

2015-2019 Custom Distribution Rate Application

Executive Panel
May 12, 2014

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Administration & Chief
Financial Officer
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Relations



Presentation Overview

- Overview of Hydro One strategic direction and value proposition
- Voice of the customer
- Business planning challenges and resultant distribution investment plan
- Distribution rate application highlights and distribution rate increase
- Overview of the Hydro One outcome measures
- Customer service recovery update
- Custom application process

Strategic Direction

"We will provide safe, reliable & affordable service to our customers, today and tomorrow"

To continue to build a customer-focused commercial culture that increases enterprise value for our shareholder

Our Customers' Perspective

RELIABLE

AFFORDABLE

SERVICE

Our Commitment

SAFETY

GROWTH

COST MANAGEMENT
& PRODUCTIVITY

ENVIRONMENT

Our Resources

INNOVATION

PEOPLE &
CULTURE

That meets
shareholder
expectations



To provide a
satisfying customer
experience

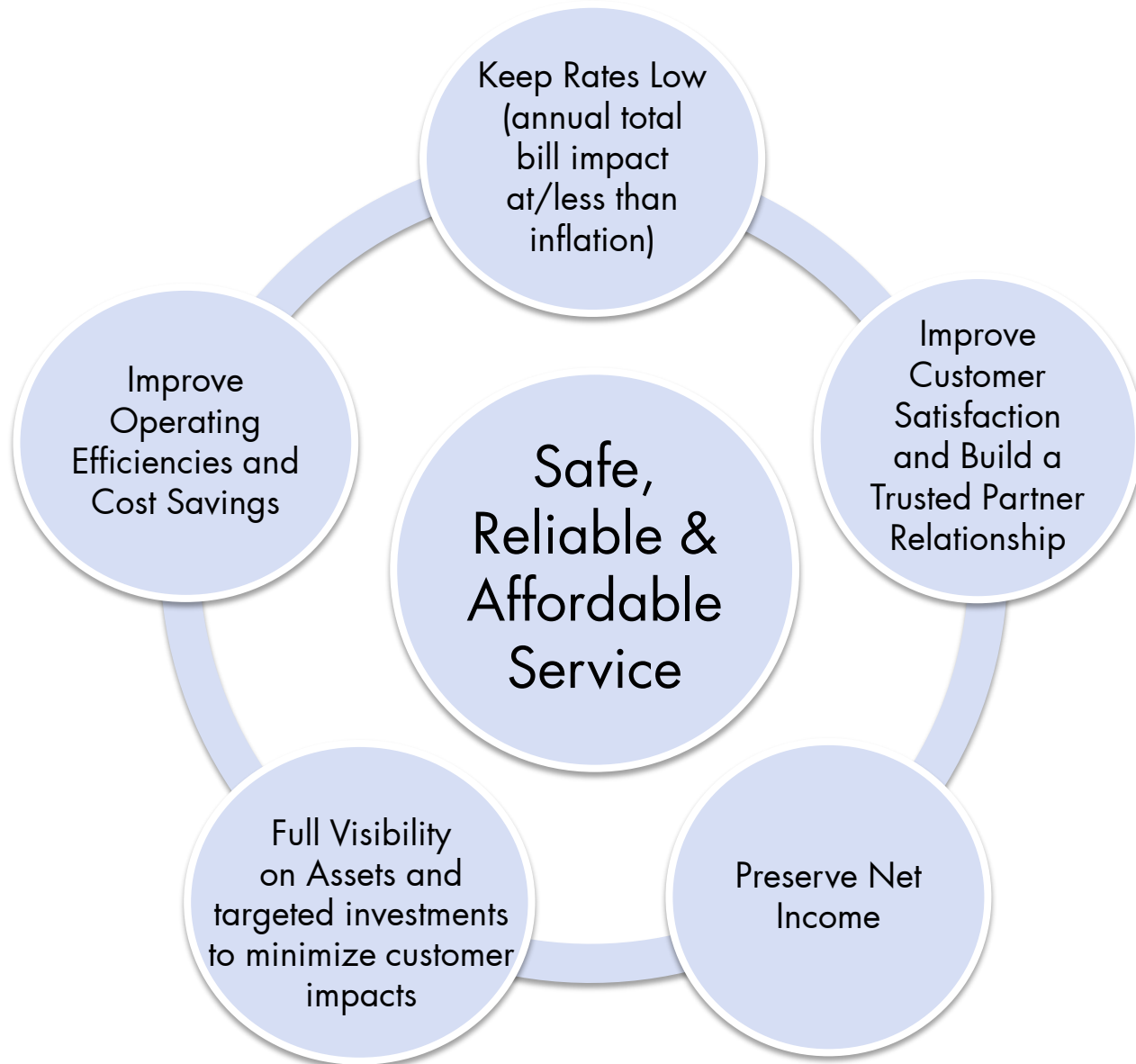


To deliver our
strategy



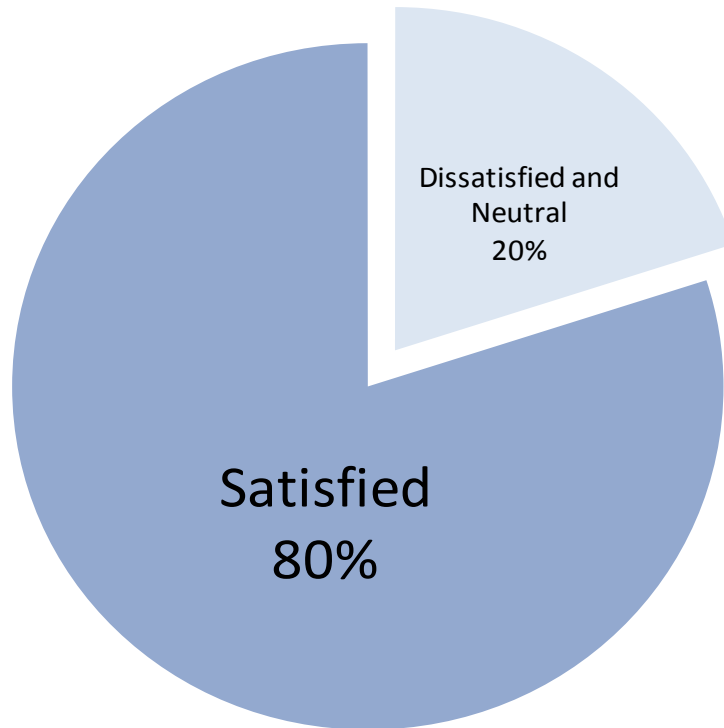
We will enable our
people and leverage
innovation

