



2017-2018 Transmission Rate Application

Hydro One Networks Inc.

Presentation Day

September 8, 2016



Agenda



Strategic Overview

Mayo Schmidt, President and CEO

Application Highlights

Oded Hubert, VP, Regulatory

Planning and Investment

Mike Penstone, VP, Planning

Execution and Performance

Michael Vels, CFO

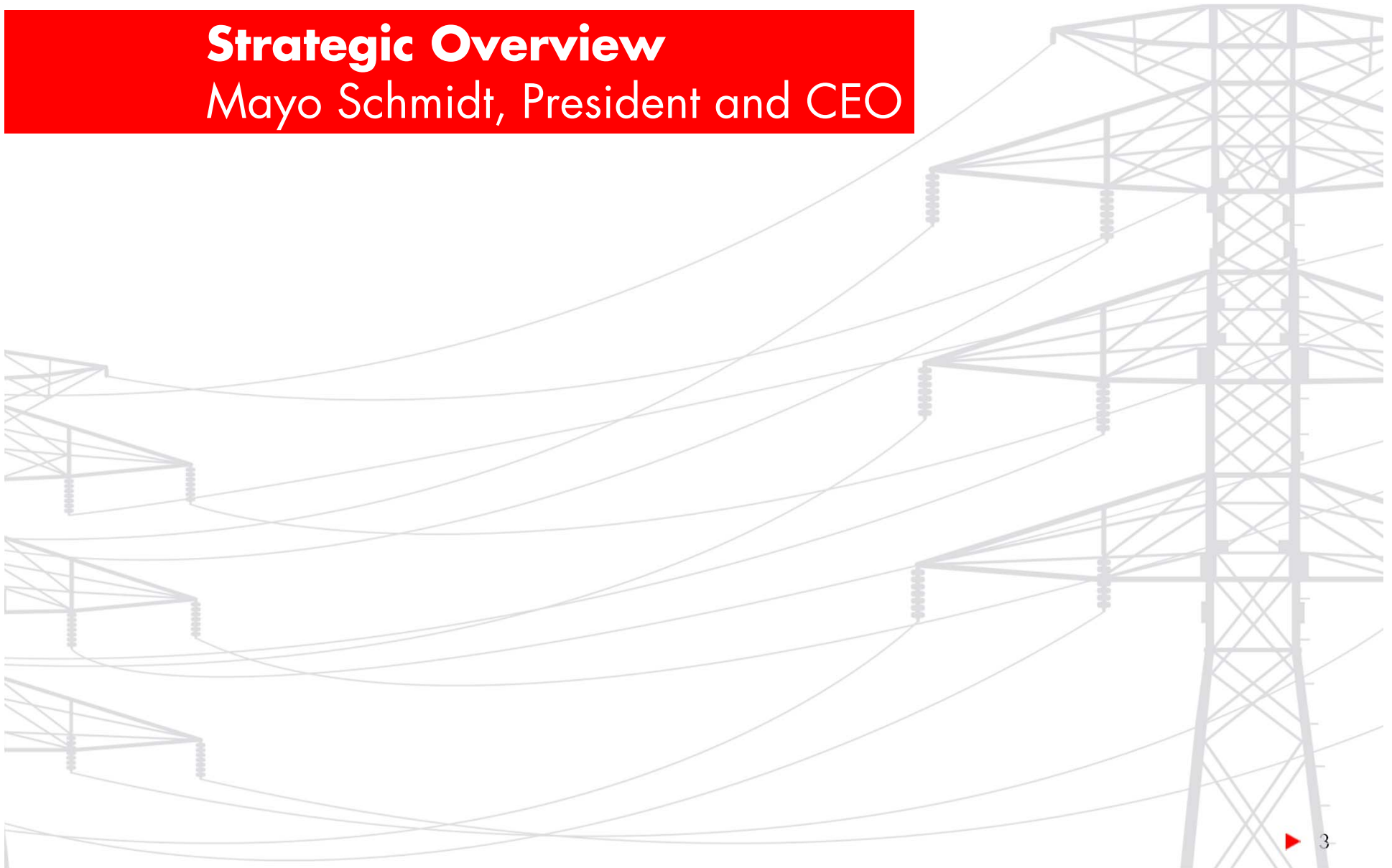


Agenda



Strategic Overview

Mayo Schmidt, President and CEO





Strategic Overview

Our Vision

Become a best-in-class, customer-centric commercial utility, with a culture of continuous improvement and excellence in execution.

