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Michael Vels
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February 23, 2017

Dear Mr. Vels,

Pursuant to our recent conversations, regarding consolidation of trusts, please find below a summary of the guidance under Public Sector Accounting Standards ("PSAB"). Specifically, PSAB 1300, G*overnment reporting entity*, outlines the standards that are required to be followed when assessing the indicators of control (which once proved, requires consolidation), focusing on four primary factors, and then various secondary factors, as follows:

par.18 There are certain indicators that provide more persuasive evidence of control:

a) government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization;
b) government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses;
c) government holds the majority of the voting shares or a "golden share" 1 that confers the power to govern the financial and operating policies of the organization; and
d) government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations.

par.19 Other indicators that may provide evidence of control exist when the government has the power to:

a) provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members;
b) appoint or remove the CEO or other key personnel;
c) establish or amend the mission or mandate of the organization;
d) approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis;
e) establish borrowing or investment limits or restrict the organization's investments;
f) restrict the revenue-generating capacity of the organization, notably the sources of revenue; and

g) *establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources.*

For each indicator that applies in a particular circumstance, the degree of government influence would determine its importance as evidence of control. In weighing the evidence, it would be necessary to consider the indicators collectively as well as individually.

Therefore, as you can appreciate, the evaluation and conclusion on whether any government has control – and whether it must then consolidate - must be assessed based on the specific facts and circumstances of any trust arrangement being considered.

Depending on the structuring of the arrangement of the trust, consideration should also be given to the PSAB guidance relating to Trusts under administration, which is defined within PSAB 1300 as "*property that has been conveyed or assigned to a trustee to be administered as directed by agreement or statute. In a trust relationship, the trustee holds title to property for the benefit of, and stands in a fiduciary relationship to, the beneficiary.*" Trusts under administration are excluded from the government reporting entity, and are not included in the government financial statements. However, the government financial statements should disclose a description of trusts under administration by a government or government organization, and a summary of trust balances.

Finally, as discussed, any evaluation of control from Hydro One Inc.'s external reporting perspective, pursuant to any arrangement, would be in accordance with United States Generally Accepted Accounting Principles ("US GAAP"). As discussed, US GAAP is much more prescriptive and would also require a detailed assessment of all facts and circumstances.

This letter is intended solely for your information to assist in your discussions with the Province of Ontario, and should not be used for any other purpose.

Sincerely,

Michel Picard
Partner, Accounting Advisory Services
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