitalization, limit the ability to sell assets and impose a negative pledge provision, subject to customary exceptions. At December 31, 2021, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

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

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

DC Plan

Hydro One established a DC Plan effective January 1, 2016. The DC Plan covers eligible management employees hired on or after January 1, 2016, as well as management employees hired before January 1, 2016 who were not eligible to join the Pension Plan as of September 30, 2015. Members of the DC Plan have an option to contribute 4%, 5% or 6% of their pensionable earnings, with matching contributions by Hydro One up to an annual contribution limit. There is also a Supplementary DC Plan that provides members of the DC Plan with employer contributions beyond the limitations imposed by the *Income Tax Act* (Canada) in the form of credits to a notional account. Hydro One contributions to the DC Plan for the year ended December 31, 2021 were $2 million (2020 - $2 million).

Pension Plan, Supplementary Plan, and Post-Retirement and Post-Employment Plans

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

Company and employee contributions to the Pension Plan are based on actuarial reports, including valuations performed at least every three years, and actual or projected levels of pensionable earnings, as applicable. The most recent actuarial valuation was performed effective December 31, 2018 and filed on September 30, 2019. The new valuation is expected to be filed by no later than September 30, 2022, which may result in a change to the estimated contributions for 2022-2027. Total annual cash Pension Plan employer contributions for 2021 were $62 million (2020 - $57 million). Estimated annual Pension Plan employer contributions for the years 2022, 2023, 2024, 2025, 2026 and 2027 are approximately $93 million, $107 million, $111 million, $111 million, $113 million and $118 million respectively.

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

Hydro One recognizes the overfunded or underfunded status of the Pension Plan, and post-retirement and post-employment benefit plans (Plans) as an asset or liability on its consolidated balance sheets, with offsetting regulatory assets and liabilities as appropriate. The underfunded benefit obligations for the Plans, in the absence of regulatory accounting, would be recognized in AOCI. The impact of changes in assumptions used to measure pension and post-retirement benefit obligations is generally recognized over the expected average remaining service period of the employees and using the corridor approach for the post-retirement benefit plan. For post-employment benefit plan, the impact of changes in assumptions are recognized immediately in the net periodic benefit cost. The measurement date for the Plans is December 31.

The following tables provide the components of the unfunded status of the Company's Plans at December 31, 2021 and 2020:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Year ended December 31 *(millions of dollars)*	**2021**	**2020**	**2021**	**2020**
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	9,763	8,973	1,841	1,768
Current service cost	240	215	65	70
Employee contributions	61	56	—	—
Interest cost	257	284	51	57
Benefits paid	(392)	(381)	(47)	(45)
Net actuarial loss (gain)	(571)	465	(98)	(42)
Transfers from other plans[1,2]	—	151	34	33
Projected benefit obligation, end of year	9,358	9,763	1,846	1,841
Change in plan assets				
Fair value of plan assets, beginning of year	8,103	7,848	—	—
Actual return on plan assets	834	425	—	—
Benefits paid	(392)	(381)	(47)	(45)
Employer contributions	62	57	47	45
Employee contributions	61	56	—	—
Administrative expenses	(23)	(22)	—	—
Transfers from other plans[1]	—	120	—	—
Fair value of plan assets, end of year	8,645	8,103	—	—
Unfunded status	713	1,660	1,846	1,841

[1] In 2020, assets and liabilities associated with the Inergi LP Pension Plan and post-employment benefit plans were transferred to the Hydro One Pension Plan and post-employment benefit plans, related to the 2018 transfer of customer service operations employees to Hydro One.
[2] See below for information related to the transfer from other plans in 2021 as well as future transfers from other plans for employees transferred in 2021 and 2022.

Future Transfers from Other Plans

In January 2021, Hydro One and Inergi LP (Inergi) executed a letter of understanding (LOU) for the transfer of certain Inergi employees (Transferred Employees) to Hydro One Networks over a period of time. Employees related to the Information Technology Operations, Finance and Accounting, Payroll and certain Shared Services functions transferred over a period ending January 1, 2022. The Transferred Employees who are participants in the Inergi LP Pension Plan (Inergi Plan) became participants in the Hydro One Pension Plan upon transfer to Hydro One. Subject to all necessary regulatory approvals, the assets and liabilities of the Inergi Plan will transfer to the Plan. The values of assets and liabilities of the Inergi Plan to be transferred to the Plan will be determined at the date of transfer, which is expected to occur sometime in 2023. In accordance with the LOU, Inergi and Hydro One Networks also agreed to transfer OPEB liabilities related to the Transferred Employees to Hydro One's post-retirement and post-employment benefit plans.

On March 1, 2021, Transferred Employees associated with information technology operations (ITO Employees) transferred to Hydro One Networks, and the transfer of the OPEB liability of $28 million related to the ITO Employees was completed. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totaling

$27 million was transferred to Hydro One and recorded as an asset with an offset to OCI. Both, the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of the other post-retirement benefit liability are being recognized in net income over the expected average remaining service lifetime (EARSL) of the ITO Employees.

On November 1, 2021, Transferred Employees associated with source to pay operations (S2P Employees) transferred to Hydro One Networks, and the transfer of the OPEB liability of $6 million related to the S2P Employees was completed. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totaling $6 million was transferred to Hydro One and recorded as an asset with an offset to OCI. Both, the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of the other post-retirement benefit liability are being recognized in net income over the EARSL of the S2P Employees.

The transfer of Finance and Accounting, Payroll and certain Shared Services functions occurred on January 1, 2022 and the transfer of the OPEB liability will be recorded in the first quarter of 2022.

Hydro One presents its benefit obligations and plan assets net on its consolidated balance sheets as follows:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
As at December 31 *(millions of dollars)*	**2021**	**2020**	**2021**	**2020**
Other assets[1]	10	6	—	—
Accrued liabilities	—	—	62	60
Pension benefit liability	713	1,660	—	—
Post-retirement and post-employment benefit liability	—	—	1,784	1,781
Net unfunded status	703	1,654	1,846	1,841

[1] Represents the funded status of HOSSM defined benefit pension plan.