Business Plan: Value Proposition



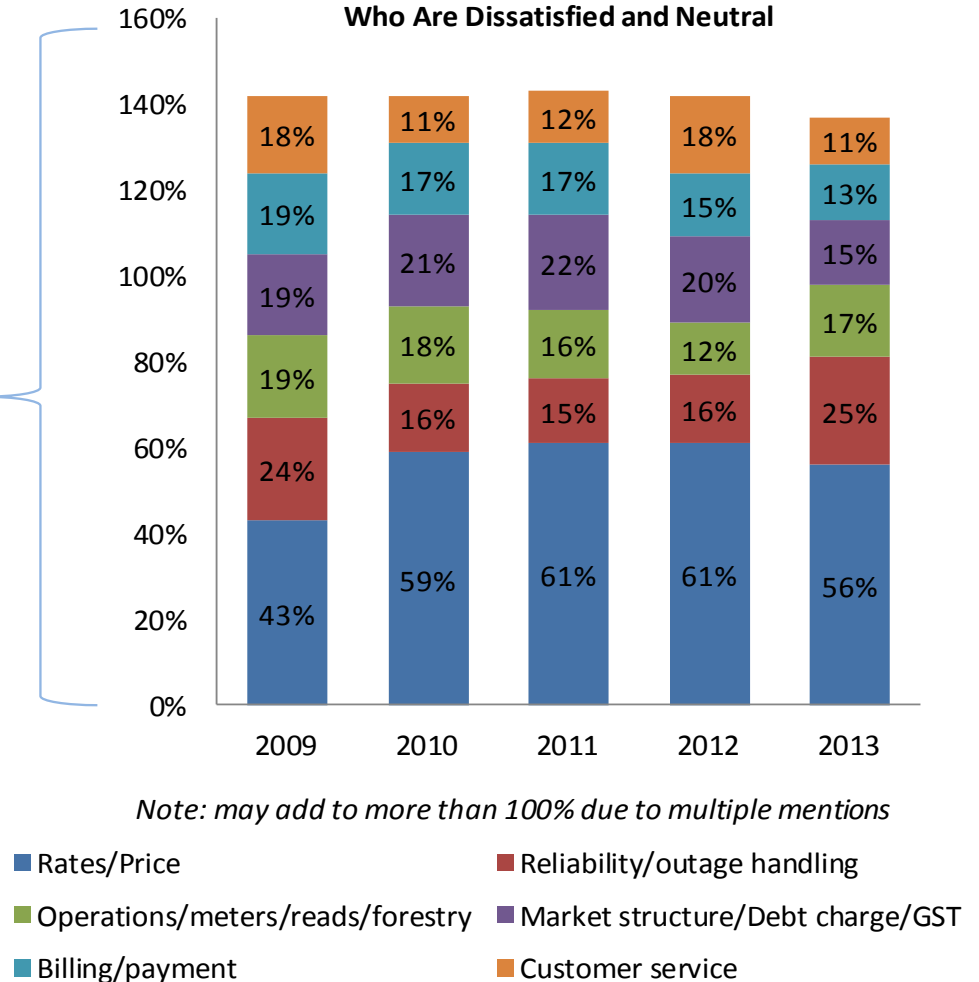
Voice of the Customer

Overall Customer Satisfaction with Hydro One Networks in 2013



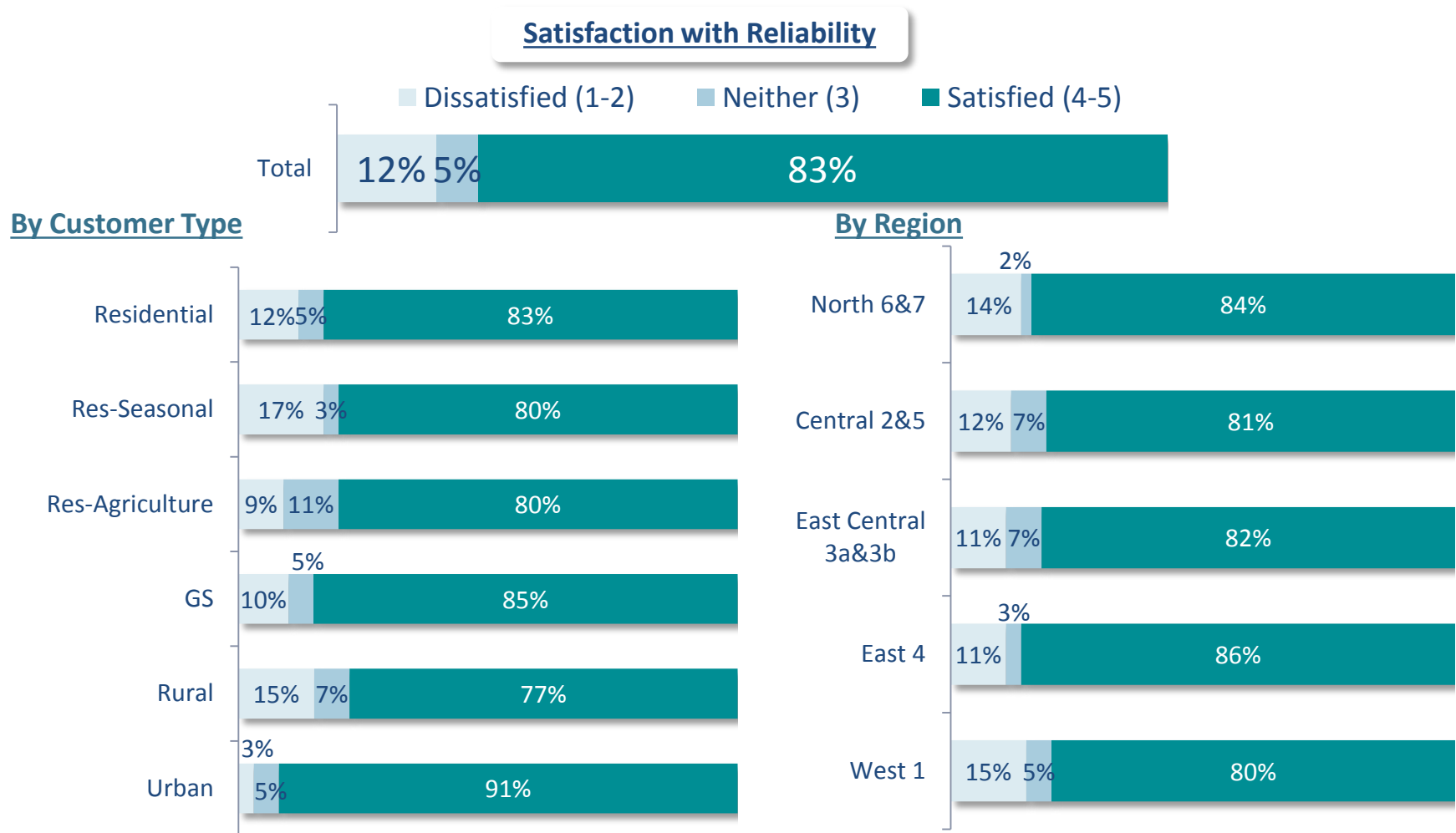
Note: Survey results include only those for Residential and Small Business

Concerns of the Customers Who Are Dissatisfied and Neutral



Source: Ipsos, 2013

Customer Satisfaction with Reliability



Base: Total. Q.1 Please think about Hydro One as I have just described it to you. Considering what you are currently paying Hydro One, how satisfied are you with the reliability of electricity provided by Hydro One? Would you say you are...?

Addressing Key Challenges

The investment plan balances an increasing work program while minimizing impacts to the customer's bill by:

- Including risk-based, targeted investments to maintain, refurbish and replace existing assets;
- Reflecting a resource strategy that supports the delivery of a growing work program; and
- Continuing the drive to improve operating efficiencies and cost savings.

The investment plan maintains stable financial results and business profile by:

- Managing economic risks of an increasing borrowing program due mainly to infrastructure investment; and
- Maintaining enterprise value and FFO coverage ratios by constraining dividends and maintaining capital structure.

