Key Messages and Q+As for Hydro One Acquisition

Key Messages

Commented [1]: These are copied and pasted from the approved statement

- Ontario is pleased to see the announcement of today's proposed acquisition of XXXX by Hydro One
    - It is expected to deliver clear benefits for the company's customers, employees and shareholders – including all taxpayers given our government's position as the single largest shareholder in Hydro One.
- In particular, we welcome the fact that this proposed acquisition will not impact the rates that Ontario customers pay.
- Neither will it have any impact on local jobs.
- As the single largest shareholder in Hydro One, the Ontario government would benefit from the company's receipt of additional regulated returns expected to begin in 2019.
- Those benefits will be above and beyond the proceeds already attributed to the Ontario Trillium Trust as a result of the IPO and subsequent secondary offerings.
- The potential for transactions of this sort was always considered and communicated as part of the Premier's Advisory Council on Government Assets.
- In fact, one of the benefits of broadening the ownership of Hydro One was to unlock the potential for precisely this sort of transaction.
- Similar acquisitions are increasingly common practice for Canadian-owned utilities. This includes, for example:
    - Newfoundland and Labrador-based Fortis' purchase of Michigan-based ITC
    - And Edmonton-based EPCOR Utilities' purchase of two U.S. water utilities.
- It is to the shared benefit of Hydro One's customers, employees and shareholders to see the company strengthened and growing.
- Our government's legislation that enabled the broadening of ownership of Hydro One and strengthened the Ontario Energy Board's regulatory process protects the interests of Ontario ratepayers.
- While Ontario ratepayers will not be directly impacted by today's announcement, our government's Fair Hydro Plan, which came fully into effect on July 1, 2017 has lowered electricity bills by 25 per cent on average for all residential customers and as many as half a million small businesses and farms.

Q+As

1. What is the impact of this deal on:
    a. Ontario taxpayers?

As the single largest shareholder in Hydro One, the Ontario Government would benefit from the company's receipt of additional regulated returns **expected to** begin in 2019. XXX has consistently produced positive shareholder returns, and stock dividends from the company have increased in each of the last 14 years. ***[NTD: statement needs to be verified***] The benefits of this deal will be above and beyond the proceeds already attributed to the *Ontario Trillium Trust* as a result of the IPO and subsequent secondary offerings.

Hydro One expects its shareholders to see stable, strong, forward looking returns on equity and this will benefit all Ontarians who are also Hydro One shareholders. For the people of Ontario this means a growing income stream that can fund public programs like hospitals, schools and transit.

b. Ontario ratepayers/Hydro One customers?

This transaction will have no**t** impact ~~on~~ the rates that Ontario customers pay. In the future, it is expected that the deal will drive rates lower as the new company finds new efficiencies.

A larger company will also have more capacity to invest **in transmission and distribution [NTD: as opposed to other companies]**, meaning higher quality and more reliable service.

If pressed on "efficiencies": Hydro One and XXX will not be changing existing brands, headquarters, or employees. Over time, the company expects to realize non-headcount efficiencies through collaboration and sharing of best practices on IT, innovation and supply chain purchasing, all of which will further enhance cost savings.

c. Hydro One employees?

Employees are not affected by this deal. Hydro One and XXX will not be changing existing brands, headquarters, or employees.

2. What is in this deal for Hydro One? Why are they doing this?

The acquisition makes strategic sense for Hydro One. Diversifying their asset mix improves the company's value, and as the largest shareholder, the province benefits from this move.

3. Why did Hydro One decide on XXX?

The acquisition of XXX presented an opportunity for Hydro One to achieve its goals of diversifying their asset mix and improving the company's value, and as the largest shareholder, the province benefits from this move. **Both companies have long histories, a shared commitment to their communities and are dedicated to customer service. *[NTD: from the H1 NR]***

4. Is the purchase being funded by Ontario ratepayers?

No. The purchase is being funded through a mix of financial instruments by Hydro One, which includes a sale of **convertible unsecured subordinated debentures that are convertible to common** shares.

5. Does this dilute the province's ownership of Hydro One?

Ontario remains above the 40% ownership threshold set out in legislation for Hydro One. The province is and will remain the single largest shareholder.

6. Has the Ontario government signed off on this deal? Did the government get a say in it? Are they supportive?

This deal was a business decision made by Hydro One as an independent company. The government is pleased at the benefits this will provide for all Ontarians, both taxpayers and ratepayers.

7. Why doesn't Hydro One focus on its own performance first?

Since the IPO, Hydro One has become a better managed company, with new customer-focused management. They have improved customer focus, and have achieved: a customer billing accuracy at an all-time high of over 99%; $228 million in capital investments in Q1 of 2017 alone to improve reliability and performance of Ontario's electricity grid; more active customer communication, calling customers directly for support; expanding e-billing, and working towards mobile; an end to the practice of security deposits for new customers; and leading the way in customer protection for utilities by voluntarily banning winter disconnections ahead of government legislation.