The funded or unfunded status of the Plans refers to the difference between the fair value of plan assets and the PBO for the Plans. The funded/unfunded status changes over time due to several factors, including contribution levels, assumed discount rates and actual returns on plan assets.

The following table provides the PBO, accumulated benefit obligation (ABO) and fair value of plan assets for the Pension Plan:

As at December 31 *(millions of dollars)*	**2021**	**2020**
PBO	9,358	9,763
ABO	8,451	8,817
Fair value of plan assets	8,645	8,103

On an ABO basis, the Pension Plan was funded at 102% at December 31, 2021 (2020 - 92%). On a PBO basis, the Pension Plan was funded at 92% at December 31, 2021 (2020 - 83%). The ABO differs from the PBO in that the ABO includes no assumption about future compensation levels.

Components of Net Periodic Benefit Costs

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2021 and 2020 for the Pension Plan:

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Current service cost	240	215
Interest cost	257	284
Expected return on plan assets, net of expenses	(430)	(450)
Prior service cost amortization	2	2
Amortization of actuarial losses	125	95
Net periodic benefit costs	194	146
Charged to results of operations[1]	26	24

[1] The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the year ended December 31, 2021, pension costs of $73 million (2020 - $68 million) were attributed to labour, of which $26 million (2020 - $24 million) was charged to operations, and $47 million (2020 - $44 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2021 and 2020 for the post-retirement and post-employment benefit plans:

Year ended December 31 *(millions of dollars)*	2021	2020
Current service cost	65	70
Interest cost	51	57
Prior service cost amortization	7	2
Amortization of actuarial losses	(2)	5
Net periodic benefit costs	121	134
Charged to results of operations[1,2]	63	71

[1] The Company accounts for post-retirement and post-employment costs consistent with their inclusion in OEB-approved rates. During the year ended December 31, 2021, post-retirement and post-employment costs of $121 million (2020 - $133 million) were attributed to labour, of which $63 million (2020 - $71 million) was charged to operations, $14 million (2020 - $17 million) was recorded in the Hydro One Networks distribution post-retirement and post-employment benefits non-service cost regulatory asset, and $44 million (2020 - $45 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

[2] In the 2020-2022 Transmission Decision, the OEB approved the recovery of the non-service cost component of post-retirement and post-employment benefits as part of operation, maintenance and administration costs for the Company's transmission business. These costs were previously capitalized and recovered through rate base. As a result, during the year ended December 31, 2021, additional other post-retirement and post-employment costs of $14 million (2020 - $22 million) attributed to labour were charged to operations.

Assumptions

The measurement of the obligations of the Plans and the costs of providing benefits under the Plans involves various factors, including the development of valuation assumptions and accounting policy elections. When developing the required assumptions, the Company considers historical information as well as future expectations. The measurement of benefit obligations and costs is impacted by several assumptions including the discount rate applied to benefit obligations, the long-term expected rate of return on plan assets, Hydro One’s expected level of contributions to the Plans, the incidence of mortality, the expected remaining service period of plan participants, the level of compensation and rate of compensation increases, employee age, length of service, and the anticipated rate of increase of health care costs, among other factors. The impact of changes in assumptions used to measure the obligations of the Plans is generally recognized over the expected average remaining service period of the plan participants. In selecting the expected rate of return on plan assets, Hydro One considers historical economic indicators that impact asset returns, as well as expectations regarding future long-term capital market performance, weighted by target asset class allocations. In general, equity securities, real estate and private equity investments are forecasted to have higher returns than fixed-income securities.

The following weighted average assumptions were used to determine the benefit obligations at December 31, 2021 and 2020:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Year ended December 31	2021	2020	2021	2020
Significant assumptions:				
Weighted average discount rate	3.00 %	2.60 %	3.00 %	2.60 %
Rate of compensation scale escalation (long-term)	2.25 %	2.25 %	2.25 %	2.25 %
Rate of cost of living increase	1.75 %	1.75 %	1.75 %	1.75 %
Rate of increase in health care cost trends[1]	—	—	3.97 %	3.70 %

[1] 4.88% per annum in 2022, grading down to 3.97% per annum in and after 2031 (2020 - 4.74% per annum in 2021, grading down to 3.70% per annum in and after 2031)

The following weighted average assumptions were used to determine the net periodic benefit costs for the years ended December 31, 2021 and 2020. Assumptions used to determine current year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

Year ended December 31	2021	2020
Pension Benefits:		
Weighted average expected rate of return on plan assets	5.40 %	5.75 %
Weighted average discount rate	2.60 %	3.10 %
Rate of compensation scale escalation (long-term)	2.25 %	2.50 %
Rate of cost of living increase	1.75 %	2.00 %
Average remaining service life of employees *(years)*	14	15
Post-Retirement and Post-Employment Benefits:		
Weighted average discount rate	2.60 %	3.10 %
Rate of compensation scale escalation (long-term)	2.25 %	2.50 %
Rate of cost of living increase	1.75 %	2.00 %
Average remaining service life of employees *(years)*	15.3	15.5
Rate of increase in health care cost trends[1]	3.70 %	4.04 %

[1] 4.74% per annum in 2021, grading down to 3.70% per annum in and after 2031 (2020 - 5.09% per annum in 2020, grading down to 4.04% per annum in and after 2031)

The discount rate used to determine the current year pension obligation and the subsequent year's net periodic benefit costs is based on a yield curve approach. Under the yield curve approach, expected future benefit payments for each plan are discounted by a rate on a third-party bond yield curve corresponding to each duration. The yield curve is based on "AA" long-term corporate bonds. A single discount rate is calculated that would yield the same present value as the sum of the discounted cash flows.

