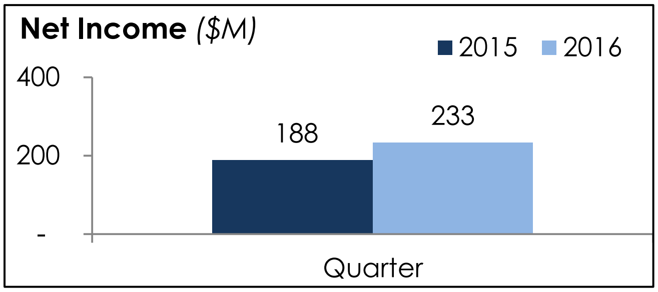
Hydro One Q3 2016 Results Summary

- On November 11, 2016, Hydro One Ltd. (TSX:H) announced its financial and operating results for the third quarter ended September 30, 2016

Q3 Financial Highlights

		Three months ended September 30, 2016			
Key Metrics		**2016**	**2015**	**$∆**	**%∆**
Revenues	M	1,706	1,645	61	3.71%
OM&A	M	264	274	-10	-3.65%
EBIT	M	381	326	55	16.87%
Tax	M	44	36	8	22.22%
Net Income (Common)	M	233	188	45	23.94%
Adjusted EPS	$	0.39	0.32	0.07	21.88%
Capital Investment	M	424	438	-14	-3.20%
Tx Monthly 60 Min Peak Demand	MW	22,991	22,321	670	3.00%
Dx Units Distributed	TWh	6.6	7.1	-0.5	-7.04%



Net Income

- ↑ Net income attributable to common shareholders for the second quarter was $233M, an increase of $45M or 23.9% from the prior year. Significant influences included:
- ↑ Changes to the OEB approved distribution rates
- ↑ Higher peak transmission demand due to warmer weather in 2016
- ↑ Revenues in 2015 were reduced by conservation and demand management regulatory adjustment
- ↑ Lower bad debt expense and lower costs for support services, transformer equipment refurbishments and stations maintenance
- ↓ Partially offset by the divestiture of Hydro One Brampton in August 2015

Key Financial & Operating Highlights

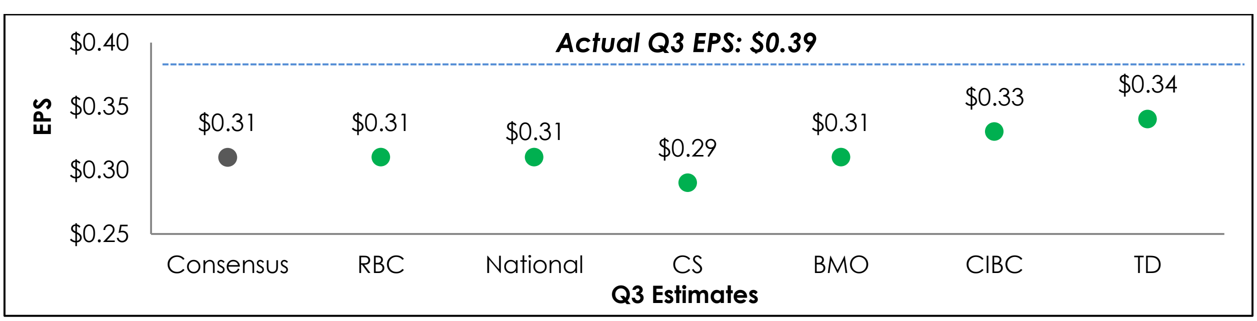
- Q3 adjusted EPS was $0.39 up from Q3 2015 ($0.32) and exceeded analyst consensus of $0.31 (range $0.28-$0.34)
- New senior executives installed to lead Customer Service, Operations, Legal, and Strategy functions
- Agreement reached to acquire Orillia Power Distribution in August
- Acquisition of Great Lakes Power Transmission completed in October following OEB approval
- Declared a quarterly dividend of $0.21 per share payable on December 30
- The OEB issued updated cost of capital parameters for rates effective in 2017, including updated 2017 ROE of 8.78%, 41 basis points higher than 2016 at 9.19%
- Capital investments of $424 million towards Ontario's electricity transmission and distribution systems
- Successfully completed the integration of Haldimand Hydro and Woodstock Hydro, including employees, operations and customers

