Base case: sale of 100% of Hydro One Inc. (HOI)
Consolidated results

A. Inputs

	Actual						Forecast	Budget									
	Year ended December 31,							Year ended December 31,									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
Promulgated rates used by HOI:																	
Federal tax rate	19.50%	19%	18%	16.50%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	
Provincial tax rate	14%	14%	13%	12%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	
	33.50%	33.00%	31.00%	28.25%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	26.50%	
PILs per income statements:																	
PILs current income tax	113	30	64	162	130	111	80	132	151	163	180	188	204	218	228	240	1,704
PILs deferred income tax	-	16	(8)	(12)	(9)	(3)	17	10	9	3	3	3	1	1	1	1	32
	113	46	56	150	121	108	98	142	159	166	182	191	205	219	229	242	1,735
Allocation of PILs current income tax:																	
Federal (15%/26.5%)	66	17	37	95	74	63	45	75	85	92	102	106	115	123	129	136	964
Provincial (11.5%/26.5%)	47	13	27	67	56	48	35	57	65	71	78	82	88	95	99	104	739
	113	30	64	162	130	111	80	132	151	163	180	188	204	218	228	240	1,704
PILs in lieu of municipal taxes	n.a.	2	2	2	2	2	3	3	3	3	3	3	3	3	3	3	23
Indemnity payments to the Province	n.a.	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	45

B. Assumptions

	$mm	
Selling price on January 1, 2015	14,800	An investor will not be paying for the FV of HOI and the departure tax which is payable by HOI.
Budgeted net equity at December 31, 2014 before:	7,524	
Gain on sale	7,276	
Allocation to:		
recapture excess depreciation	1,700	
fair value adjustment above book value	1,000	
residual to goodwill	4,576	
	7,276	
Indirect costs to be expensed for tax purposes	365	Based on Hydro One disclosures.
Interest rate on debt of Hydro One	4.75%	Based on the interest expense divided by the avg debt outstanding at 12/31/2013
Interest rate on debt of OEFC	5.76%	Based on the interest expense divided by the avg debt outstanding at 12/31/2013
Interest rate on debt of the Province	4.42%	Based on the effective weighted average interest rate for the debt in $CAN at 3/31/13

C. Calculation of indicative proceed allocation

Selling price on January 1, 2015	14,800
Gain on sale applied towards Stranded debt	(7,276)
Departure PILs applied towards Stranded debt	(1,322)
Settlement of Provincial liabilities to OEFC	(3,759)
Net proceeds remaining	2,443