The following approximate life expectancies were used in the mortality assumptions to determine the PBO for the pension and post-retirement and post-employment plans at December 31, 2021 and 2020:

As at December 31	2021	2020
Life expectancy at age 65 for a member currently at:	*(years)*	*(years)*
Age 65 - male	23	22
Age 65 - female	25	25
Age 45 - male	24	23
Age 45 - female	26	26

Estimated Future Benefit Payments

At December 31, 2021, estimated future benefit payments to the participants of the Plans were:

(millions of dollars)	Pension Benefits	Post-Retirement and Post-Employment Benefits
2022	362	64
2023	369	65
2024	375	66
2025	379	66
2026	383	68
2027 through to 2031	1,962	345
Total estimated future benefit payments through to 2031	3,830	674

Components of Regulatory Accounts

A portion of actuarial gains and losses and prior service costs is recorded within regulatory accounts on Hydro One's consolidated balance sheets to reflect the expected regulatory inclusion of these amounts in future rates, which would otherwise be recorded in OCI. These amounts are reflected in the following table:

Year ended December 31 *(millions of dollars)*	2021	2020
Pension Benefits:		
Actuarial (gain) loss for the year	(891)	536
Prior service cost for the year	—	31
Amortization of actuarial losses	(124)	(95)
Amortization of prior service cost	(2)	(2)
	(1,017)	470
Post-Retirement and Post-Employment Benefits:		
Actuarial gain for the year	(91)	(44)
Amortization of actuarial losses	(3)	(2)
	(94)	(46)

The following table provides the components of regulatory accounts that have not been recognized as components of net periodic benefit costs for the years ended December 31, 2021 and 2020:

Year ended December 31 *(millions of dollars)*	2021	2020
Pension Benefits:		
Actuarial loss	713	1,660
Post-Retirement and Post-Employment Benefits:		
Actuarial (gain) loss	(33)	59

Pension Plan Assets

Investment Strategy

On a regular basis, Hydro One evaluates its investment strategy to ensure that Pension Plan assets will be sufficient to pay Pension Plan benefits when it comes due. As part of this ongoing evaluation, Hydro One may make changes to its targeted asset allocation and investment strategy. The Pension Plan is managed at a net asset level. The main objective of the Pension Plan is to sustain a certain level of net assets in order to meet the pension obligations of the Company. The Pension Plan fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (SIPP), which is reviewed and approved annually by the Human Resource Committee of Hydro One's Board of Directors. The Company manages net assets by engaging external investment managers who are charged with the fiduciary responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP. The performance of the underlying investment managers is monitored through a governance structure. Increases in net assets are a direct result of investment income generated by investments held by the Pension Plan and contributions to the Pension Plan by eligible employees and by the Company. The main use of net assets is for benefit payments to eligible Pension Plan members.

Pension Plan Asset Mix

At December 31, 2021, the Pension Plan actual weighted average, target, and range asset allocations were as follows:

	Actual (%)	Target Allocation (%)	Range Allocation (%)
Equity securities	51	40	25 - 55
Debt securities	33	35	30 - 40
Real Estate and Infrastructure	16	25	0 - 35
	100	100	

At December 31, 2021, the Pension Plan held $22 million (2020 - $23 million) Hydro One corporate bonds and $603 million (2020 - $565 million) of debt securities of the Province of Ontario (Province).

Concentrations of Credit Risk

Hydro One evaluated its Pension Plan's asset portfolio for the existence of significant concentrations of credit risk as at December 31, 2021 and 2020. Concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, concentrations in a type of industry, and concentrations in individual funds. At December 31, 2021 and 2020, there were no significant concentrations (defined as greater than 10% of plan assets) of risk in the Pension Plan's assets.

The Pension Plan's Statement of Investment Beliefs and Guidelines provides guidelines and restrictions for eligible investments taking into account credit ratings, maximum investment exposure and other controls in order to limit the impact of this risk. The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade and government bonds and with respect to derivative instruments by transacting only with highly rated financial institutions, and also by ensuring that exposure is diversified across counterparties. The risk of default on transactions in listed securities is considered minimal, as the trade will fail if either party to the transaction does not meet its obligation.

Fair Value Measurements

The following tables present the Pension Plan assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy at December 31, 2021 and 2020:

As at December 31, 2021 *(millions of dollars)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Pooled funds	—	21	1,937	1,958
Cash and cash equivalents	144	—	—	144
Short-term securities	—	86	—	86
Derivative instruments	—	2	—	2
Corporate shares - Canadian	167	—	—	167
Corporate shares - Foreign	3,412	258	—	3,670
Bonds and debentures - Canadian	—	2,491	—	2,491
Bonds and debentures - Foreign	—	97	—	97
Total fair value of plan assets[1]	3,723	2,955	1,937	8,615
Derivative instruments	—	1	—	1
Total fair value of plan liabilities[1]	—	1	—	1

[1] At December 31, 2021, the total fair value of Pension Plan assets and liabilities excludes $39 million of interest and dividends receivable, $5 million of pension administration expenses payable, $2 million of taxes payable, $4 million payable to participants, $6 million of sold investments receivable, and $3 million of purchased investments payable.

As at December 31, 2020 *(millions of dollars)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Pooled funds	—	21	1,429	1,450
Cash and cash equivalents	163	—	—	163
Short-term securities	—	175	—	175
Derivative instruments	—	2	—	2
Corporate shares - Canadian	142	—	—	142
Corporate shares - Foreign	3,335	209	—	3,544
Bonds and debentures - Canadian	—	2,499	—	2,499
Bonds and debentures - Foreign	—	96	—	96
Total fair value of plan assets[1]	3,640	3,002	1,429	8,071
Derivative instruments	—	1	—	1
Total fair value of plan liabilities[1]	—	1	—	1

[1] At December 31, 2020, the total fair value of Pension Plan assets and liabilities excludes $39 million of interest and dividends receivable, $6 million of pension administration expenses payable, $2 million of taxes payable, $6 million payable to participants, $17 million of sold investments receivable, and $9 million of purchased investments payable.

See Note 18 - Fair Value of Financial Instruments and Risk Management for a description of levels within the fair value hierarchy.

Changes in the Fair Value of Financial Instruments Classified in Level 3

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the years ended December 31, 2021 and 2020. The Pension Plan classifies financial instruments as Level 3 when the fair value is measured based on at least one significant input that is not observable in the markets or due to lack of liquidity in certain markets. The gains and losses presented in the table below could, therefore, include changes in fair value based on both observable and unobservable inputs. The Level 3 financial instruments are comprised of pooled funds whose valuations are provided by the investment managers. Sensitivity analysis is not provided as the underlying assumptions used by the investment managers are not available.