Confidence in Investment Plan

1. Performed extensive customer research to determine preferences.
2. Used new analytical tools and comprehensive data on asset age, condition and criticality to customers.
3. Challenged business units to maximize operational effectiveness, to promote continuous improvement, and yield greater efficiencies.
4. Ensured work can be fully resourced using a flexible work force.
5. Submitted plan to detailed review and approval meetings where projects were assessed with respect to meeting customer needs, timing of need and customer rate impact.

Dx Investment Plan - Vegetation Management

		Actual				Planned					
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Line Clearing	Net Dollars (\$M)	78.4	80.5	87.1	83.0	92.2	95.3	117.5	120.2	106.9	99.8
	Units	11,432	11,097	11,195	10,378	9,800	10,200	14,250	14,250	12,750	12,750
	Unit Price (\$/km)	6,861	7,258	7,777	7,994	9,407	9,342	8,249	8,436	8,383	7,829
Brush Control	Net Dollars (\$M)	34.8	31.2	34.7	35.6	31.4	31.6	42.8	42.8	38.3	37.0
	Units	12,980	11,426	11,557	10,448	9,800	10,200	14,250	14,250	12,750	12,750
	Unit Price (\$/km)	2,683	2,727	3,000	3,403	3,200	3,100	3,000	3,000	3,000	2,900

Currently, Hydro One is on a 9.5 year cycle for line-clearing and brush control, rather than the targeted 8-year cycle, which will yield sustainable recurring cost efficiencies.