D. Calculation of indicative fiscal impacts

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
1. Impact if the entity is no longer under PILs regime assuming sale on January 1, 2015												
a) **Federal PILs** will no longer be payable to OEFC	(A)		75	85	92	102	106	115	123	129	136	964
b) **Provincial PILs** before FV adjustment and tax planning			57	65	71	78	82	88	95	99	104	739
Less additional tax depreciation as a result of FV adjustment:												
1. recapture excess depreciation at avg of 8% declining balance x 11.5%			(16)	(14)	(13)	(12)	(11)	(10)	(9)	(9)	(9)	(104)
2. additional fair value at avg of 8% declining balance x 11.5%			(9)	(8)	(8)	(7)	(7)	(6)	(6)	(5)	(5)	(61)
3. goodwill - 75% tax deductible at 7% declining balance x 11.5%			(28)	(26)	(24)	(22)	(21)	(19)	(18)	(17)	(17)	(190)
Provincial income tax payable after FV adjustment			5	17	26	37	43	53	62	68	74	384
Less tax planning for:												
4. indirect costs expense for tax purposes x 11.5%			(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(378)
5. reduction of CCA due to indirect costs expense for tax purposes			3	6	9	12	14	17	19	20	22	123
6. interest on the loan to pay the departure tax			(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(65)
7. additional interest on interco debt pushed down (p.m.)			n.q.	n.q.	n.q.	n.q.	n.q.	n.q.	n.q.	n.q.	n.q.	n.q.
Provincial PILs after the above			(41)	(26)	(14)	(1)	8	20	31	40	47	64
Tax losses to be carried forward			41	26	14	1	-	-	-	-	-	82
Tax loss carryforwards used in period			-	-	-	-	(8)	(20)	(31)	(23)	-	(82)
Provincial income tax payable (after deduction of losses carried forward)			-	-	-	-	-	-	-	17	47	64
Provincial PILs lost	(B)		57	65	71	78	82	88	95	82	57	675
c) **PILs additional municipal taxes no longer due**	(C)		3	3	3	3	3	3	3	3	3	23
d) **Indemnity payments to the Province**	(D)		5	5	5	5	5	5	5	5	5	45
1) **PILs lost (federal and provincial)**	(A+B+C+D)		**140**	**158**	**170**	**187**	**195**	**211**	**225**	**218**	**201**	**1,707**
2) **Net Income lost by the province (as per management forecast)**			**746**	**791**	**853**	**899**	**920**	**955**	**985**	**1,017**	**1,048**	**8,213**
3) **Total revenue lost by the province**			**886**	**949**	**1,023**	**1,086**	**1,115**	**1,166**	**1,210**	**1,236**	**1,248**	**9,920**
4) **Gain on sale** of 100% of HOI			**(7,276)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,276)**
5) **Departure tax** (26.5% of recapture of excess depreciation and 26.5% of 50% of goodwill)			**(1,322)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,322)**
6) **Reduction of interest expense** (total gain on sale plus departure tax proceeds at 5.76%)[a]			**(496)**	**(496)**	**(496)**	**(496)**	**(496)**	**(496)**	**(496)**	**(496)**	**(496)**	**(4,460)**
7) **NET FISCAL IMPACT (before the discounting impact) (negative indicate a net profit)**			**(8,207)**	**453**	**528**	**590**	**619**	**671**	**715**	**740**	**753**	**(3,138)**
8) The above does not include the lost of DRC (based on the average collection over the past 5 years)			**940**	**940**	**940**	**940**	**-**	**-**	**-**	**-**	**-**	**3,760**

E. Additional questions

1. Will the DRC continue to be paid? How would any proceeds from the sale of OPG's non-nuclear assets be considered?
2. Will the proceed or net income be used to repay the stranded debt?
3. What is the regulatory impact of the departure tax? Is it a receivable? Will the excess depreciation be reimbursed to the ratepayers?

F. Other notes:

a Assumes the $3.8 billion residual stranded debt at 31-Dec-13 will be extinguished by the end of 2018.

Alternate case: sale of 60% of Hydro One Inc. (HOI)
Consolidated results

A. Calculation of indicative fiscal impacts		2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
1) **PILs lost (federal and provincial)**	Per above	140	158	170	187	195	211	225	218	201	1,707
2) **Net Income lost by the province (as per management forecast)**	Per above	746	791	853	899	920	955	985	1,017	1,048	8,213
3) **Total revenue lost by the province**	Per above	886	949	1,023	1,086	1,115	1,166	1,210	1,236	1,248	9,920
4) **Gain on sale** of 60% of HOI (assuming same relative valuation)	60% of above	(4,366)	-	-	-	-	-	-	-	-	(4,366)
5) **Departure tax** (26.5% of recapture of excess depreciation and 26.5% of 50% of goodwill)	Per above	(1,322)	-	-	-	-	-	-	-	-	(1,322)
6) **Reduction of interest expense** (60% of gain on sale plus 100% of departure tax proceeds at 5.76%)[a]		(328)	(328)	(328)	(328)	(328)	(328)	(328)	(328)	(328)	(2,951)
7) **Dividend income now recognized by the Province**	40% of forecast	(187)	(195)	(207)	(223)	(235)	(243)	(251)	(259)	(267)	(2,069)
8) **NET FISCAL IMPACT (before the discounting impact) (negative indicate a net profit)**		**(5,316)**	**426**	**488**	**535**	**552**	**595**	**631**	**649**	**653**	**(787)**
Variance to base case		2,891	(27)	(39)	(55)	(67)	(75)	(83)	(91)	(99)	2,351