Summary of Analyst Call

- Core Priorities:
  - Leverage new executive leadership to build operations, customer service and legal strength while continuing to transition from a government entity into a commercial organization
  - Focus on cost containment and successful integration of acquisitions
  - Prudent management of balance sheet to maintain strong credit rating
- Status of Current Acquisitions:
  - Great Lakes transaction closed at the end of October following regulatory approval from the OEB
  - Announced acquisition of Orillia Power Distribution in August, subject to OEB approval; capital expenditure plans for new grid control centre, warehouse and operations centre in Orillia will be post OEB approval with a 2018 timeframe
- Further Consolidation of Local Distribution Companies:
  - Continue to be in dialogue with municipalities across the province
  - Significant interest with expiry of tax relief from the 2015 Budget in a couple of years
  - Integration continues to go well with virtually no disruption to service and billing
- Growth Outside the Province:
  - Early days in assessing U.S. energy policy in light of election results, but potential for opportunities
  - Disciplined approach to acquisitions, with focus on targets that are accretive and less influenced by government policy changes
  - Complete assessment on markets/opportunities in Canada and U.S. (emphasis on U.S.) in 2017
- Regulatory and Policy Matters:
  - Ontario and Quebec hydro deal and cancellation of LRP 2 will have no material impact on capital program
  - The OEB's 2017 ROE reset is estimated to decrease 2017 net income by $30M (all else equal), with offsetting factors including growing rate base and improvements on costs
- Operational Transformation Progress:
  - Transitional costs to restructure organization have been largely incurred
  - Now focused on execution to drive savings, enhance customer service and build the business

Analyst Coverage (So far)

- **RBC [Outperform, $29]**
- **BMO [Market Perform, $26]**
- **TD [Hold, ↓$24* ($25)]**
- **Credit Suisse [Neutral, $26]**
- **CIBC [Sector Perform, $25]**
- **National Bank [Sector Perform, $28]**



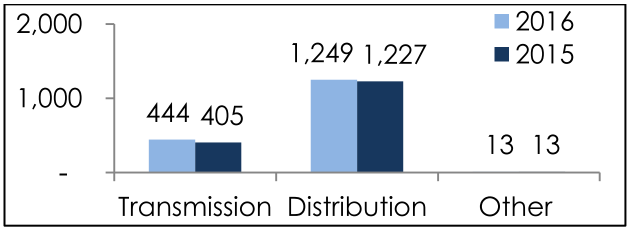
*Updated valuation from TD incorporates both 2017 and new 2018 forecasts which resulted in a lowered target price after rounding.

Detailed Results

Financials

Revenue:

- Q3 was $1,706M, up 3.7% from Q3 2015



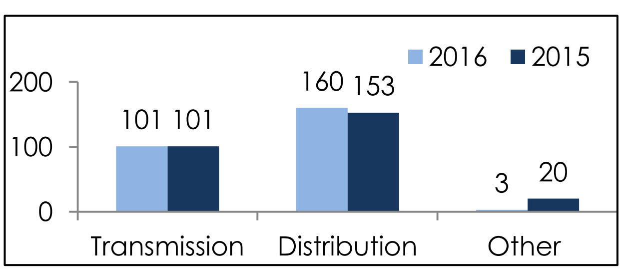
Factors Impacting Revenue

Transmission:
- ↑ Increase of $39M or 9.6% primarily due to:
- ↑ 2015 revenues reduced by conservation and demand management regulatory adjustment
- ↑ Higher average monthly Ontario 60-minute peak demand mainly due to warmer weather
- ↑ Increased OEB transmission rates for 2016

Distribution:
- ↑ Increase of $22M or 1.8% primarily due to:
- ↑ Higher power costs
- ↑ Increased OEB distribution rates for 2016
- ↑ Higher energy consumption from warmer weather
- ↑ Rate order related to shared-use revenue
- ↓ Partially offset by the divestiture of Hydro One Brampton in August 2015

OM&A:

- Q3 2016 operating costs were $264M, down 3.6% from $274M in Q3 2015.



