Hydro One
Secondary Share Sale Strategy

Commercial Sensitivity

- The following submission contains confidential and commercially sensitive information
- Dissemination of this submission could have significant commercial impacts to the Province
- Information in this submission may have impact on market expectations and / or assessment of value. Any communication on these matters should be restricted to publicly available information
- Securities laws impose restrictions on the manner in which a prospective issuer and/or selling security holder communicates with the investing public while it is preparing for, and during, an offering. This period is often referred as the “quiet period”

Purpose

- The Province is moving forward with the Premier's Advisory Council on Government Assets recommendations to broaden the ownership of Hydro One

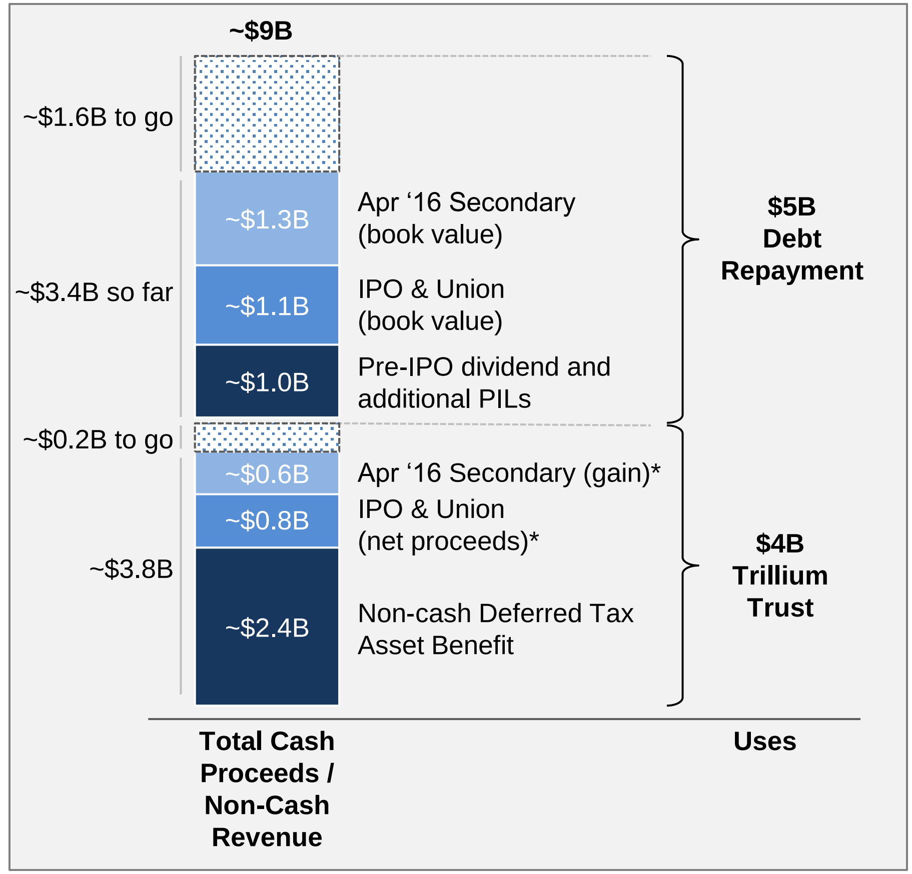
- In September 2016, it was requested that the Ministry of Energy report back to Treasury Board/Management Board of Cabinet (TB/MBC) on a recommended approach to the sale of remaining shares

- The Ministry is now providing the requested report-back and seeking TB/MBC approval for the Minister of Energy, working closely with the Ministry of Finance, to execute on secondary offerings in 2017-18

Secondary Share Sale Strategy

Context: Progress to Date

- The Province completed the Hydro One IPO in November 2015 and a secondary share offering in April 2016
- The Province currently holds ~70% of Hydro One shares and will continue with future share sales in 2017-18
- The Province remains on track to generate ~$9B in gross proceeds and other revenue benefits, including $4B for infrastructure and $5B for debt repayment
- In August 2016, the Province announced that $3.2B from 2015 share sales has been dedicated to the Trust



*OPCD has advised that:

1) ~$70M of the gain in the secondary offering related to OPG participation will not be recognized in the year of transaction, and
2) ~$50M of the gain related to Union Trusts participation during the IPO period was not recognized in the year of transaction.

