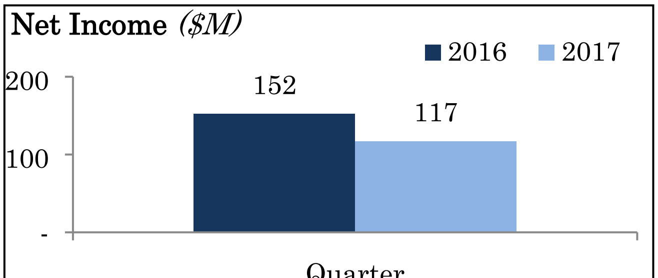
Hydro One Q2 2017 Results Summary

- On August 8, 2017, Hydro One Ltd. (TSX:H) announced its financial and operating results for the second quarter ended June 30, 2017

Financial Highlights

		Three months ended June 30, 2017			
Key Metrics		**2017**	**2016**	**$∆**	**%∆**
Revenues	M	1,371	1,546	-175	-11.3%
OM&A	M	274	262	12	4.6%
EBIT	M	249	288	-39	-13.5%
Tax	M	23	33	-10	-30.3%
Net Income (Common)	M	117	152	-35	-23.0%
EPS	$	0.20	0.26	-0.06	-23.0%
Capital Investment	M	406	417	-11	-2.6%
Tx Monthly 60 Min Peak Demand	MW	18,752	19,799	-1,047	-5.3%
Dx Units Distributed	GWh	5,842	6,118	-276	-4.5%



Net Income

- ↓ Net income attributable to common shareholders for Q2 was $117M, a decrease of $35M or 23.0% from the prior year. Significant influences included:
- ↓ Milder weather led to decrease in transmission (Tx) revenues mainly from lower average Ontario peak demand
- ↓ Tx and Distribution (Dx) revenues were also impacted by lowered allowed regulated return on equity (ROE) from 9.19% to 8.78% in 2017
- ↓ Higher OM&A costs primarily from higher storm restoration costs due to multiple storms in Q2
- ↓ Higher depreciation expense due to an increase in rate base
- ↓ Increased financing charges primarily from increased debt including debt related to the Sault Ste. Marie acquisition in Q4 2016

Key Financial & Operating Highlights

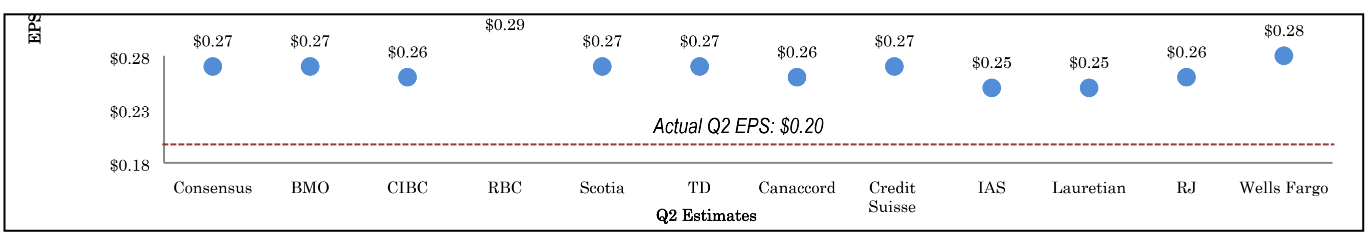
- Q2 EPS was $0.20, down from Q2 2016 ($0.26) and below analyst consensus of $0.27 (range $0.25-$0.29)
- Announced second quarterly cash dividend to common shareholders at increased rate of $0.22 per share to be paid on September 29
- Subsequent to the end of the Q2, announced the $6.7 billion acquisition of regulated U.S. utility Avista Corporation
- Provincial secondary share offering of Hydro One common shares completed
- Capital investments of $406 million towards Ontario's electricity grid
- Increased uptake in customer enrollment in enhanced paperless billing and usage alert features as billing accuracy continues to trend at all-time high levels, reaching 99.4%
- Security deposits returned to customers with positive payment histories and extended winter relief program by one month, enhancing customer satisfaction levels
- Fair Hydro Plan fully implemented on time; rural residential customers to see average savings of 31% on electricity bills