Factors Impacting OM&A

Transmission
- ⇔ Transmission OM&A costs for Q3 were consistent with prior year

Distribution
- ↓ Increase of $7M or 4.6% primarily due to:
- ↓ Increased vegetation management volume
- ↑ Partially offset by the divestiture of Hydro One Brampton in August 2015

Other
- ↑ Decrease of $17M or 85.0% is primarily due to:
- ↑ A re-allocation of consulting costs, incurred earlier in the year and previously recorded in the Other business segment, to the Transmission and Distribution business segments

Liquidity & Financing Activities

- At September 30, 2016, Hydro One had $1,118M in commercial paper borrowings
- Hydro One Ltd. and Inc. have revolving bank credit facilities totaling $2,550M that mature between 2020 and 2021
- Long-term debt consists of notes and debentures that mature between 2016 and 2064, and at September 30, 2016, had an average term to maturity of approximately 16.2 years and a weighted average coupon of 4.4%
- On March 30, 2016 Hydro One filed the Universal Base Shelf Prospectus allowing Hydro One to offer up to $8.0B in debt, equity or other securities during the 25 month period ending April 30, 2018
- Upon close of the Province's secondary offering, $6,030M 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 August 2016, Hydro One announced a cash dividend to common shareholders of $0.21 per share which was paid on September 30, 2016
- Hydro One's Board of Directors declared a quarterly cash dividend to common shareholders of $0.21 per share on November 10, 2016 to be paid on December 30, 2016

Regulation

Transmission Rates:

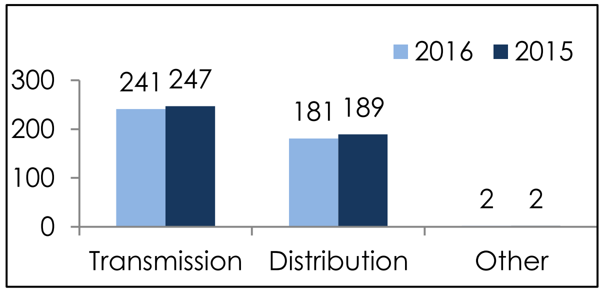
- Hydro One submitted a transmission application for 2017-2018 rates in the second quarter of 2016
- Oral hearing phase starts in November 2016 with a decision expected first quarter 2017
- Future transmission rate applications are anticipated to be filed under the OEB's incentive-based regulatory framework

Distribution Rates:

- Hydro One plans to submit an incentive based distribution application for 2018-2022 rates in the first quarter of 2017

Capital Investments

- Q3 2016 capital investments totaled $424M, down 3.2% from Q3 2015 of $438M



Factors Impacting Capital

Transmission:

- ↓ Decrease of $6M or 2.4% primarily due to:
- ↓ Substantial completion of certain major local area supply development projects, such as Guelph Area Transmission Refurbishment
- ↓ Lower volume of demand work associated with fewer equipment failures and lower volumes of spare transformer equipment purchases
- ↓ Decreased investments in certain system enhancement projects, primarily due to completion of certain projects in 2015 and timing of other project work
- ↑ Partially offset by an increased volume of work on overhead line refurbishments and insulator replacements and an increased volume of integrated station component replacements to sustain certain aging assets at transmission stations

Distribution:

- ↓ Decrease of $8M or 4.2% primarily due to:
- ↓ Reduced capital expenditures due to the divestiture of Hydro One Brampton
- ↓ Lower volume of work within station refurbishment programs, lower volume of spare transformer purchases, and lower volumes of work on the Joint Use and Relocations program
- ↑ Partially offset by increased investments in information technology equipment, upgrade and enhancement projects