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Fair value, beginning of year	1,429	1,079
Realized and unrealized gains	307	97
Purchases	308	288
Sales and disbursements	(107)	(35)
Fair value, end of year	1,937	1,429

There were no significant transfers between any of the fair value levels during the years ended December 31, 2021 and 2020.

Valuation Techniques Used to Determine Fair Value

Pooled funds mainly consist of private equity, real estate infrastructure and private debt investments. Private equity investments represent private equity funds that invest in operating companies that are not publicly traded on a stock exchange. Investment strategies in private equity include limited partnerships in businesses that are characterized by high internal growth and operational efficiencies, venture capital, leveraged buyouts and special situations such as distressed investments. Real estate and infrastructure investments represent funds that invest in real assets which are not publicly traded on a stock exchange. Investment strategies in real estate include limited partnerships that seek to generate a total return through income and capital growth by investing primarily in global and Canadian limited partnerships. Investment strategies in infrastructure include limited partnerships in core infrastructure assets focusing on assets that are expected to generate stable, long-term cash flows and deliver incremental returns relative to conventional fixed-income investments. Private equity, real estate and infrastructure valuations are reported by the fund manager and are based on the valuation of the underlying investments which includes inputs such as cost, operating results, discounted future cash flows and market-based comparable data. Private debt valuations are reported by the fund manager. Private debt is credit that is extended to companies on a bilaterally negotiated basis. It is not readily marketable and takes a wide range of forms, such as senior secured and unsecured loans, infrastructure project financing, investments secured by real estate assets, and securitized lease/loan obligations supported by a pool of assets. Since these valuation inputs are not highly observable, private equity, real estate infrastructure and private debt investments have been categorized as Level 3 within pooled funds.

Cash equivalents consist of demand cash deposits held with banks and cash held by the investment managers. Cash equivalents are categorized as Level 1.

Short-term securities are valued at cost plus accrued interest, which approximates fair value due to their short-term nature. Short-term securities are categorized as Level 2.

Derivative instruments are used to hedge the Pension Plan’s foreign currency exposure back to Canadian dollars. The notional principal amount of contracts outstanding as at December 31, 2021 was $414 million (2020 - $423 million), the most significant currencies being hedged against the Canadian dollar are the United States dollar, euro, British pound sterling, Swedish krona and Japanese yen. The net realized gain on contracts for the year ended December 31, 2021 was $2 million (2020 - $8 million net realized loss). The terms to maturity of the forward exchange contracts at December 31, 2021 are within three months. The fair value is determined using standard interpolation methodology primarily based on the World Markets exchange rates. Derivative instruments are categorized as Level 2.

Corporate shares are valued based on quoted prices in active markets and are categorized as Level 1. Corporate shares which are valued based on quoted prices in active markets, but held within a pension investment holding company, are categorized as Level 2. Investments denominated in foreign currencies are translated into Canadian currency at year-end rates of exchange.

Bonds and debentures are presented at published closing trade quotations, and are categorized as Level 2.

21. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2021 and 2020:

Year ended December 31, 2021 *(millions of dollars)*	**PCB**	**LAR**	**Total**
Environmental liabilities - beginning	76	57	133
Interest accretion	1	—	1
Expenditures	(24)	(6)	(30)
Revaluation adjustment	15	3	18
Environmental liabilities - ending	68	54	122
Less: current portion	(27)	(7)	(34)
	41	47	88

Year ended December 31, 2020 *(millions of dollars)*	**PCB**	**LAR**	**Total**
Environmental liabilities - beginning	90	51	141
Interest accretion	3	—	3
Expenditures	(17)	(6)	(23)
Revaluation adjustment	—	12	12
Environmental liabilities - ending	76	57	133
Less: current portion	(25)	(8)	(33)
	51	49	100

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

As at December 31, 2021 *(millions of dollars)*	PCB	LAR	Total
Undiscounted environmental liabilities	70	54	124
Less: discounting environmental liabilities to present value	(2)	—	(2)
Discounted environmental liabilities	68	54	122

As at December 31, 2020 *(millions of dollars)*	PCB	LAR	Total
Undiscounted environmental liabilities	80	57	137
Less: discounting environmental liabilities to present value	(4)	—	(4)
Discounted environmental liabilities	76	57	133

At December 31, 2021, the estimated future environmental expenditures were as follows:

(millions of dollars)	
2022	34
2023	21
2024	22
2025	12
2026	2
Thereafter	33
	124

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

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations, and advances in remediation technologies. In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation rate assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.0% to 6.3%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value of costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, with respect to the PCB environmental liability, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures.

PCBs

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

At December 31, 2021, the Company's best estimate of the total estimated future expenditures to comply with current PCB regulations was $70 million (2020 - $80 million). These expenditures are expected to be incurred over the period from 2022 to 2025. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2021 to increase the PCB environmental liability by $15 million (2020 - no revaluation adjustment was recorded).

LAR

At December 31, 2021, the Company's best estimate of the total estimated future expenditures to complete its LAR program was $54 million (2020 - $57 million). These expenditures are expected to be incurred over the period from 2022 to 2054. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2021 to increase the LAR environmental liability by $3 million (2020 - $12 million).

22. ASSET RETIREMENT OBLIGATIONS

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

In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.0% to 4.0%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company’s asset retirement obligations represent management’s best estimates of the cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company’s current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively. As a result of its annual review of asset retirement obligations, no revaluation adjustment to the asset retirement obligations was recorded in 2021 (2020 - revaluation adjustment was recorded to increase the asset retirement obligations by $3 million).

At December 31, 2021, Hydro One had recorded asset retirement obligations of $14 million (2020 - $13 million), primarily consisting of the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities.

23. LEASES

Hydro One has operating lease contracts for buildings used in administrative and service-related functions. These leases have terms between three and nine years with renewal options of additional three- to five-year terms at prevailing market rates at the time of extension. All leases include a clause to enable upward revision of the rental charge on an annual basis or on renewal according to prevailing market conditions or pre-established rents. There are no restrictions placed upon Hydro One by entering into these leases. Renewal options are included in the lease term when their exercise is reasonably certain. Other information related to the Company's operating leases was as follows:

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Lease expense	13	12
Lease payments made	13	11

As at December 31	**2021**	**2020**
Weighted-average remaining lease term[1] *(years)*	6	7
Weighted-average discount rate	2.3 %	2.6 %

[1] Includes renewal options that are reasonably certain to be exercised.