Dx Investment Plan

– Wood Pole Replacement

		Actual				Planned					
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Poles	Net Dollars (\$M)	53.6	54.7	55.5	73.9	82.5	88.7	95.1	105.0	115.2	125.8
	Units	7,518	7,282	7,452	10,720	11,000	11,600	12,200	13,200	14,200	15,200
	Unit Price (\$/pole)	7,130	7,520	7,445	6,894	7,503	7,646	7,799	7,955	8,114	8,276

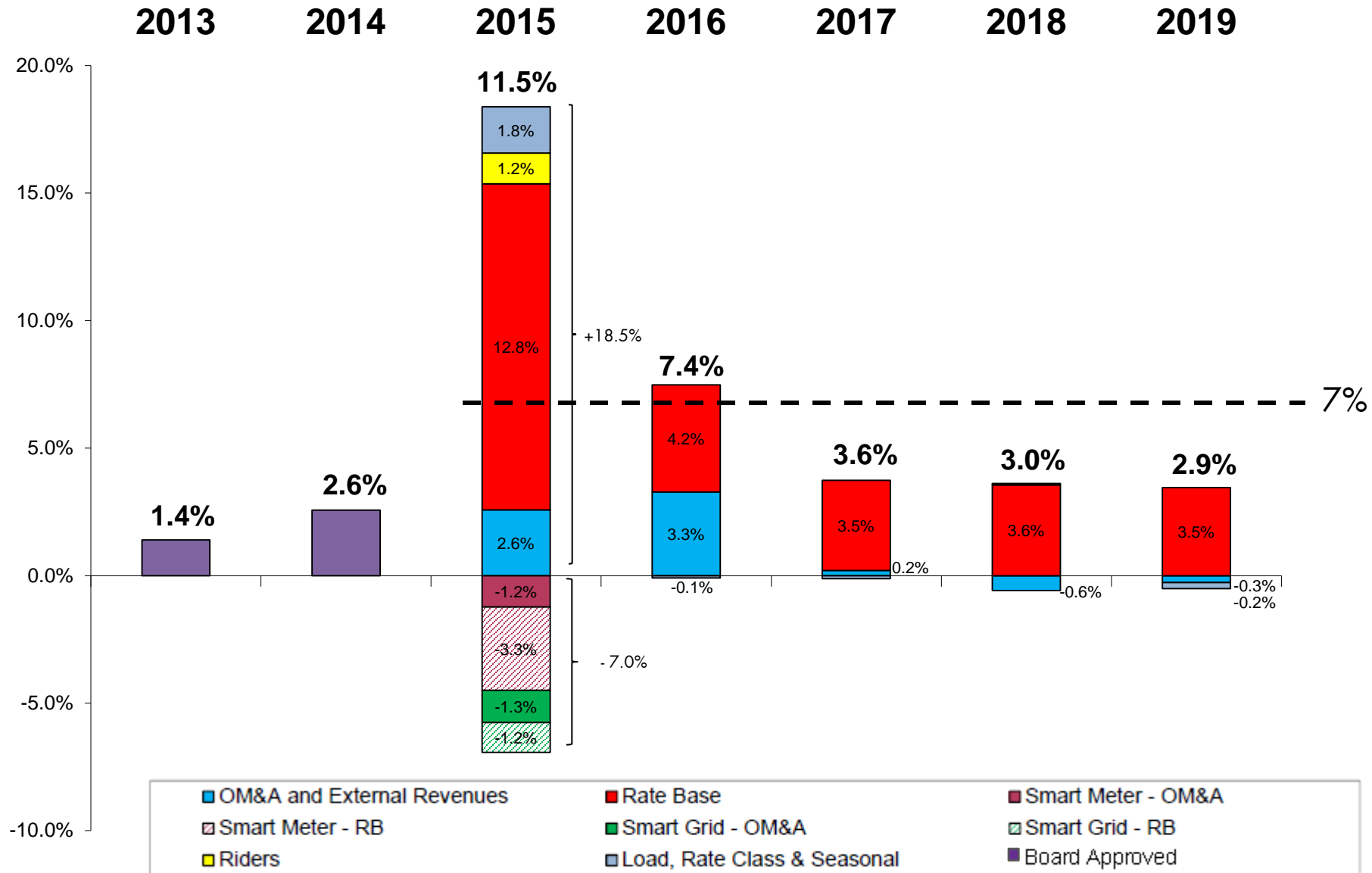
- The pole unit price over the past few years has been relatively flat with a decrease in 2013 attributed to the replacement of a large number of smaller poles with easy access.