Summary of Analyst Call

- Core Priorities
  - Continued focus on enhancing customer satisfaction and value, implementing operational improvements, and efficiency gains
  - Proceeding with regulatory and shareholder approvals for acquisition of Avista Corporation
- Financial Performance
  - Lower revenue (net of power costs) was primarily related to milder weather and lower allowed ROE from 9.19% to 8.78% in 2017 (approx. 50% for each factor)
  - OM&A increase of $12M year-over-year mostly (80%) from storm restoration costs and increased financing charges from Sault Ste. Marie acquisition (Great Lakes)
  - Expecting a decision on Tx application in Q3 2017; anticipate catch up revenue from new rates retroactive to January 1, 2017
- Customer Focus
  - Extended its winter relief program by one month and returned 5,600 deposits totalling $12M to customers with consistent credit payment histories under new security deposit policy
  - Enrolled approx. 60,000 customers to e-billing and anticipate 150,000 enrolled by year end
  - Expanded "Get Local" effort with 3 new regional offices for customers to speak in person with customer care specialists, and continued outreach to 11 different First Nation Communities
- Labour
  - In Q2, Hydro One and the members of the Canadian Union of Skilled Workers (CUSW) successfully ratified a new 5 year labor contract (effective May 1)
  - OM&A should remain steady from the agreement with no increases outside of ordinary course
- Avista Transaction
  - Strong strategic/financial rationale with similar cultures and values between the companies
  - Expands business into natural gas local distribution and 5 growing markets in the Pacific Northwest, serving combined 2 million consumer, small business and industrial customers
- Dividend Policy
  - Board will have about a year before the Avista transaction is expected to close to reflect on potential changes to Hydro One's dividend
  - Expect to keep payouts within 70-80% of earnings

Analyst Coverage

- RBC [Outperform, $28]
- BMO [Market Perform, $26]
- TD [Hold, $23]
- RJ [Outperform, $26]
- Industrial Alliance [Hold, $26]
- Wells Fargo [Market Perform, $25.50]
- Scotia [Sector Perform, $25.50]
- Canaccord [Buy, $26]
- CIBC [Neutral, $27]
- Credit Suisse [Neutral, $26]
- Laurentian [Buy, $27]

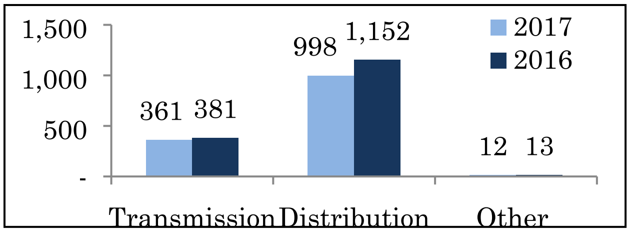


Detailed Results

Financials

Revenue:

- Q2 was $1,371M, down 11.3% from Q2 2016



Factors Impacting Revenue

Transmission:

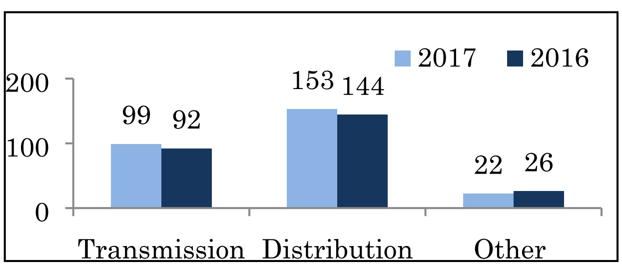
- Decrease of $20M or 5.2% primarily due to:
- Lower average monthly Ontario 60-minute peak demand mainly due to milder weather
- Decreased OEB-approved rates primarily reflecting a reduction in 2017 allowed ROE
- Delayed decision on 2017-18 Tx filing
- Partially offset by revenues from Hydro One Sault Ste. Marie, acquired in Q4 2016

Distribution:

- Decrease of $154M or 13.4%
- However, net of purchased power, distribution revenues were consistent with the prior year, as lower energy consumption from milder weather was offset by increased OEB-approved rates net of a reduction in 2017

OM&A:

- Q2 operating costs were $274M, up 4.6% from Q2 2016.