At December 31, 2021, future minimum operating lease payments were as follows:

(millions of dollars)	
2022	14
2023	10
2024	9
2025	7
2026	7
Thereafter	13
Total undiscounted minimum lease payments	60
Less: discounting minimum lease payments to present value	(4)
Total discounted minimum lease payments	56

At December 31, 2020, future minimum operating lease payments were as follows:

(millions of dollars)	
2021	14
2022	12
2023	11
2024	11
2025	10
Thereafter	27
Total undiscounted minimum lease payments	85
Less: discounting minimum lease payments to present value	(8)
Total discounted minimum lease payments	77

Hydro One presents its ROU assets and lease obligations on the consolidated balance sheets as follows:

As at December 31 *(millions of dollars)*	**2021**	**2020**
Other long-term assets *(Note 14)*	53	71
Accounts payable and other current liabilities *(Note 15)*	12	11
Other long-term liabilities *(Note 16)*	44	65

24. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At December 31, 2021 and 2020, the Company had 142,239 common shares issued and outstanding. No return of stated capital was paid in 2021. During the year ended December 31, 2020, a return of stated capital in the amount of $607 million was paid.

The amount and timing of any dividends payable by Hydro One is at the discretion of the Hydro One Board of Directors and is established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board of Directors may consider relevant.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At December 31, 2021 and 2020, the Company had no preferred shares issued and outstanding.

25. DIVIDENDS

In 2021, common share dividends in the amount of $620 million (2020 - $1 million) were declared and paid and no preferred share dividends (2020 - $nil) were paid. See Note 34 - Subsequent Events for dividends declared subsequent to December 31, 2021.

26. EARNINGS PER COMMON SHARE

Basic and diluted earnings per common share is calculated by dividing net income attributable to common shareholder of Hydro One by the weighted-average number of common shares outstanding. The weighted-average number of common shares outstanding at December 31, 2021 and 2020 were 142,239. There were no dilutive securities during 2021 and 2020.

27. STOCK-BASED COMPENSATION

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

Share Grant Plans

Hydro One Limited has two share grant plans (Share Grant Plans), one for the benefit of certain members of the Power Workers' Union (PWU) (PWU Share Grant Plan) and one for the benefit of certain members of the Society (Society Share Grant Plan). Hydro One and Hydro One Limited entered into an intercompany agreement, such that Hydro One will pay Hydro One Limited for the compensation costs associated with these plans.

The PWU Share Grant Plan provides for the issuance of common shares of Hydro One Limited from treasury to certain eligible members of the PWU annually, commencing on April 1, 2017 and continuing until the earlier of April 1, 2028 or the date an eligible employee no longer meets the eligibility criteria of the PWU Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on April 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. The requisite service period for the PWU Share Grant Plan began on July 3, 2015, which is the date the share grant plan was ratified by the PWU. The number of common shares issued annually to each eligible employee will be equal to 2.7% of such eligible employee's salary as at April 1, 2015, divided by $20.50, being the price of the common shares of Hydro One Limited in the Initial Public Offering (IPO). The aggregate number of Hydro One Limited common shares issuable under the PWU Share Grant Plan shall not exceed 3,981,763 common shares. In 2015, 3,952,212 Hydro One Limited common shares were granted under the PWU Share Grant Plan relevant to the total share-based compensation recognized by Hydro One.

The Society Share Grant Plan provides for the issuance of common shares of Hydro One Limited from treasury to certain eligible members of the Society annually, commencing on April 1, 2018 and continuing until the earlier of April 1, 2029 or the date an eligible employee no longer meets the eligibility criteria of the Society Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on September 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. Therefore, the requisite service period for the Society Share Grant Plan began on September 1, 2015. The number of common shares issued annually to each eligible employee will be equal to 2.0% of such eligible employee's salary as at September 1, 2015, divided by $20.50, being the price of the common shares of Hydro One Limited in the IPO. The aggregate number of Hydro One Limited common shares issuable under the Society Share Grant Plan shall not exceed 1,434,686 common shares. In 2015, 1,367,158 Hydro One Limited common shares were granted under the Society Share Grant Plan relevant to the total share-based compensation recognized by Hydro One.

The fair value of the Hydro One Limited 2015 share grants of $111 million was estimated based on the grant date Hydro One Limited share price of $20.50 and is recognized using the graded-vesting attribution method as the share grant plans have both a performance condition and a service condition. In 2021, 410,575 common shares of Hydro One Limited (2020 - 434,653) were issued under the Share Grant Plans to eligible employees of Hydro One. Total share-based compensation recognized during 2021 was $5 million (2020 - $7 million) and was recorded as a regulatory asset.

A summary of share grant activity under the Share Grant Plans during the years ended December 31, 2021 and 2020 is presented below:

Year ended December 31, 2021	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding - beginning	3,100,165	$20.50
Vested and issued[1]	(410,575)	—
Forfeited	(73,239)	$20.50
Share grants outstanding - ending	2,616,351	$20.50

[1] In 2021, Hydro One Limited issued from treasury 410,575 common shares to eligible Hydro One employees in accordance with provisions of the Share Grant Plans. In accordance with the intercompany agreement between Hydro One and Hydro One Limited, Hydro One made payments to Hydro One Limited for the common shares issued.

Year ended December 31, 2020	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding - beginning	3,611,178	$20.50
Vested and issued[1]	(434,653)	—
Forfeited	(76,360)	$20.50
Share grants outstanding - ending	3,100,165	$20.50

[1] In 2020, Hydro One Limited issued from treasury 434,653 common shares to eligible Hydro One employees in accordance with provisions of the Share Grant Plans. In accordance with the intercompany agreement between Hydro One and Hydro One Limited, Hydro One made payments to Hydro One Limited for the common shares issued.