Strategic Overview

Key Outcomes	RRFE Principles
<ul style="list-style-type: none">▶ Improve customer satisfaction	Customer Focus
<ul style="list-style-type: none">▶ Minimize long-term costs of maintaining system reliability▶ Achieve injury-free workplace	Operational Effectiveness
<ul style="list-style-type: none">▶ Comply with regulatory and reliability standards▶ Responsible environmental stewardship	Public Policy Responsiveness
<ul style="list-style-type: none">▶ Achieve OEB approved ROE	Financial Performance

Strategic Overview

**Through extensive engagement,
our customers told us:**

- ▶ Unreliability has a cost to customers;
- ▶ No increase in reliability risk;
- ▶ Greater focus on power quality;
- ▶ Improved outage planning and notifications; and
- ▶ Continuing communication of investment plans.



Strategic Overview

Hydro One's transformation will deliver improved value for ratepayers and shareholders.

"Success" means:

- ▶ Improved understanding of customer needs and preferences;
- ▶ Right investments at the right time;
- ▶ Project execution excellence;
- ▶ Improved performance and cost management; and
- ▶ Alignment with RRFE principles.

Agenda

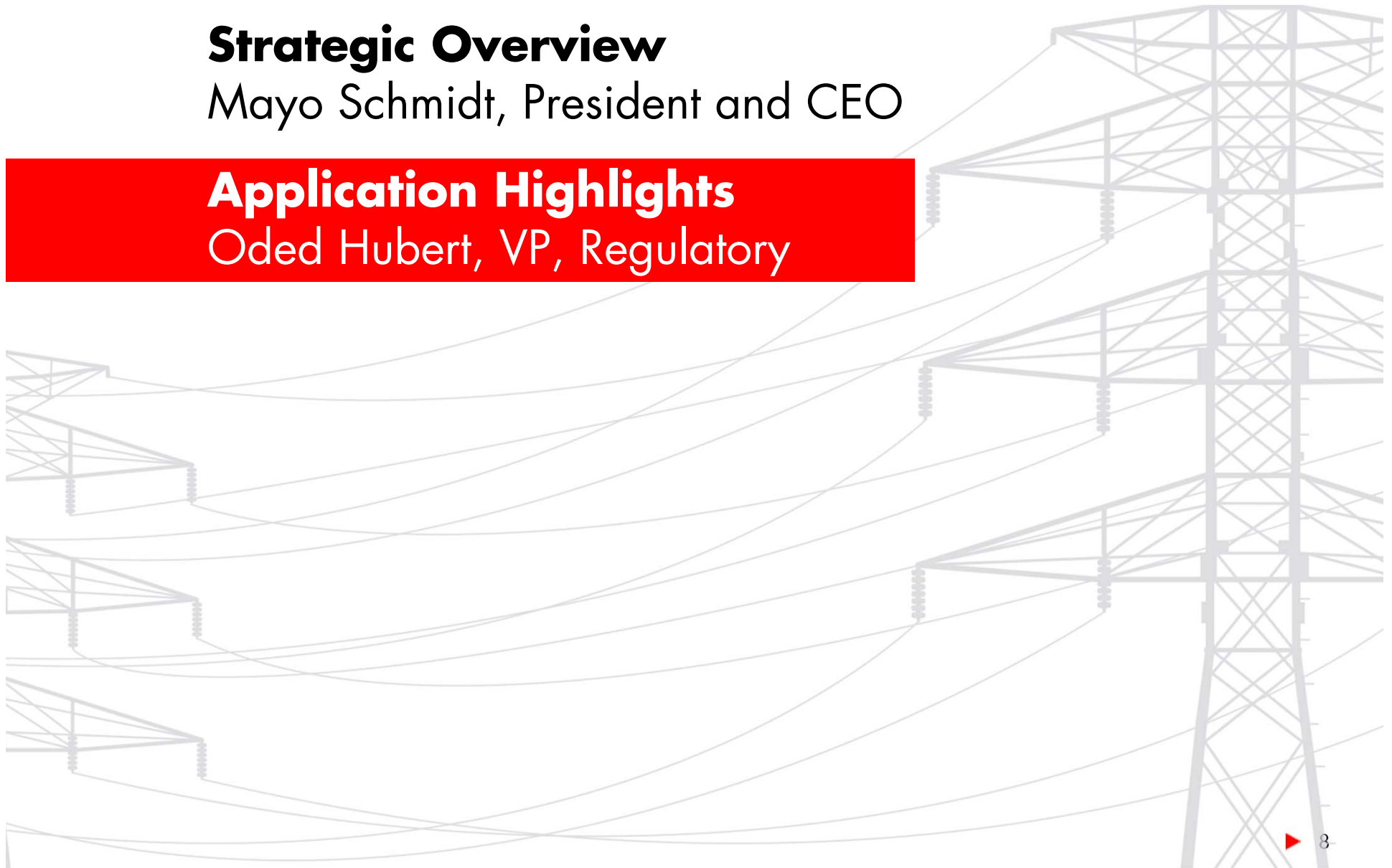


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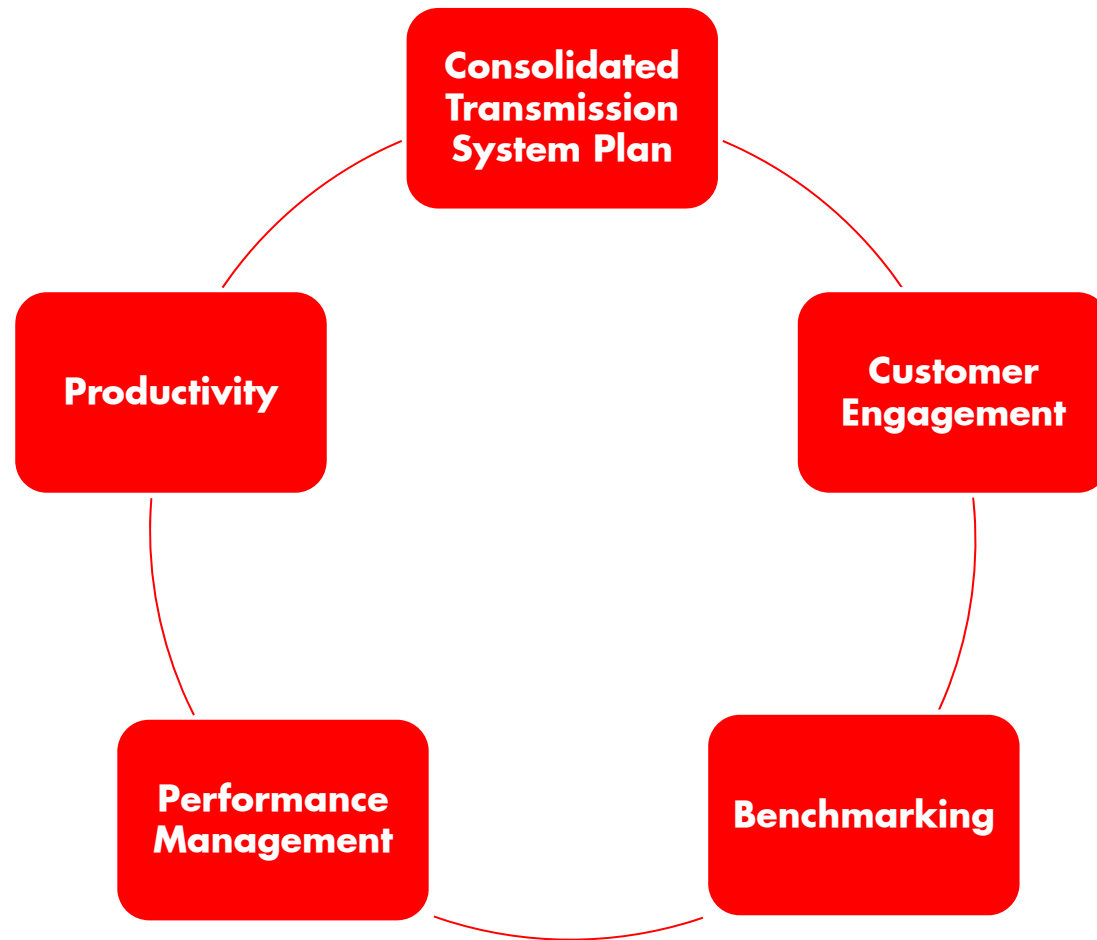