Factors Impacting OM&A

Transmission

- Increase of $7M or 7.6% primarily due to higher environmental management program work volume and acquisition costs of Hydro One Sault Ste. Marie in Q4 2016

Distribution

- Increase of $9M or 6.3% primarily due to higher storm restoration costs as a result of multiple storms in Q2 2017

Other

- Decrease of $4M or 15.4% primarily due to lower costs incurred by Hydro One Telecom

Liquidity & Financing Activities

- At June 30, 2017, Hydro One Inc. had $715 million in commercial paper borrowings
- Hydro One Ltd. and Inc. have revolving credit facilities totaling $2,550M maturing in 2021 and 2022
- Long-term debt consists of notes and debentures maturing between 2017 and 2064 - at June 30, 2017, average term to maturity is approximately 15.4 years and weighted average coupon rate is 4.3%
- Hydro One's universal short form base shelf prospectus (Universal Base Shelf Prospectus) filed in March 2016 allows Hydro One to offer, from time to time in one or more public offerings, up to $8.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on April 30, 2018. During Q2 Hydro One announced the closing of a secondary offering of a portion of common shares previously owned by the Province. Upon closing, $3,240 million remained available under the Universal Base Shelf Prospectus.

Credit Ratings:

- No recent changes to company credit ratings

Corporate

Agency	Corporate
S&P	A

Long and Short Term Debt

Agency	Short term	Long term
DBRS	R-1 (low)	A (high)
Moody's	Prime-2	A3
S&P	A-1	A

Dividends:

- In May 2017, Hydro One announced a cash dividend increase of 5% from $0.21 to $0.22 per share which was paid to common shareholders on June 30, 2017
- Hydro One's Board of Directors declared a quarterly cash dividend to common shareholders of $0.22 per share on August 8, 2017 to be paid on September 29, 2017

Regulation

Transmission Rates:

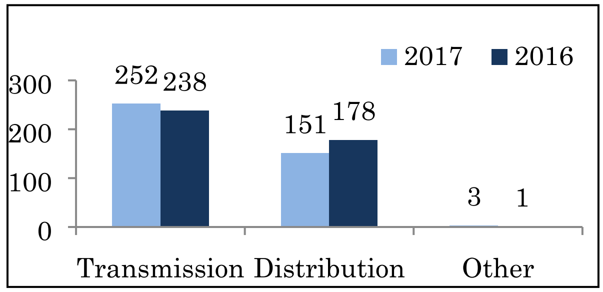
- A decision for Hydro One's 2017-2018 transmission application is expected in Q3, expected to be retroactive to January 1, 2017
- Future transmission rate applications are anticipated to be filed under the OEB's incentive-based regulatory framework

Distribution Rates:

- In March 2017 Hydro One submitted an incentive based distribution application for 2018-2022 rates
- Management expects a decision in the first half of 2018, and that new rates will be effective on January 1, 2018

Capital Investments

- Q2 capital investments totaled $406M, down 2.6% from Q2 2016



Factors Impacting Capital

Transmission:

- ↑ Increase of $14M or 5.9% primarily due to:
- ↑ Work on the Leamington Transmission Station project to address the electricity needs in Windsor and Essex County;
- ↑ Higher volume of overhead lines and component refurbishments and replacements; and demand work associated with equipment failures
- ↓ Partially offset by timing of work related to the Clarington Transmission Station project and decreased investments in information technology projects, primarily due to completion of certain projects and timing of work on other projects

Distribution:

- ↓ Decrease of $27M or 15.2% primarily due to:
- ↓ Lower volume of wood pole replacements, distribution lines sustainment work, work within station refurbishment programs, and fleet and work equipment purchases
- ↑ Partially offset by higher volume of storm restoration work as a result of multiple storms in the second quarter of 2017; and work in new connections and upgrades due to increased demand.