Directors' DSU Plan

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

A summary of DSU awards activity under the Directors' DSU Plan during the years ended December 31, 2021 and 2020 is presented below:

Year ended December 31 (number of DSUs)	**2021**	**2020**
DSUs outstanding - beginning	65,240	52,620
Granted	20,888	22,481
Settled	(5,315)	(9,861)
DSUs outstanding - ending	80,813	65,240

For the year ended December 31, 2021, an expense of $1 million (2020 - $1 million) was recognized in earnings with respect to the Directors' DSU Plan. At December 31, 2021, a liability of $3 million (2020 - $2 million) related to Directors' DSUs has been recorded at the closing price of Hydro One Limited common shares of $32.91. This liability is included in other long-term liabilities on the consolidated balance sheets.

Management DSU Plan

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

A summary of DSU awards activity under the Management DSU Plan during the years ended December 31, 2021 and 2020 is presented below:

Year ended December 31 *(number of DSUs)*	**2021**	**2020**
DSUs outstanding - beginning	61,880	52,186
Granted	28,360	22,132
Paid	—	(12,438)
DSUs outstanding - ending	90,240	61,880

For the year ended December 31, 2021, an expense of $1 million (2020 - $1 million) was recognized in earnings with respect to the Management DSU Plan. At December 31, 2021, a liability of $1 million (2020 - $2 million) related to Management DSUs has been recorded at the closing price of Hydro One Limited common shares of $32.91. This liability is included in other long-term liabilities on the consolidated balance sheets.

Employee Share Ownership Plan

In 2015, Hydro One Limited established Employee Share Ownership Plans (ESOP) for certain eligible management and non-represented employees (Management ESOP) and for certain eligible Society-represented staff (Society ESOP). Under the Management ESOP, the eligible management and non-represented employees may contribute between 1% and 6% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 50% of their contributions, up to a maximum Company contribution of $25,000 per calendar year. Under the Society ESOP, the eligible Society-represented staff may contribute between 1% and 4% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 25% of their contributions, with no maximum Company contribution per calendar year. In 2021, Company contributions made under the ESOP were $2 million (2020 - $2 million).

LTIP

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

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

PSUs and RSUs

A summary of PSU and RSU awards activity under the LTIP during the years ended December 31, 2021 and 2020 is presented below:

	PSUs		RSUs	
Year ended December 31 *(number of units)*	**2021**	**2020**	**2021**	**2020**
Units outstanding - beginning	106,070	162,344	133,620	200,883
Vested and issued	(106,070)	(49,477)	(98,860)	(3,728)
Forfeited	—	(6,797)	—	(7,125)
Settled	—	—	(34,760)	(56,410)
Units outstanding - ending	—	106,070	—	133,620

No awards were granted in 2021 or 2020. The compensation expense related to the PSU and RSU awards recognized by the Company during 2021 was less than $1 million (2020 - $3 million).

At December 31, 2021, $9 million (2020 - $9 million) payable to Hydro One Limited relating to PSU and RSU awards was included in due to related parties on the consolidated balance sheets.

Society RSU Plan

As a result of the renewal of the Company's prior collective agreement with members of the Society, the Company provided equity compensation in the form of RSUs to certain eligible members. The equity compensation provides for the purchase of common shares of Hydro One Limited from the open market, effective March 1, 2021 in one equity grant vesting in equal portions over a two-year period. To be eligible, an employee must be an employee of the Company as of July 30, 2021, the date the plan was ratified by the Society; the grant date. The number of common shares issued to each eligible employee will be equal to 1.0% of such eligible employee's salary as at April 1, 2021, divided by $30.80, being the price of the common shares of Hydro One Limited at the grant date. Each RSU is entitled to accrue common share dividend equivalents in the form of additional RSUs at the time dividends are paid, subsequent to declaration by Hydro One's Board of Directors.

A summary of RSU awards activity under the Society RSU Plan during the years ended December 31, 2021 and 2020 is presented below:

Year ended December 31 *(number of RSUs)*	**2021**	**2020**
RSUs outstanding - beginning	—	—
Granted	68,005	—
RSUs outstanding - ending	68,005	—

Stock Options

Hydro One Limited is authorized to grant stock options under its LTIP to certain eligible employees. No stock options were granted in 2021 or 2020.

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

A summary of stock options activity during the years ended December 31, 2021 and 2020 is presented below:

	Number of Stock Options	**Weighted-average exercise price**
Stock options outstanding - January 1, 2020	403,550	$ 20.66
Exercised[1]	(294,840)	$ 20.66
Stock options outstanding - December 31, 2020	108,710	$ 20.66
Exercised[1]	(108,710)	$ 20.66
Stock options outstanding - December 31, 2021	—	—

[1] Stock options exercised in 2021 had an aggregate intrinsic value of $1 million (2020 - $2 million).

No compensation expense related to stock options was recognized by the Company during 2021 or 2020. At December 31, 2021 and 2020, no amounts were payable to Hydro One Limited relating to stock options awards.

28. NONCONTROLLING INTEREST

Total noncontrolling interest consists of noncontrolling interest attributable to B2M LP and NRLP. The following tables show the movements in total noncontrolling interest during the years ended December 31, 2021 and 2020:

Year ended December 31, 2021 *(millions of dollars)*	**Temporary Equity**	**Equity**	**Total**
Noncontrolling interest - beginning	22	72	94
Distributions to noncontrolling interest	(4)	(10)	(14)
Net income attributable to noncontrolling interest	2	6	8
Noncontrolling interest - ending	20	68	88

Year ended December 31, 2020 *(millions of dollars)*	**Temporary Equity**	**Equity**	**Total**
Noncontrolling interest - beginning	20	59	79
Contributions from sale of noncontrolling interest *(Note 4)*	—	9	9
Distributions to noncontrolling interest	—	(2)	(2)
Net income attributable to noncontrolling interest	2	6	8
Noncontrolling interest - ending	22	72	94

<u>B2M LP</u>

On December 16, 2014, transmission assets totalling $526 million were transferred from Hydro One Networks to B2M LP. This was financed by 60% debt ($316 million) and 40% equity ($210 million). On December 17, 2014, the SON acquired a 34.2% equity interest in B2M LP for consideration of $72 million, representing the fair value of the equity interest acquired. The SON's initial investment in B2M LP consists of $50 million of Class A units and $22 million of Class B units.