Application Highlights

- ▶ Transitional 2-year Cost of Service;
- ▶ Consistent with RRFE and Filing Requirements of February 11, 2016;
- ▶ Proposed rates revenue requirement of \$1.5B in 2017, and \$1.6B in 2018;
- ▶ Revenue requirement to be effective January 1st of each year;
- ▶ Proposed Transmission rate increases of 3.7% and 5.4%, respectively;
- ▶ Estimated average bill impacts in 2017 and 2018:
 - Transmission connected customer: 0.3% and 0.4%
 - Typical residential customer: 0.2% and 0.3%

Application Highlights

Incorporation of the new elements of RRFE



Application Highlights

Customer Engagement Activities

- ▶ Between March 9 and April 8, 2016;
- ▶ All 256 transmission connected customers invited; participation from 106 individuals representing 62 customers; and
- ▶ Ipsos used as an independent facilitator:
 - 12 one-on-one meetings with selected customers (4 LDCs, 6 large industrials, and 2 generators) and Hydro One senior management
 - Group sessions held across Ontario (Ottawa, London, Thunder Bay, Sudbury, and Toronto)
 - online interactive consultation tool

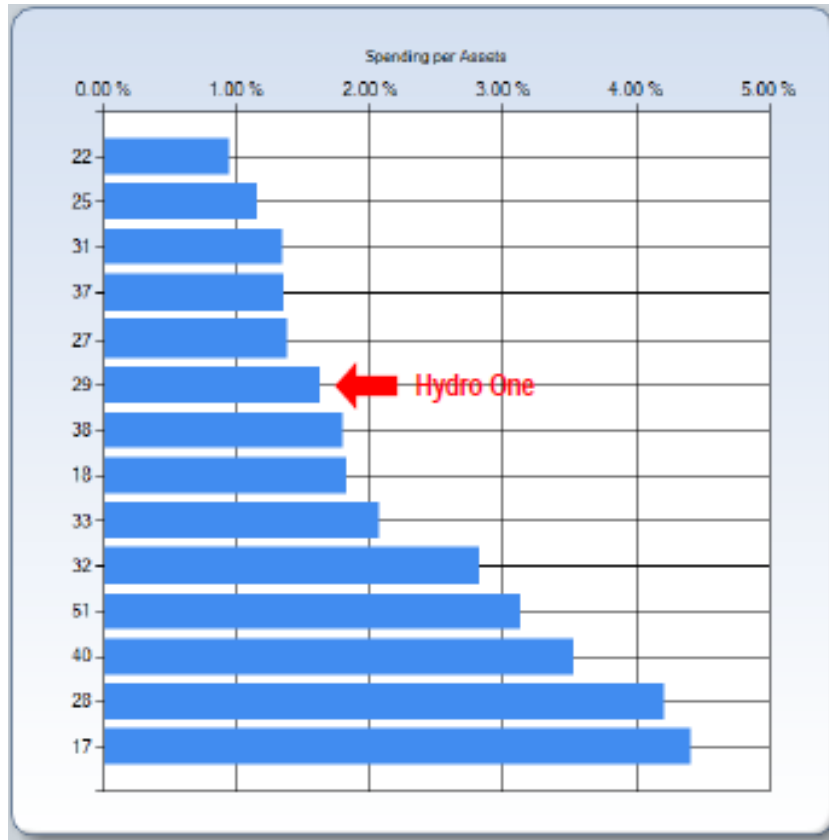
Application Highlights

Our Conversation with Customers

- ▶ 3 illustrative scenarios used to promote understanding of investment levels and expected outcomes
 - Customers not asked to choose between scenarios
- ▶ Low, medium and high capital expenditure scenarios presented
 - Each had different expected interruption levels, reliability risks and rate impacts
- ▶ Customers support the investment required to at least maintain the current level of reliability risk