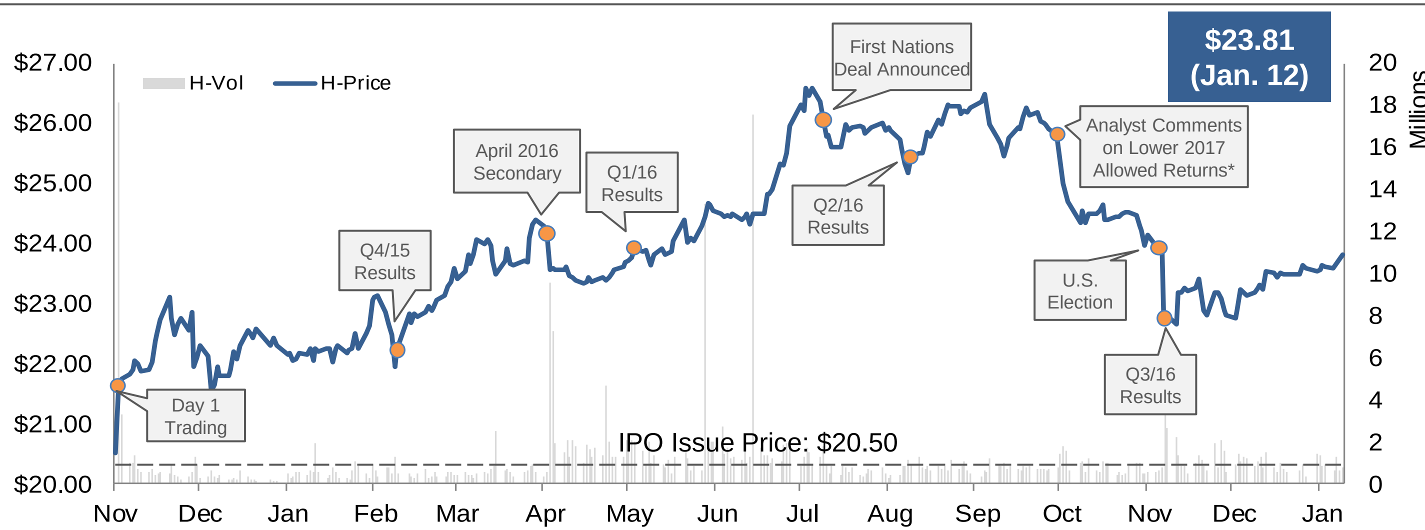
Note: Excludes transaction costs

Secondary Share Sale Strategy

Context: Share Trading Data

- Hydro One's shares have performed well since the IPO, trading at ~16% higher than the IPO issue price but below the market price at the time of the secondary offering of $24.16
- Shares have declined significantly since October. Contributing factors include:
  - Expected earnings impact from lower 2017 regulated returns*
  - Higher inflation expectations affecting outlook for interest rate increases
  - Policy expectations following the U.S. Presidential Election

