Ontario

BACKGROUNDER

Asset Optimization – Broadening Ownership of Hydro One

October 9, 2015

Prospectus Process

On September 17th, Hydro One filed a preliminary prospectus with the Ontario Securities Commission (OSC) and other Canadian securities commissions for review. The prospectus included details about Hydro One and the offering to help potential investors make an informed decision.

On October 9th, Hydro One filed an amended and restated prospectus with the OSC and the other Canadian securities commissions.

A supplemented prospectus is expected to be filed later in the fall.

Pre-IPO Special Dividend

As stated in the document filed by Hydro One, the company is taking steps to recapitalize its subsidiaries and as a result the Province expects to receive a $1 billion special payment (broken down in the amended and restated Prospectus as an $800 million special dividend to pay down provincial debt associated with Hydro One and $200 million in payments-in-lieu of taxes).

2015-16 Asset Optimization Targets

Hydro One has indicated in the amended and restated prospectus that as a result of the revaluation of its fixed asset, there will be a deferred tax benefit. A deferred tax benefit would be recognized as a one-time fiscal gain by the Province. .

Detailed information on the deferred tax benefit is provided in Hydro One's amended and restated prospectus, including the proforma financial statements. Based on the document, a deferred tax benefit of $2.6 billion would result in a benefit to the Province, at consolidation, of about $2.2 billion, based on the Province having about an 85 per cent share of Hydro One following the IPO. The actual deferred tax benefit will depend on the actual market value of Hydro One at closing of the IPO.

This deferred tax benefit would be in addition to the net proceeds from a sale of shares of Hydro One in the IPO.

Trillium Trust

The Trillium Trust provides for the dedication of net proceeds from the sale of qualifying provincial assets to fund infrastructure projects that will create jobs and strengthen the economy to build Ontario up. The Province remains committed to allocating all net revenue gains from broadening the ownership of Hydro One to the Trillium Trust.

The Province will move forward with amendments to the *Trillium Trust Act, 2014*, that would, if passed, name Hydro One as a qualifying asset and ensure that all fiscal benefits from the estimated gain would be directed to the Trillium Trust.

These amendments to the *Trillium Trust Act, 2014* would allow all the fiscal benefits to be used for investments in transit, transportation and other priority infrastructure projects. These amendments will ensure the Province remains on track to deliver approximately $4 billion to the Trillium Trust and $5 billion towards debt repayments, as outlined in the 2015 Budget.

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