Financial Highlights

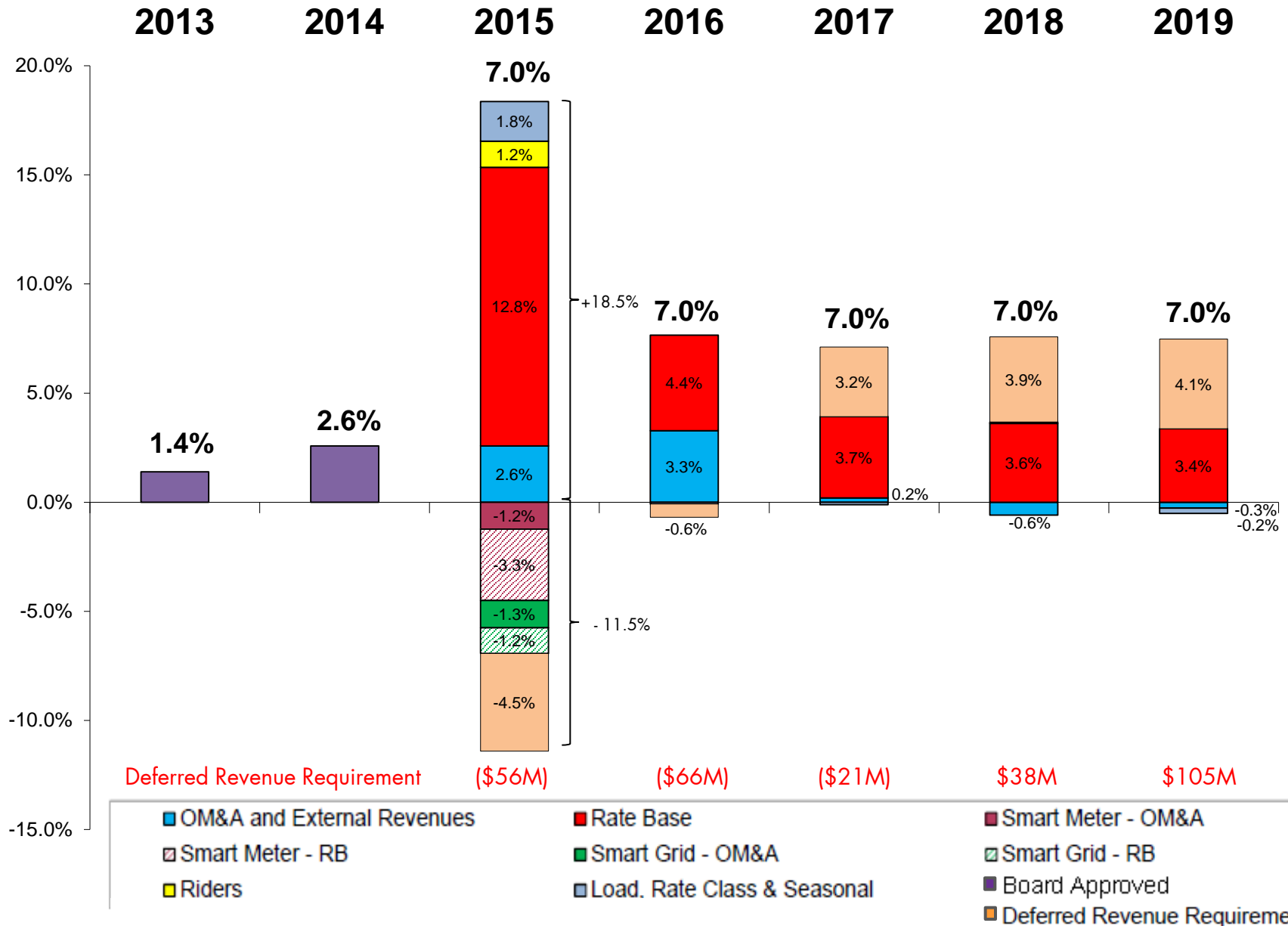
*\$Millions
(Forecast)*

	OEB 2011	2014	2015	2016	2017	2018	2019
OM&A	535	581	564	610	614	604	600
Capital Expenditures	438	625	649	655	639	655	669
In-Service	423	619	561	638	720	818	671
Depreciation	284	292	354	373	391	405	417
Rate Base	4,987	N/A	6,477	6,759	7,097	7,512	7,917
Revenue Requirement	1,197	N/A	1,411	1,515	1,571	1,615	1,666
Productivity Savings		79	98	105	107	108	108

Distribution Rate Increase



Smoothed Dx Rate Increase



Outcome Measures

Hydro One will commit to establishing 5-year targets for the following areas:

- Vegetation Management
- Pole Replacement
- PCB Line Equipment
- Substation Refurbishment
- Distribution line equipment refurbishments
- Customer Satisfaction
- Customer Satisfaction With Handling of Unplanned Outages
- Estimated Bills

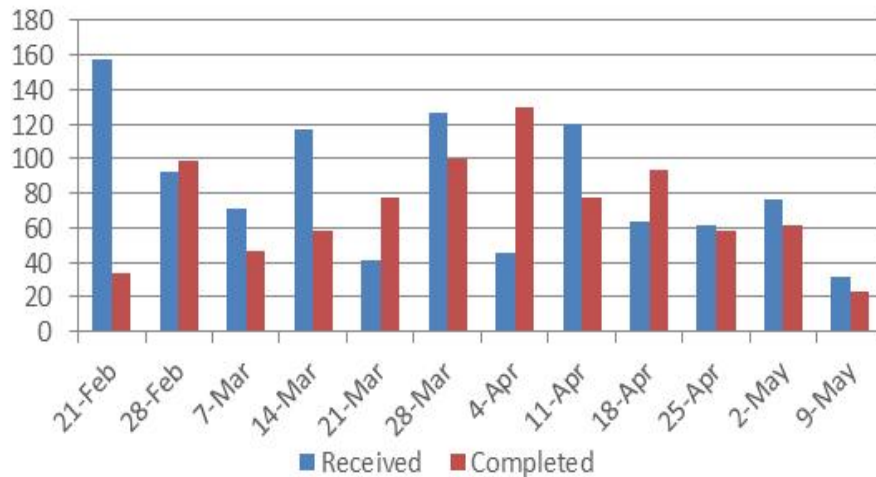
Customer Service Recovery (CSR)

- New Customer Information System and associated business processes went live in May 2013.
- Working well for 95% of our customers.
- Technical and operational issues being addressed for the remaining 5%.
- Once stabilized, customer service operation will deliver the benefits incorporated in the application.
- Ratepayers will not be paying for remediation efforts.
- “Customer Direct” Communications Strategy to reduce customer worry and clarify steps we are taking to resolve their issues.