Hydro One Share Trading Performance**

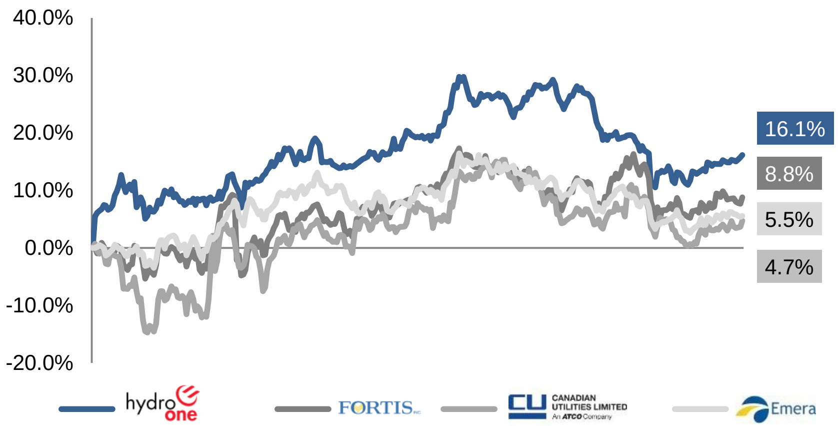


*The Ontario Energy Board's allowed ROE or return on equity
**As of January 12, 2017 close

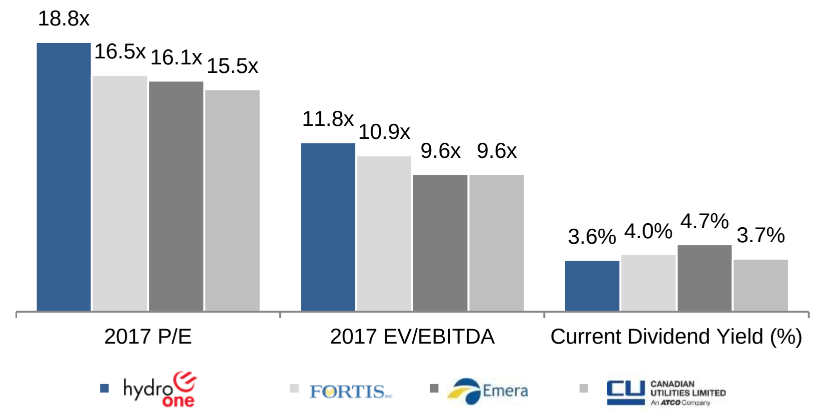
Secondary Share Sale Strategy

Context: Hydro One Metrics

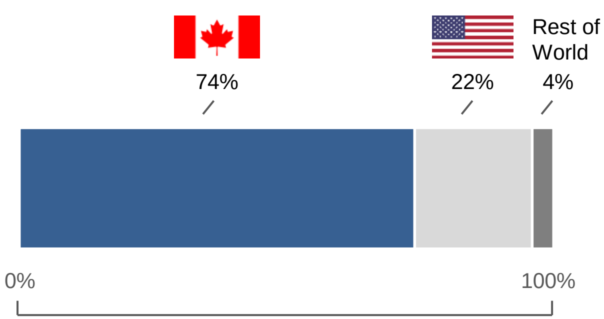
Share Performance vs. Peers Since IPO[1]



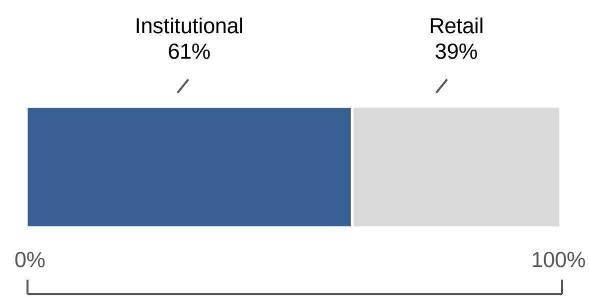
Relative Valuation[2]



Public Float by Geography[3]



Public Float by Ownership[3]



1. January 12, 2017 close.
2. P/E = Price / Earnings; EV/EBITDA = Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization.
3. Public float is currently ~30% of Hydro One's common shares outstanding.