The Class B units have a mandatory put option which requires that upon the occurrence of an enforcement event (i.e., an event of default such as a debt default by the SON or insolvency event), Hydro One purchase the Class B units of B2M LP for net book value on the redemption date. The noncontrolling interest relating to the Class B units is classified on the consolidated balance sheet as temporary equity because the redemption feature is outside the control of the Company. The balance of the noncontrolling interest is classified within equity.

The following tables show the movements in B2M LP noncontrolling interest during the years ended December 31, 2021 and 2020:

Year ended December 31, 2021 *(millions of dollars)*	**Temporary Equity**	**Equity**	**Total**
Noncontrolling interest - beginning	22	49	71
Distributions to noncontrolling interest	(4)	(7)	(11)
Net income attributable to noncontrolling interest	2	4	6
Noncontrolling interest - ending	20	46	66

Year ended December 31, 2020 *(millions of dollars)*	**Temporary Equity**	**Equity**	**Total**
Noncontrolling interest - beginning	20	47	67
Distributions to noncontrolling interest	—	(2)	(2)
Net income attributable to noncontrolling interest	2	4	6
Noncontrolling interest - ending	22	49	71

<u>NRLP</u>

On September 18, 2019, Hydro One Networks sold to the Six Nations of the Grand River Development Corporation and, through a trust, to the Mississaugas of the Credit First Nation a 25.0% and 0.1%, respectively, equity interest in NRLP partnership units for total consideration of $12 million, representing the fair value of the equity interest acquired. On January 31, 2020, the Mississaugas of the Credit First Nation purchased an additional 19.9% equity interest in NRLP partnership units from Hydro One Networks for total cash consideration of $9 million. Following this transaction, Hydro One's interest in the equity portion of NRLP partnership units was reduced to 55%, with the Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation owning 25% and 20%, respectively, of the equity interest in NRLP partnership units. The First Nations Partners' noncontrolling interest in NRLP is classified within equity.

The following table shows the movements in NRLP noncontrolling interest during the years ended December 31, 2021 and 2020:

Year ended December 31 *(millions of dollars)*	**2021**	**2020**
Noncontrolling interest - beginning	23	12
Contributions from sale of noncontrolling interest *(Note 4)*	—	9
Distributions to noncontrolling interest	(3)	—
Net income attributable to noncontrolling interest	2	2
Noncontrolling interest - ending	22	23

29. RELATED PARTY TRANSACTIONS

Hydro One is owned by Hydro One Limited. The Province is a shareholder of Hydro One Limited with approximately 47.2% ownership at December 31, 2021. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), the OEB, Acronym Solutions Inc., formerly Hydro One Telecom Inc. (Acronym Solutions) and Hydro One Broadband Solutions Inc, (HOBSI) are related parties to Hydro One because they are controlled or significantly influenced by the Ministry of Energy or by Hydro One Limited. The following is a summary of the Company's related party transactions during the years ended December 31, 2021 and 2020:

Year ended December 31 *(millions of dollars)* **Related Party**	**Transaction**	**2021**	**2020**
IESO	Power purchased	2,238	2,506
	Revenues for transmission services	1,832	1,717
	Amounts related to electricity rebates	1,065	1,588
	Distribution revenues related to rural rate protection	245	242
	Distribution revenues related to supply of electricity to remote northern communities	35	35
	Funding received related to CDM programs	1	26
OPG	Power purchased	13	6
	Revenues related to provision of services and supply of electricity	7	7
	Capital contribution received from OPG	3	3
	Costs related to the purchase of services	2	3
OEFC	Power purchased from power contracts administered by the OEFC	1	1
OEB	OEB fees	8	9
Hydro One Limited	Return of stated capital	—	607
	Dividends paid	620	1
	Stock-based compensation costs	6	10
	Cost recovery for services provided	7	9
Acronym Solutions	Services received – costs expensed	24	21
	Revenues for services provided	2	3
Hydro One Broadband Solutions Inc.	Capital contribution accrued from HOBSI	3	—

Sales to and purchases from related parties are based on the requirements of the OEB's Affiliate Relationships Code. Outstanding balances at period end are interest-free and settled in cash. Invoices are issued monthly, and amounts are due and paid on a monthly basis.

30. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Year ended December 31 *(millions of dollars)*	2021	2020
Accounts receivable	17	13
Due from related parties	26	78
Materials and supplies *(Note 10)*	1	—
Prepaid expenses and other assets *(Note 10)*	(3)	(14)
Other long-term assets *(Note 14)*	(3)	(2)
Accounts payable	(3)	36
Accrued liabilities *(Note 15)*	49	(61)
Due to related parties	(73)	20
Accrued interest *(Note 15)*	7	12
Long-term accounts payable and other long-term liabilities *(Note 16)*	1	3
Post-retirement and post-employment benefit liability	50	74
	69	159

Capital Expenditures

The following tables reconcile investments in property, plant and equipment and intangible assets and the amounts presented in the consolidated statements of cash flows for the years ended December 31, 2021 and 2020. The reconciling items include net change in accruals and capitalized depreciation.

Year ended December 31, 2021 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(1,963)	(141)	(2,104)
Reconciling items	55	(1)	54
Cash outflow for capital expenditures	(1,908)	(142)	(2,050)

Year ended December 31, 2020 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(1,742)	(127)	(1,869)
Reconciling items	33	1	34
Cash outflow for capital expenditures	(1,709)	(126)	(1,835)

Capital Contributions

Hydro One enters into contracts governed by the OEB Transmission System Code when a transmission customer requests a new or upgraded transmission connection. The customer is required to make a capital contribution to Hydro One based on the shortfall between the present value of the costs of the connection facility and the present value of revenues. The present value of revenues is based on an estimate of load forecast for the period of the contract with Hydro One. Once the connection facility is commissioned, in accordance with the OEB Transmission System Code, Hydro One will periodically reassess the estimated load forecast which will lead to a decrease, or an increase in the capital contributions from the customer. The increase or decrease in capital contributions is recorded directly to property, plant and equipment in service. In 2021, there were $14 million capital contributions from these assessments (2020 - $nil).