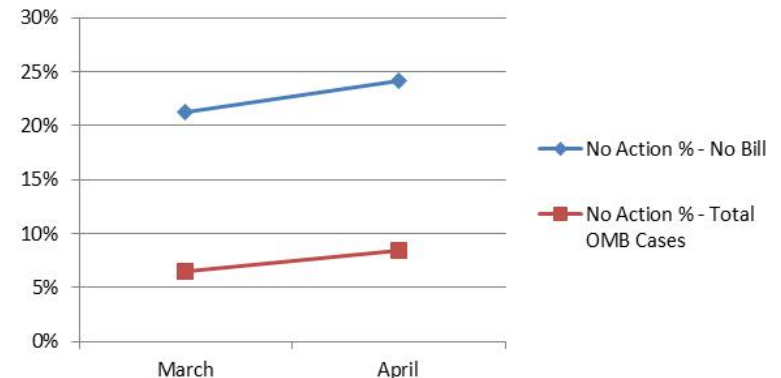
Ombudsman Status & Trends

Ombudsman Cases as of May 02, 2014	
Total # of Cases Received by Ombudsman Staff	>7,500
Per Ombudsman, expected to be sent to Hydro One	50%
Number of Cases Hydro One has Received from Ombudsman	1003
Resolved by Hydro One (with Customer)	864
In Progress	139
Number of Cases Hydro One Officially Closed by Ombudsman	193

Ombudsman Queue Weekly - Customer Count



No Action Trend

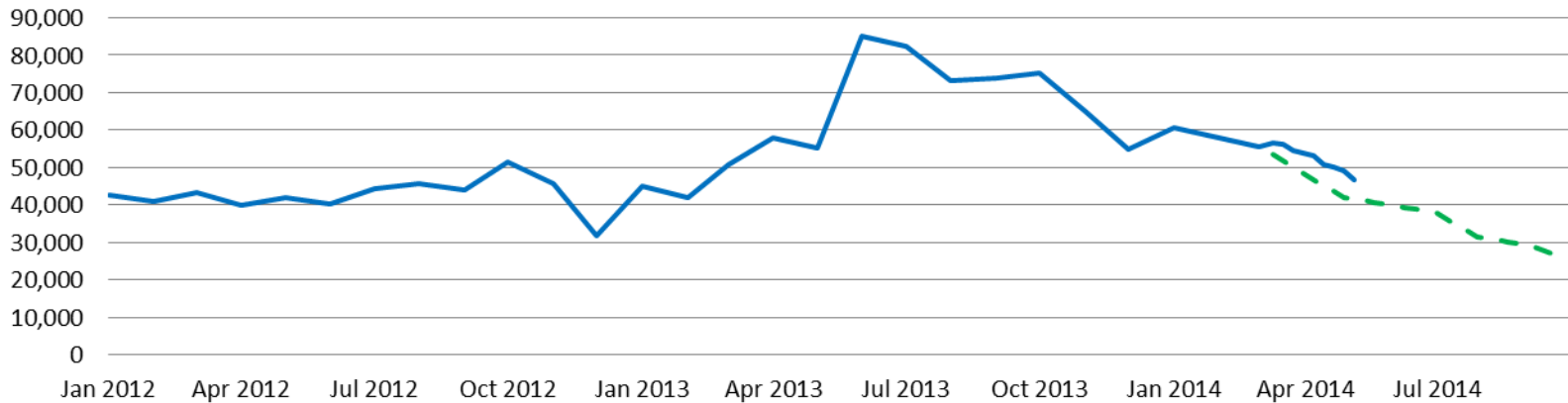


24% of No Bill complaints in April were resolved prior to complaint receipt

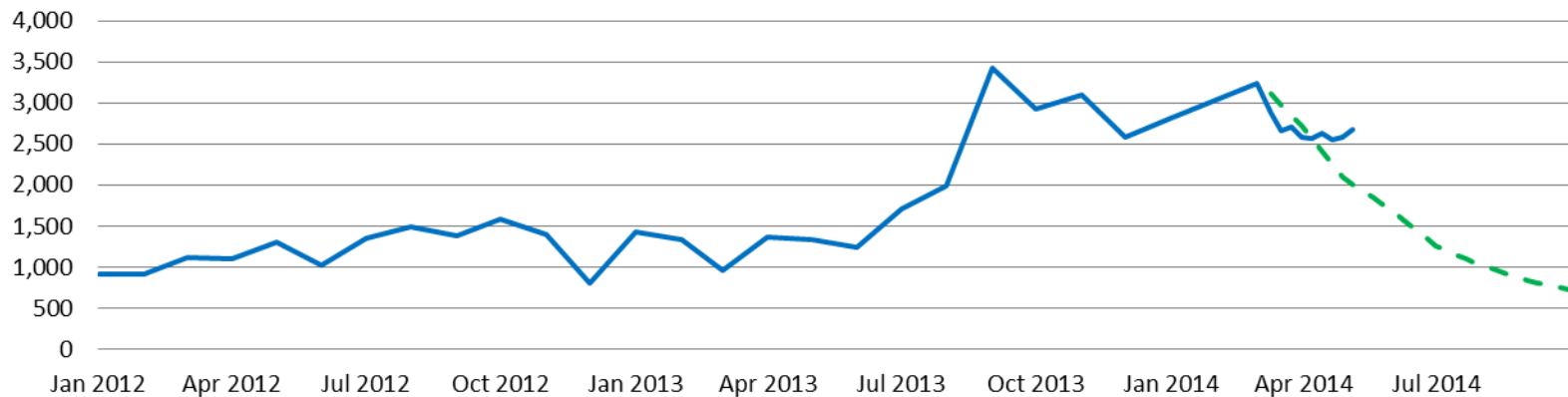
73% of resolution dates communicated are met.
When not met, we call in advance.