Secondary Share Sale Strategy

Proposed Parameters

- The Ministries of Energy and Finance are proposing an updated mandate based on the following parameters

	Proposed 2017-18 TB/MBC Mandate
A) Mechanism	Bought deal consistent with April 2016 secondary offering
B) Fee / Discount	Fee: 1-3% Discount: 3-5% **Combined *(Maximum)*: 7%**
C) Size	Flexibility to sell up to 25% of shares including 3% allocation for First Nations and Métis
D) Execution Strategy	Provide the Minister of Energy with authority to execute the 2017-18 offerings, depending on market conditions, in consultation with the Minister of Finance and the Expert Investment Advisory Committee (EIAC)
E) Underwriter Selection	Consistent with the IPO process, introduce a process that is transparent, fair and maximizes value to the Province

Secondary Share Sale Strategy

A) Mechanism

Recommended Approach

- A bought deal consistent with the April 2016 secondary offering

- This would be consistent with the April 2016 secondary offering transaction executed by RBC and Scotiabank
- Under a bought transaction, the Province's securities are purchased by underwriters who in turn sell them to institutional and retail investors
- The Province would be presented with a binding bid letter which contains the terms of the offering, including the purchase price
- Once accepted, the underwriters "own" the shares, the deal is announced and marketing begins
- This option represent the most effective mechanism to enable a transaction of this scale for a variety of reasons, including:
  - allows for efficient distribution in a very short timeframe
  - minimizes exposure to market uncertainty
  - transfers market risk to underwriters and away from the Province as it locks in price and size certainty

Secondary Share Sale Strategy

B) Fees / Discount

Recommended Approach

- Achieve a combined fee and discount of no more than 7%, comprised of a 1-3% fee and 3-5% discount

- It will be important to balance the desire to limit fees as well as the discount to the market price with the need for a strong underwriting team and a successful sale result in order to maximize value for the Province in future offerings
- Based on precedent transactions and our experience with the IPO and April secondary, the Ministry expects costs to break-down in the following manner:
  - **1-3% Fee**: Paid to underwriters for executing the transaction and taking on risk
    - The IPO and April secondary were sold with fees of 1% for institutional and 3% for retail
    - The Province is confident it can secure the same fee structure for the next offering
  - **3-5% Discount**: Offered to investors in order to incent participation in the offering, rather than buying shares in the market
    - While the IPO did not have a discount set out in advance, the implied discount was ~5.5% based on share movement post-IPO
    - Although the April secondary offering was executed at a 2.1% discount, banks have indicated that a similar discount in the future may be challenging
      - Demand for shares was significantly affected by the tight pricing
      - OPG's order represented a material portion of the shares sold, playing a key role in the success of the offering

