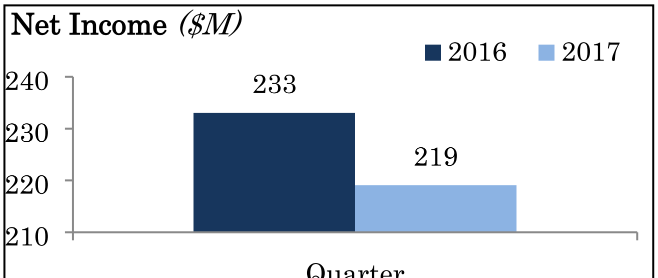
↓Red denotes negative change. ↑Green denotes positive change.

Hydro One Q3 2017 Results Summary

- On November 10, 2017, Hydro One Ltd. (TSX:H) announced its financial and operating results for the third quarter ended September 30, 2017

Financial Highlights

		Three months ended September 30, 2017			
Key Metrics		**2017**	**2016**	**$∆**	**%∆**
Revenues	M	1,522	1,706	-184	-10.8%
OM&A	M	277	264	13	4.9%
EBIT	M	361	381	-20	-5.2%
Tax	M	23	44	-21	-47.7%
Net Income (Common)	M	219	233	-14	-6.0%
EPS	$	0.37	0.39	-0.02	-5.1%
Capital Investment	M	380	424	-44	-10.4%
Tx Monthly 60 Min Peak Demand	MW	20,857	22,991	-2,134	-9.3%
Dx Units Distributed	GWh	6,226	6,621	-395.0	-6.0%



Net Income

- ↓ Net income attributable to common shareholders for Q3 was $219M, a decrease of $14M or 6.0% from the prior year. Significant influences included:
- ↓ Milder weather led to decrease in transmission (Tx) revenues mainly from lower average Ontario peak demand and decrease in distribution (Dx) revenues due to lower energy consumption
- ↑ Higher Tx revenues from OEB's rate decision
- ↓ Higher OM&A costs primarily from consulting costs related to Avista transaction, partially offset by reduced vegetation management costs
- ↓ Higher depreciation expense due to an increase in rate base
- ↓ Increased financing charges primarily from increased acquisition-related debt

Key Financial & Operating Highlights

- Q3 EPS was $0.37 and adjusted EPS was $0.40 (excl. $18M Avista transaction costs), compared to $0.39 in Q3 2016 and analyst consensus of $0.36 (range $0.29-$0.43)
- Q3 dividend to common shareholders of $0.22 per share to be paid on December 29
- Filed joint applications with Avista for regulatory approval of the merger
- Subsequent to the Avista merger announcement in July, issued approx. $1.5B of convertible debentures
- Productivity savings through operational improvements, such as a revised vegetation management approach, fleet optimization and competitive procurement
- Contributed to restoration effort in Florida from Hurricane Irma
- Customer service initiatives related to affordability resulted in stabilized accounts receivable levels
- Recognition as a leading utility, including the Progressive Aboriginal Relations Bronze Certification and Ontario Energy Association's 2017 Leader of the Year award

Summary of Analyst Call

- **Core Priorities**
  - Continued focus on productivity initiatives such as vegetation management by condensing cycle timeframes and target clearing high growth areas likely to cause long outages
  - Efficiency initiatives such as leveraging $1B in purchasing power to lower procurement costs, using telematics data to potentially reduce size of fleet by up to 10%
  - Reducing costs and improving customer experience by initiatives such as paperless billing and working with PWU/Society to cost-effectively insource call centre
- **Financial Performance**
  - Catch-up revenues for 3 quarters of $55M reflecting OEB's decision on the Tx rate application
  - $18M in one-time costs related to Avista transaction, including success fees to advisors / banks, expected to be much less moving forward as the process moves towards approval and beyond
  - OEB expected to confirm formulaic allowed ROE for 2018 in the next couple of weeks, currently estimated at approximately 9% which is higher than allowed ROE of 8.78% in 2017
- **OEB Transmission Rate Filing Decision/Appeal**
  - On November 9, the OEB issued a Decision and Order that modified the portion of the tax savings from deferred tax asset should be shared with ratepayers. Hydro One will file a revised Draft Rate order to reflect the decision on November 16
  - If upheld upon appeal, could potentially result in a one-time decrease in net income of $885M across both Tx and Dx (assuming same sharing methodology) resulting in a decrease in annual funds from operations (FFO) by $50-60M
  - Management is of the view that the appeal of the OEB decision will be successful, and while timing is uncertain, expects the appeal process to be complete in late Q1/early Q2 of 2018
- **LTEP and Government Electricity Policy**
  - Closely reviewing Ontario's LTEP for opportunities for innovation
  - Good working relationship with government on Fair Hydro and other initiatives, although reaffirmed government's role as shareholder and not manager
  - CEO engages with all parties on electricity policy, does not expect any outcome of provincial election next year to affect commercial operations of Hydro One

Analyst Coverage

- RBC [Outperform, $28]
- BMO [Market Perform, $24.5]
- TD [Hold, $24]
- RJ [Outperform, $26]
- Industrial Alliance [Buy, $28]
- Wells Fargo [Market Perform, $25.5]
- Scotia [Sector Perform, $24.5]
- Canaccord [Buy, $27]
- CIBC [Outperform, $27.5]
- Credit Suisse [Neutral, $24]
- Laurentian [Buy, $28]