CSR - KPI Trends and Targets

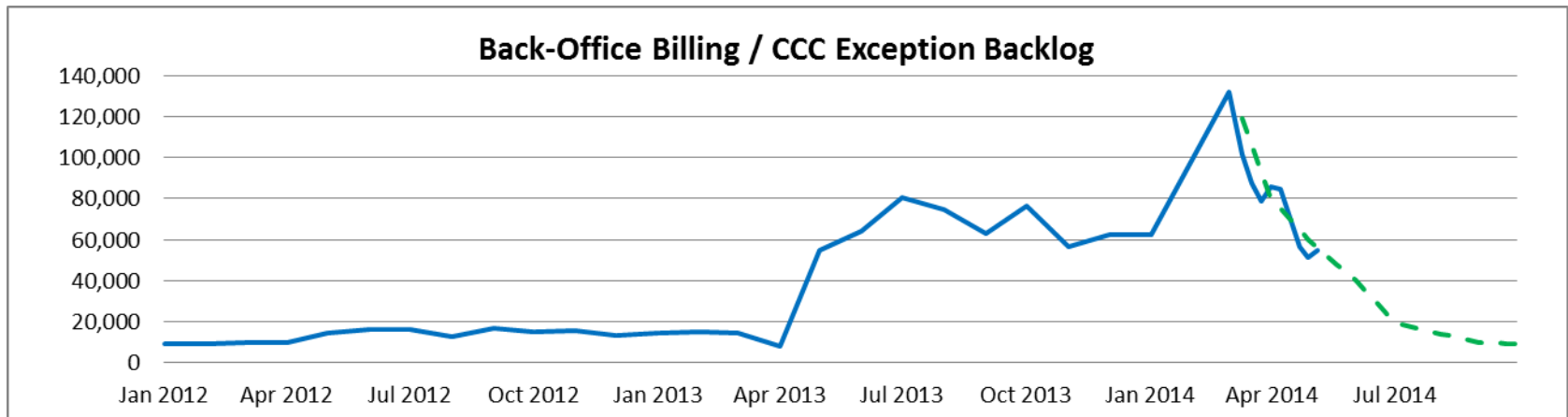
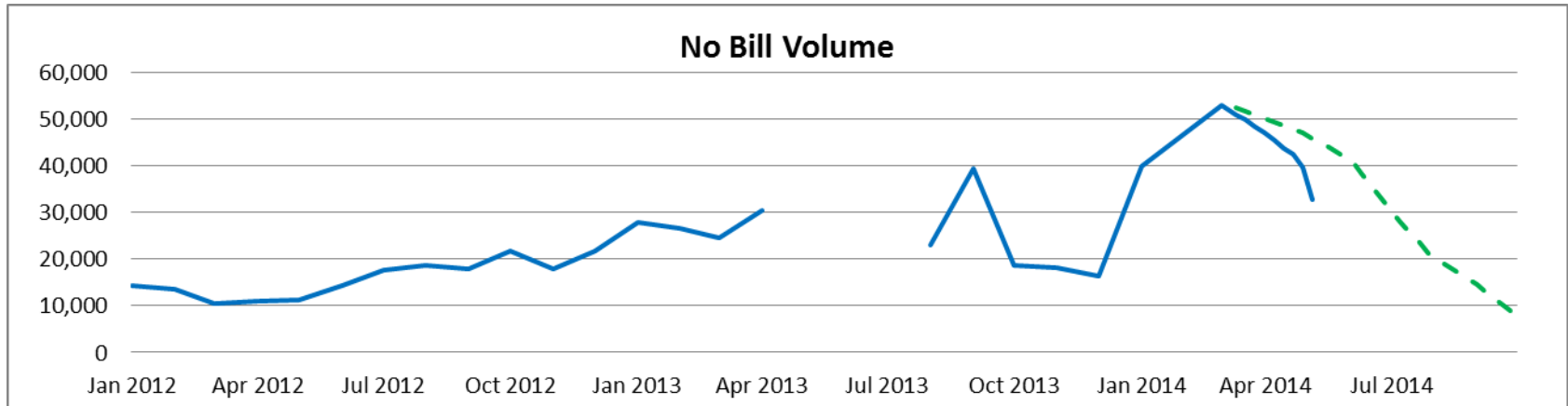
CCC Call Volume - Billing Related