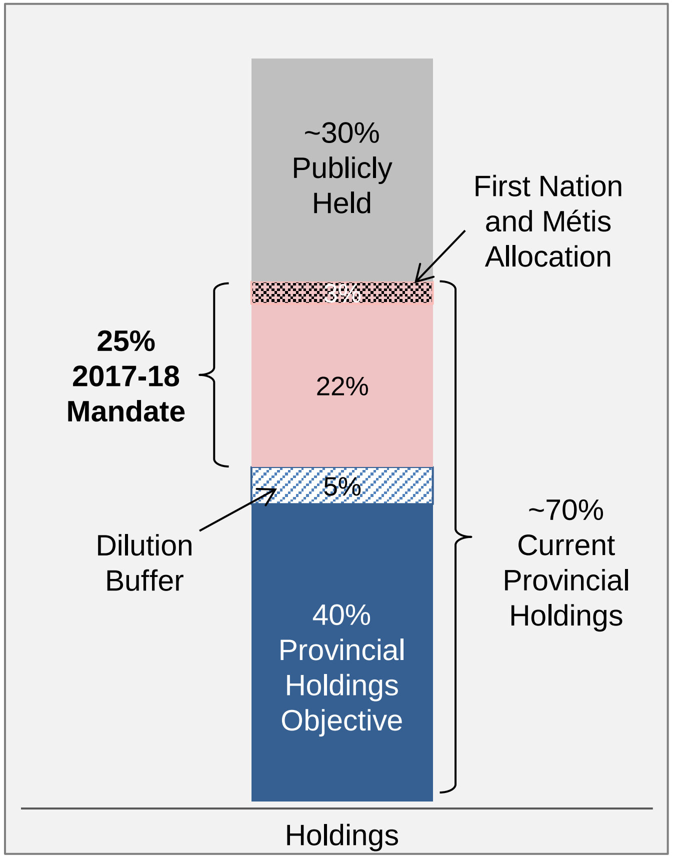
Secondary Share Sale Strategy

C) Size

Recommended Approach

- Flexibility to sell up to 25% of Hydro One shares including 3% allocation for First Nations and Métis in 2017-18

- The Ministries are recommending a mandate which would provide flexibility to sell up to 25% of the Province's Hydro One common shares, including:
  - 3% allocation for First Nation and Métis transactions*
  - 22% to be sold through one or more secondary offering transactions
- Assuming these transactions are completed, the Province would retain 45% of Hydro One shares
- While the Province has a publicly stated objective of selling down to 40%, the Ministries and Expert Investment Advisory Committee are suggesting retaining a 5% buffer
- In the event Hydro One issues additional common equity, this buffer would reduce the likelihood that the Province would be diluted below 40%, triggering the requirement to buy-back shares



*Pending outcome of First Nation and Métis transactions, any remaining allocation could be added to offering or the buffer

Secondary Share Sale Strategy

D) Execution Strategy

Recommended Approach

- Provide the Minister of Energy with authority to execute the 2017-18 offerings, depending on market conditions, in consultation with the Minister of Finance and Expert Investment Advisory Committee

- To support the Minister of Energy in his role as shareholder, an Expert Investment Advisory Committee (EIAC) has been established, consisting of:
  - Ed Clark (Chair), David Leith, Tom Rahilly, Sharon Ranson and Alan Hibben (see Appendix for Bios)
  - These senior, independent experts from the financial sector will continue to provide advice and support execution of Hydro One share offerings
- Based on advice and support from the EIAC, this submission seeks authority for the Minister Energy, in consultation with the Minister of Finance, to execute on key elements of the share sale strategy including:
  - Timing: Given market volatility, the Province will need to be flexible and ready to execute when market conditions are most appropriate
    - Need ability to move quickly in order to capitalize on opportunities
    - Maintaining confidentiality is also vital in order to meet OSC requirements and preserve value
  - Number of Sales: The Province may consider executing via one or more offerings
    - The Province will need to consider tradeoffs between offering size, price as well as current versus potential future market conditions. All of these elements change in real-time; therefore, flexibility is required in order to maximize value

Secondary Share Sale Strategy

E) Underwriter Selection Process

Recommended Approach

- Consistent with the IPO process, introduce a selection process for underwriters that is fair, transparent and maximizes value to the Province

- The Province intends to renew the lead selection process used in the IPO for the next secondary offering
  - Through the IPO process, RBC and Scotiabank were chosen as the leads
- For the next secondary offering, consistent with the IPO process, the “Big Six” Canadian banks would compete for the “lead bookrunner” title (and with it the largest portion of economics)
- Similar to the IPO, submissions outlining credentials and strategy will be solicited from the lead candidates
  - An Evaluation Committee comprised of government and independent members, including members of EIAC, would evaluate oral and written submissions from each candidate bank
  - Process would provide equal opportunity to all qualified banks to act as leads, and may seek to mitigate advantages RBC and Scotiabank may have, having acted as leads previously
- The Evaluation Committee will select the winning bid to act as lead left bookrunner and would have the option to select additional banks to be co-leads on the transaction
- To select the balance of the syndicate, all banks that responded to the request for submissions for the IPO and any banks that have initiated coverage of Hydro One will be invited to provide credentials for the Province’s consideration
- Members of the Evaluation Committee together with Hydro One and the chosen leads will evaluate the submissions together with factors such as previous performance and quality of advice to date to determine the remainder of the syndicate
- As with the IPO process, Denis Desautels, former Auditor General of Canada, has agreed to act as oversight advisor to oversee the development and execution of the selection process to ensure fairness and transparency

