HYDRO ONE

ISSUE

What is the impact of Moody's placing a Negative Outlook on Hydro One's credit rating for its senior unsecured debt, which have an A1 rating.

KEY RESPONSE

- Hydro One's debt is not guaranteed by the Province.
- Hydro One's rating is separate from the Province's ratings.
- There is no impact on the Province's credit rating.
- Hydro One is an agency of the Ministry of Energy.
- Hydro One is and will be continue to be regulated by the Ontario Energy Board, including on its regulated rates and cost of capital.
- The gains obtained by broadening Hydro One's ownership will help support unprecedented investments in transit, transportation and infrastructure.
- Infrastructure projects will create jobs and strengthen the economy to build Ontario up.

BACKGROUND

The negative outlook for Hydro One reflects the likely reduction in the probability of extraordinary support from the Province of Ontario. This follows from the government's stated intention to gradually reduce its ownership position in Hydro One to about 40% from 100% over the next several years and to make changes to the governance structure, reducing the direct control that the province exerts over Hydro One.

According to Moody's, while the government is seeking to retain control over Hydro One, the links between Hydro One and the province will clearly decline as evidenced by the reduction in ownership position and the direct nomination of 40% of the board. As a result, the probability of extraordinary support will lessen, likely resulting in a 1-2 notch downgrade. A two notch downgrade would likely incorporate an expectation of a reduction in the ownership stake to 40%.

Moody's notes that despite the reduction in ownership stake, the government expects to implement measures to retain additional control over the company.

The baseline credit assessment of baa1 remains unchanged. The proposed divestiture of Hydro One Brampton has a negligible impact on credit quality, given its small size in relation to Hydro One Inc.

Prepared by: **Bonnie Lemcke (5-8170)/ Francisco Chinchon (5-7444)**
Branch: **Ontario Financing Authority, Risk Control Division**