CCC Escalation Volume

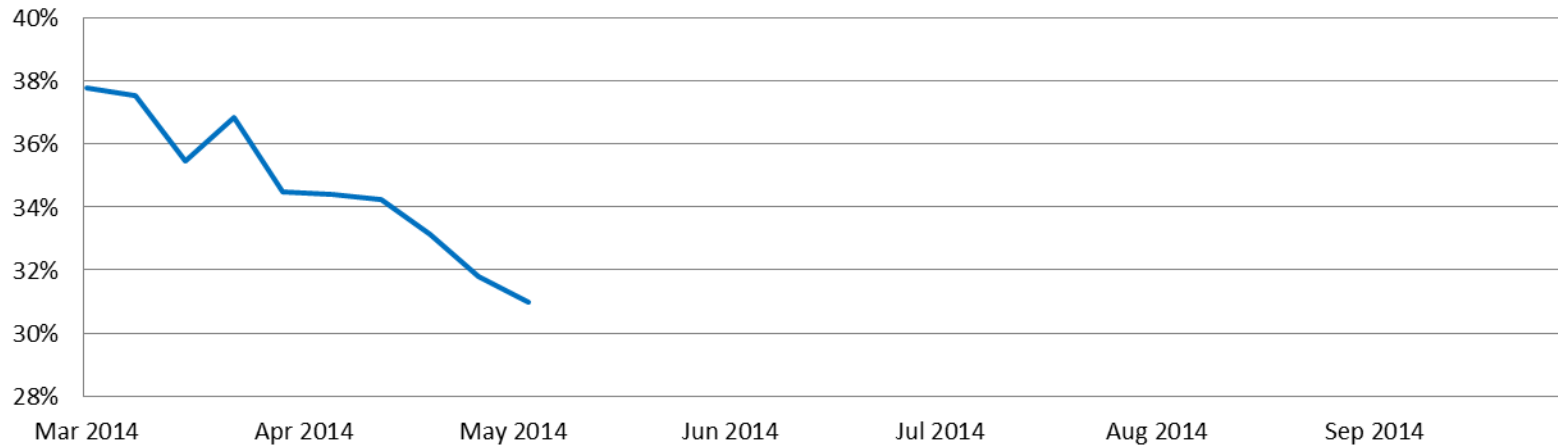


CSR - KPI Trends and Targets

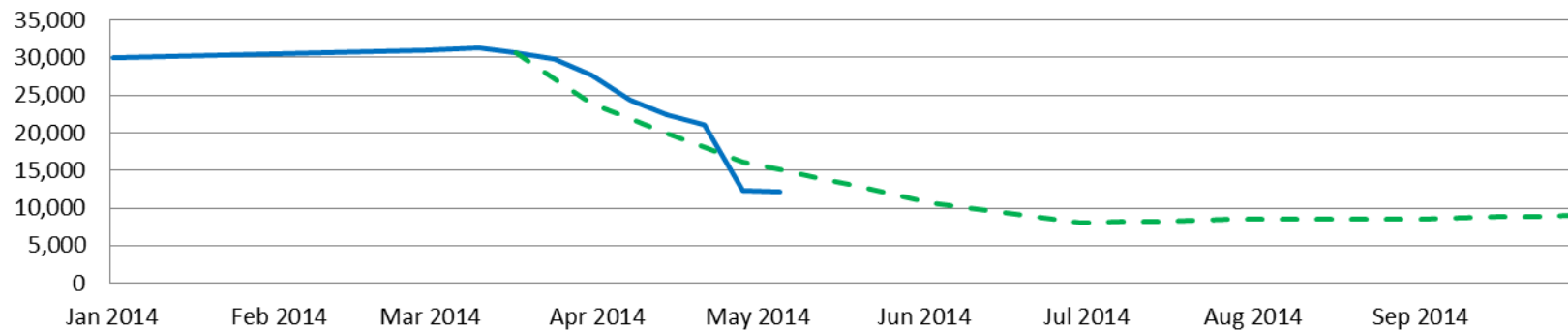


CSR - KPI Trends and Targets

Repeat Customer Contacts (Non-Outage)



CIS Estimated Bills >3 Consecutive Periods



Our Customer Commitment

- Our customers will only pay for the electricity and services they use and for which they are billed.
- We will treat customers in a fair and consistent manner, while taking into account individual customer circumstances.
- We will take corrective action if we failed to treat our customers properly, or if we failed to act in a timely, sensitive and responsible manner.
- We will provide sound energy advice
- We will protect our ratepayers' interests by exercising our rights and obligations to collect the revenues we are owed, while prudently managing the cost of doing so.

5-year Application Framework

1. 5 year custom cost-of-service application
2. Annual adjustments for recurring events that are mechanical in nature
3. Adjustments outside of normal course of events will be sought for unexpected materially impactful events outside of Hydro One's control
4. Off-ramp provisions to be applied where warranted
5. Annual reporting of agreed upon outcome measures

5-year Application Process

1. Submit 2015 rate order in December 2014, reflecting latest ROE and actual debt issuances.
2. December 2015: Submit 2016 Rate Order for intervenor and OEB review and approval, reflecting latest ROE and actual debt issuances, other annual adjustments for working capital, tax rate changes, clearance of variance accounts that meet the materiality threshold, and 3rd party pass through charges.
3. April of 2016: Submit 2015 outcome measures, RRR reporting elements including items required for OEB performance scorecard.
4. Steps 2 and 3 repeated each year for the following test years.
5. If an event triggers an Adjustment Outside of Normal Course of Business, evidence would be filed, followed by a written hearing to approve specific recovery through a rider and/or tracking in a variance/deferral account.