Secondary Share Sale Strategy

Procurements to Support the Secondary Share Sale Strategy

- In August 2015, the Ministry of Energy received an exemption from the mandatory requirements of the OPS Procurement Directive, including the mandatory use of the Central Common Service, for the future acquisition of services required to support the ongoing administrative framework to enable future share sales and purchases
- Similar to the IPO and April 2016 secondary, several procurements are necessary in order to support the secondary share sale strategy:

Lead Bookrunners

- Evaluation Committee will be comprised of selected government, independent, and Expert Investment Advisory Committee participants
- Lead bookrunners will carry out most of the work, including providing advice on strategy for the next offering

Underwriters

- Underwriters will purchase shares and resell to investors through their networks of brokers and dealers (all bookrunners are also underwriters)
- While the Ministry will undertake an inclusive process to secure underwriters, they would ultimately be procured by the bookrunners

Oversight Advisor

- Denis Desautels, former Auditor General of Canada, has agreed to act as oversight advisor to oversee the development and execution of the selection process to ensure fairness and transparency

Secondary Share Sale Strategy

Fiscal Implications

- From December 1st 2016 to January 12th, 2017, Hydro One Shares have traded between $22.74-$23.81
- A sale of 22% of Hydro One common shares should achieve the fiscal target but would leave no shares available for sale in 2018-19, causing a fiscal pressure in 2018-19
- The following table shows the gain on a sale of 22% of Hydro One common shares based on various price scenarios for fiscal 2017-18
  - Note that the gain on sale (Row C) is adjusted (by Row D) to take into account transaction costs, reduced revenues from Hydro One Net Income/PILs relative to 100% ownership, potential IOD savings, and $45M in First Nation cash fund contribution

Market Price	Row	**$21**	**$22**	**$23**	**$24**	**$25**
Price After Discount[1] ($)	A	20.06	21.01	21.97	22.92	23.88
Gross Proceeds[1] ($M)	B	2,630	2,755	2,880	3,005	3,130
Gain on Sale ($M)	C	375	500	625	750	875
Fiscal Impact Adjustments ($M)	D	(470)	(465)	(460)	(460)	(455)
2016 Estimated Net Hydro One Contribution (C) – (D)	E	(90)	35	165	290	420

1. Assumes a 4.5% discount from market price
Numbers are rounded to the nearest $5M and may not add due to rounding

Secondary Share Sale Strategy

Communications Strategy

- The communications strategy for the April 2016 secondary offering included:
  - Two news releases issued upon launch of the transaction and upon exercise of the over-allotment option accompanied by backgrounders with further details
  - A technical conference held the day after launch, where three technical experts representing the Province provided the media with key details of the transaction followed by a media QA with the Minister of Energy and Minister of Finance
- The Ministries of Energy and Finance will work together along with the Premier's Office, Cabinet Office and Treasury Board Secretariat to develop a communications strategy for future offerings
- The Province could consider evolving its messaging related to broadening the ownership of Hydro One to emphasize progress made to date and how this plan is working to the benefit of all Ontarians, focusing on the following three aspects:

Investing in Infrastructure	Evolve messaging to focus on specific Trillium Trust funded projects that are underway • In 2016-17 the government plans to support initiatives such as GO Regional Express Rail (GO RER), Hurontario Light Rail Transit (LRT), and the Ontario Community Infrastructure Fund (OCIF)
Protecting Electricity Consumers	Evolve messaging to emphasize decisions and outcomes demonstrating that Hydro One does not set its own rates and the OEB effectively protects electricity ratepayers • The Province could highlight the OEB's decision on Hydro One transmission rates expected in late winter / early spring 2017
Improving Company Performance	Evolve messaging to focus on Hydro One outcomes that are already benefitting consumers • Reductions in operating costs since IPO • New and improved consumer programs + visibility of Hydro One Ombudsman