Supplementary Information

Year ended December 31 *(millions of dollars)*	2021	2020
Net interest paid	500	493
Income taxes paid	20	33

31. CONTINGENCIES

Legal Proceedings

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

Transfer of Assets

The transfer orders by which the Company acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on Reserves (as defined in the *Indian Act* (Canada)). Currently, the OEFC holds these assets. Under the terms of the transfer orders, the Company is required to manage these assets until it has obtained all consents necessary to complete the transfer of title of these assets to itself. The Company cannot predict the aggregate amount that it may have to pay, either on an annual or one-time basis, to obtain the required consents. In 2021, the Company paid approximately $2 million (2020 - $2 million) in respect of consents obtained. If the Company cannot obtain the required consents, the OEFC will continue to hold these assets for an indefinite period of time. If the Company cannot reach a satisfactory settlement, it may have to relocate these assets to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel-generation facilities. The costs relating to these assets could have a material adverse effect on the Company's results of operations if the Company is not able to recover them in future rate orders.

32. COMMITMENTS

The following table presents a summary of Hydro One's commitments under outsourcing and other agreements due in the next five years and thereafter:

As at December 31, 2021 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing and other agreements	114	50	11	3	2	15
Long-term software/meter agreement	2	1	2	1	1	5

Outsourcing and Other Agreements

Hydro One had an agreement with Inergi for the provision of IT and back-office outsourcing services, including supply chain, finance and accounting and payroll services. The agreement expired on February 28, 2021 for IT services and October 31, 2021 for supply chain services. The provision of finance and accounting and payroll services under the Inergi contract terminated on December 31, 2021. A new agreement with Inergi was entered into for the provision of management oversight of the payroll employees transferred to Hydro One for a one-year period effective January 1, 2022. In February 2021, Hydro One entered into a three-year agreement for IT services with Capgemini Canada Inc., which expires on February 29, 2024, and includes an option to extend for two additional one-year terms at Hydro One's discretion. This agreement resulted in commitments of $143 million over the initial three-year term of the agreement. On September 30, 2020, Hydro One entered into an agreement with Ceridian Canada Ltd. to provide pay operations services for a five-year term which is expected to commence in 2023.

BGIS provides services to Hydro One, including facilities management and execution of certain capital projects as deemed required by the Company. The agreement with BGIS for these services expires in December 2024, with an option for the Company to renew the agreement for an additional term of three years.

Long-term Software/Meter Agreement

Trilliant Holdings Inc. and Trilliant Networks (Canada) Inc. (collectively Trilliant) provide services to Hydro One for the supply, maintenance and support services for smart meters and related hardware and software, including additional software licences, as well as certain professional services. The agreement with Trilliant for these services expires in December 2030.

Other Commitments

The following table presents a summary of Hydro One's other commercial commitments by year of expiry in the next five years and thereafter:

As at December 31, 2021 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Operating Credit Facilities[1]	—	—	—	—	2,300	—
Letters of credit[2]	182	2	—	—	—	—
Guarantees[3]	475	—	—	—	—	—

[1] On June 1, 2021, the maturity date for the Operating Credit Facilities was extended to 2026.
[2] Letters of credit consist of $160 million letters of credit related to retirement compensation arrangements, a $17 million letter of credit provided to the IESO for prudential support, $4 million in letters of credit to satisfy debt service reserve requirements, and $3 million in letters of credit for various operating purposes.
[3] Guarantees consist of $475 million prudential support provided to the IESO by Hydro One on behalf of its subsidiaries.

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees and/or letters of credit if these purchasers fail to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of any letters of credit plus the amount of the parental guarantees.

Retirement Compensation Arrangements

Bank letters of credit have been issued to provide security for Hydro One's liability under the terms of a trust fund established pursuant to the supplementary pension plan for eligible employees of Hydro One. The supplementary pension plan trustee is required to draw upon these letters of credit if Hydro One is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to secure Hydro One's liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the letters of credit.

33. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Segment, which comprises the transmission of high voltage electricity across the province, interconnecting local distribution companies and certain large directly connected industrial customers throughout the Ontario electricity grid;
- The Distribution Segment, which comprises the delivery of electricity to end customers and certain other municipal electricity distributors; and
- Other Segment, which includes certain corporate activities. The Other Segment includes a portion of the DTA which arose from the revaluation of the tax bases of Hydro One's assets to fair market value when the Company transitioned from the provincial payments in lieu of tax regime to the federal tax regime at the time of Hydro One's initial public offering in 2015. This DTA is not required to be shared with ratepayers, the Company considers it to not be part of the regulated transmission and distribution segment assets, and it is included in the other segment.

The designation of segments has been based on a combination of regulatory status and the nature of the services provided. Operating segments of the Company are determined based on information used by the chief operating decision-maker in deciding how to allocate resources and evaluate the performance of each of the segments. The Company evaluates segment performance based on income before financing charges and income tax expense from continuing operations (excluding certain allocated corporate governance costs).

Year ended December 31, 2021 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	1,826	5,359	—	7,185
Purchased power	—	3,579	—	3,579
Operation, maintenance and administration	414	664	3	1,081
Depreciation, amortization and asset removal costs	485	428	—	913
Income (loss) before financing charges and income tax expense	927	688	(3)	1,612
Capital investments	1,320	784	—	2,104

Year ended December 31, 2020 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	1,743	5,507	—	7,250
Purchased power	—	3,854	—	3,854
Operation, maintenance and administration	406	623	5	1,034
Depreciation, amortization and asset removal costs	459	417	—	876
Income (loss) before financing charges and income tax expense	878	613	(5)	1,486
Capital investments	1,157	712	—	1,869

Total Assets by Segment:

As at December 31 *(millions of dollars)*	2021	2020
Transmission	18,109	17,620
Distribution	11,475	11,294
Other	637	1,219
Total assets	30,221	30,133

Total Goodwill by Segment:

As at December 31 *(millions of dollars)*	2021	2020
Transmission	157	157
Distribution *(Note 4)*	216	216
Total goodwill	373	373

All revenues, assets and costs, as the case may be, are earned, held or incurred in Canada.

34. SUBSEQUENT EVENTS

Dividends

On February 24, 2022, common share dividends of $157 million were declared.