8. What about XXX's involvement in coal generation? Will Ontario push for the company to move away from coal?

Eliminating dirty coal generation from Ontario's supply mix remains the single largest climate change initiative ever undertaken in North America. With the closure of the last coal plant in 2014, Ontario dramatically reduced greenhouse gas emissions and contributed to virtually ending smog days in the province.

Our government hopes that other jurisdictions will follow our leadership in this step to tackle climate change. The future generation mix for the company will be a business decision made by the company in light of whatever policy directives the respective governments put in place.

9. Is the Hydro One CEO's salary going to be even higher now?

Hydro One's executive salaries are determined according to industry metrics, using a process developed by the Board ~~**and approved by shareholders**~~. ***[NTD: the say on pay vote is non-binding]*** The company remains governed by Ontario laws, including the *Business Corporations Act* and the *Securities Act*~~**, and continues to file with the Ontario Securities Commission**~~.

It is important to remember that 80% of the Hydro One CEO's salary last year was paid according to performance bonuses. The ability of the leadership team to meet these metrics meant the company saved tens of millions of dollars, and in turn saved money for ratepayers.

10. What does this mean for the NDP plan to buy back the shares of Hydro One?

With this acquisition, Hydro One is becoming a more valuable company, and this change will be reflected in the share price. The NDP plan has just become even more expensive – siphoning valuable dollars from priorities like schools and hospitals, while having absolutely no impact on rates.

11. Are the PCs right that bills are going to increase because of this deal?

This transaction will have no impact on the rates that Ontario customers pay. In the future, it is expected that the deal will drive rates lower as the new company finds new efficiencies.

A larger company will also have more capacity to invest, meaning higher quality and more reliable service.

12. Is Hydro One still focused on Ontario ratepayers?

Since the IPO, Hydro One has become a better managed company, with new customer-focused management. They have improved customer focus, and have achieved: a customer billing accuracy at an all-time high of over 99%; $228 million in capital investments in Q1 of 2017 alone to improve reliability and performance of Ontario's electricity grid; more active customer communication, calling customers directly for support; expanding e-billing, and working towards mobile; an end to the practice of security deposits for new customers; and leading the way in customer protection for utilities by voluntarily banning winter disconnections ahead of government legislation.

The government expects that Ontario consumers will continue to be the focus of Hydro One management. XXX will retain its own management structure, and will have a~~**n**~~ ~~**independent**~~ Board **<u>of Directors that represents the communities that it serves.</u>**

13. Does this acquisition mean that Ontario ratepayers will now be paying for poles and wires going up in Washington State?

No. Rates in both these companies' service territories will be unaffected by this acquisition. In Ontario, we benefit from a strong regulator in the Ontario Energy Board. The OEB will ~~**provide an extra layer of protection for**~~ **<u>continue to protect</u>** Ontario ratepayers, ensuring that Hydro One's rates accurately reflect the cost of service and investments made in Ontario.

14. Are there any other Canadian utilities that own assets in the United States?

Similar acquisitions are increasingly common practice for Canadian-owned utilities, including Newfoundland and Labrador-based Fortis' purchase of Michigan-based ITC and Edmonton-based EPCOR Utilities' purchase of two U.S. water utilities.

It is worth noting that the vast majority of natural gas distribution in Ontario is served by multinational companies, Enbridge and Union Gas. ~~**Similar to these gas utilities, the ownership structure of Hydro One will not change t**~~**T**he fact that ~~**it**~~ **Hydro One** is a utility with rates set by the public interest regulator, the Ontario Energy Board**, and this will not change**.

15. Is Hydro One going to acquire more companies?

Hydro One is always looking for opportunities to grow its business and serve customers better. Regardless of the company's plans, the government expects they will continue to prioritize efficient, safe and affordable service for Ontario customers. The OEB will continue to have oversight of the company on behalf of Ontario ratepayers.

16. Will this deal require OEB approval?

No. The OEB will not have oversight of this deal. ~~**because t**~~**T**his transaction

has no impact on that rates that Ontario customers pay.

17. What happens if the US regulators don't approve the deal?

Hydro One and XXX are working with the relevant regulators on the processing of this deal. Questions are best directed to Hydro One.

18. This deal means Ontario's revenue from Hydro One increases. How does the new revenue compare with what Ontario earned before the IPO?

This acquisition is expected to increase the value of Hydro One, in turn creating additional returns for the province as the company's largest shareholder. Exact amounts are difficult to estimate, but will become clear as the transaction proceeds. Further questions should be directed to Hydro One.

19. Does this impact the Province's deal on Hydro One shares with the Chiefs of Ontario (COO)?

The number of shares included in the agreement with COO remains unchanged. It is expected that this acquisition will increase the value of Hydro One, **and in turn increase the value of shares owned by all shareholders, including COO once the sale of shares to COO closes** **~~offered to COO as part of the agreement~~**.