Proposed Next Steps

- **February 2017:**
  - Continue process to select leads
- **March 2017:**
  - Develop communications strategy
  - Finalise remainder of the syndicate

Proposed Minutes

1. RECEIVE a report-back on a recommended approach to the sale of remaining Hydro One shares
2. APPROVE a secondary share sale strategy for the Ministries of Energy and Finance, including:
   a) Sale(s) of up to 25%, subject to the advice of the Expert Investment Advisory Committee of the Province's interest in Hydro One voting securities, through a bought / overnight marketed transaction, less up to 3% which has been allocated for First Nation and Métis transactions
   b) Flexibility on the number of and timing of offering(s) depending on market conditions and with the objective of maximizing the return to Ontario
   c) The secondary offering shares will also be listed on the Toronto Stock Exchange
   d) The price of the offering will be approved by the Ministry of Energy working together with Ministry of Finance, Ontario Financing Authority and the Expert Investment Advisory Committee in consultation with the active bookrunners and underwriters
   e) The combined fee and discount will be no more than 7%, comprised of a 1-3% fee and 3-5% discount
3. APPROVE an exemption from the open competitive requirements of the OPS Procurement Directive to allow for a procurement to acquire active book runners for the secondary share sale(s), and in this regard:
   a) Approve an exemption from the mandatory requirements of the OPS Procurement Directive in respect of the procurement documents for this procurement
   b) Approve the reimbursement of expenses for active book runners and other costs associated with the transaction
4. AUTHORIZE the Minister of Energy to sign the prospectus supplement, underwriting agreement, lock up agreement, and other ancillary agreements necessary to complete secondary offerings in 2017-18
5. DIRECT the Ministry of Energy to provide necessary information to the Ministry of Finance (Ontario Financing Authority), and Treasury Board Secretariat to develop regulations under the Trillium Trust Act, 2014, associated with any shares sold
6. DIRECT the Ministries of Energy and Finance to work with Cabinet Office, Premier's Office and Treasury Board Secretariat on a communications plan
7. APPROVE the creation of a new transfer payment line in the Ministry of Energy entitled "Strategic Asset Management Indigenous Engagement" under Vote/Item 2906-01 to facilitate future engagement with First Nations and Metis groups

Appendix

Hydro One Underwriting Syndicates

Hydro One Underwriting Syndicates	IPO	Apr’ 16
RBC	16.00%	16.50%
Scotia	16.00%	16.50%
BMO	14.00%	14.25%
CIBC	14.00%	14.25%
TD	14.00%	14.25%
National Bank	7.25%	8.00%
Barclays Capital Canada	3.50%	3.50%
Credit Suisse Securities	3.50%	3.50%
Goldman Sachs Canada	3.50%	-
Canaccord Genuity	1.50%	2.00%
Desjardins Securities	1.50%	1.50%
GMP Securities	1.50%	1.50%
Raymond James	1.50%	1.50%
Industrial Alliance Securities	0.75%	1.00%
Manulife Securities	0.75%	0.75%
Laurentian Bank Securities	-	0.75%
Dundee Securities	0.75%	0.25%
Total	**100.00%**	**100.00%**

EIAC Members

Ed Clark

Ed Clark is currently the Premier's Business Advisor, and was also previously the Chair of the Premier's Advisory Council on Government Assets. He is the outgoing Group President and Chief Executive Officer of TD Bank Group ("TD"). Before joining TD, he was President and Chief Executive Officer of Canada Trust Financial Services. Prior to this, Mr. Clark held positions with Merrill Lynch and Morgan Financial Corporation.

Mr. Clark was the 2010 Cabinet Chair for United Way Toronto, and is currently a member of the Chair's Advisory Council for Habitat for Humanity Toronto. Mr. Clark is also chair of the Advisory Board for the School of Public Policy and Governance. He is also a member of the Steering Committee of the Bilderberg Group which organizes an annual conference designed to foster dialogue between Europe and North America on megatrends and major issues facing the world.

David Leith

On July 1, 2016, Mr. Leith was appointed Chair of the Investment Management Corporation of Ontario (IMCO), an organization established to improve the management of broader public sector investment funds, including public sector pensions. The founding members of the IMCO are the Ontario Pension Board (OPB) and the Workplace Safety and Insurance Board (WSIB), with combined investment assets of approximately $50 billion.

David Leith serves as the Chair of the Board of Directors of Manitoba Telecom Services Inc., and is a Director of the Hudson's Bay Company and of Yellow Pages Limited.

Mr. Leith spent over 25 years with CIBC World Markets, based in both Toronto and London, England and has extensive experience in debt and equity markets, government finance and mergers and acquisitions. Until February 2009, he was Deputy Chairman and Managing Director and head of CIBC World Markets' Investment, Corporate and Merchant Banking activities.

From 2009 until 2011 Mr. Leith served as Special Advisor to the federal Minister of Natural Resources on the restructuring of Atomic Energy of Canada Limited (AECL).

Mr. Leith was formerly a director on the board of the Ontario Infrastructure and Lands Corporation ("IO"). Additionally, Mr. Leith was previously an Independent Trustee of TransGlobe Apartment Real Estate Investment Trust. Mr. Leith is active in a number of charitable endeavours, and is a Director of the Sinai Health System.

EIAC Members *(cont'd)*

Tom Rahilly

Tom Rahilly has worked as an investment banker for over 30 years. During his career, Mr. Rahilly is involved in many large corporate issues and mergers and acquisitions. Prior to his retirement in 2006, he served as Vice Chairman of RBC Capital Markets from 1996 to 2006. He has been a Director of George Weston Limited since 2007. Mr. Rahilly, also previously served as the Chairman of the Board of Trustees at Trinity College, University of Toronto.

Sharon Ranson

Sharon Ranson is a corporate director and President of The Ranson Group Inc. She is currently a director of Sprott Inc. (TSX—SII), Echelon Insurance (TSX-EFH), Continental Bank of Canada, Borrowell Inc., the Expert Investment Advisory Committee for the Government of Ontario, Chair of the Nominating Committee for the Public Sector Pension Investment Board (PSPIB), the Advisory Board for the Smith School of Business, Queen's University and the Campaign Cabinet for the YMCA of GTA.
Prior to founding her current business in 2002, Sharon spent over 20 years in capital markets where she was a top ranked Financial Services Analyst and a senior Portfolio Manager.
Sharon is a CPA, CA and holds the ICD.D designation. She graduated from Queen's University with a Bachelor of Commerce and holds an MBA from York University.

Alan Hibben

Alan retired as a Managing Director in the Mergers and Acquisitions Group of RBC Capital Markets in December of 2014. Up to 2007, he held the position of Head, Strategy & Development at RBC Financial Group. He was also Chief Executive Officer, RBC Capital Partners, the private equity investment arm of RBC Financial Group.
Since December 2014, he has been an advisor to the Province of Ontario on the Hydro One file as well as other matters such as the bankruptcy of Stelco and Algoma Steel. Through his advisory and investment company, Shakerhill Partners Ltd., he provides financial and strategic advice, as well as expert witness services and services related to large privatizations.
Alan has been a CEO, CFO or director of a number of Canadian public and private companies both in financial services and as part of his responsibility for private equity and venture capital investments. He is currently a director of HudBay Minerals Inc. ("HBM" TSX and NYSE), Extendicare Inc. ("EXE" TSX), OPTrust (pension plan for OPSEU members) and the Mount Sinai Hospital Foundation.
Alan received his B.Com. from the University of Toronto. He is qualified as a Canadian CPA and also holds the CFA designation. He is an Institute Certified Director (ICD.D) of the Institute of Corporate Directors.