Application Highlights

Navigant May 2016 Total Cost Benchmarking Study

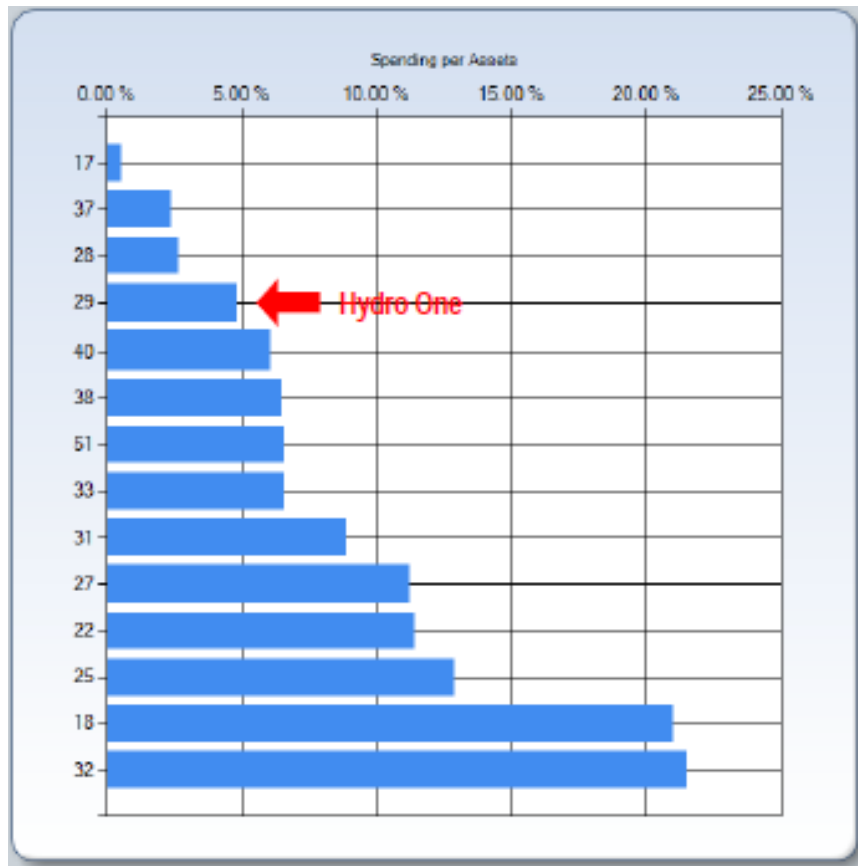


Costs do not include any overhead or corporate allocations

- ▶ Direct O&M costs per asset value marginally below comparison panel median

Application Highlights

Navigant May 2016 Total Cost Benchmarking Study



Costs do not include any overhead or corporate allocations

- ▶ Direct Capex costs per asset value below comparison panel median (among the lowest in the peer group)

Application Highlights

Transmission System Plan

- ▶ Five-year consolidated capital investment plan
- ▶ Process for planning and prioritization of expenditures
- ▶ Reflects customer needs and preferences

Proposed Transmission Scorecard

- ▶ Includes outcomes, KPIs, productivity measures
- ▶ Supported by Company's internal systems
- ▶ Transparent performance measurement over time

Application Highlights

Rate Base

(\$ Millions)	Board Approved 2016	2017	2018
Rate Base	10,040.0	10,554.4	11,225.5

Revenue Requirement

(\$ Millions)	Board Approved 2016	2017	2018
OM&A	436.7	413.1	411.2
Depreciation	397.3	435.7	470.7
Income Taxes	72.2	81.3	90.4
Cost of Capital	661.5	676.1	714.9
Total Revenue Requirement	1,567.6	1,606.3	1,687.2
Deduct External Revenues	(32.2)	(28.2)	(28.5)
Deduct Export Revenue Credit	(31.7)	(39.2)	(40.1)
Deduct Regulatory Accounts Disposition	(36.1)	(47.8)	(47.8)
Add Low Voltage Switch Gear	13.0	14.0	14.7
Rates Revenue Requirement	1,480.7	1,505.1	1,585.6

Application Highlights

Required Rate Increase

- ▶ Proposed rate increases (including load forecast) of 3.7% and 5.4% in 2017 and 2018 respectively.
- ▶ Load impact estimated to be 2.1% in 2017

Average Bill Impacts

- ▶ Estimated average bill impacts in 2017 and 2018:
 - Transmission connected customer: 0.3% and 0.4%
 - Typical residential customer: 0.2% and 0.3%

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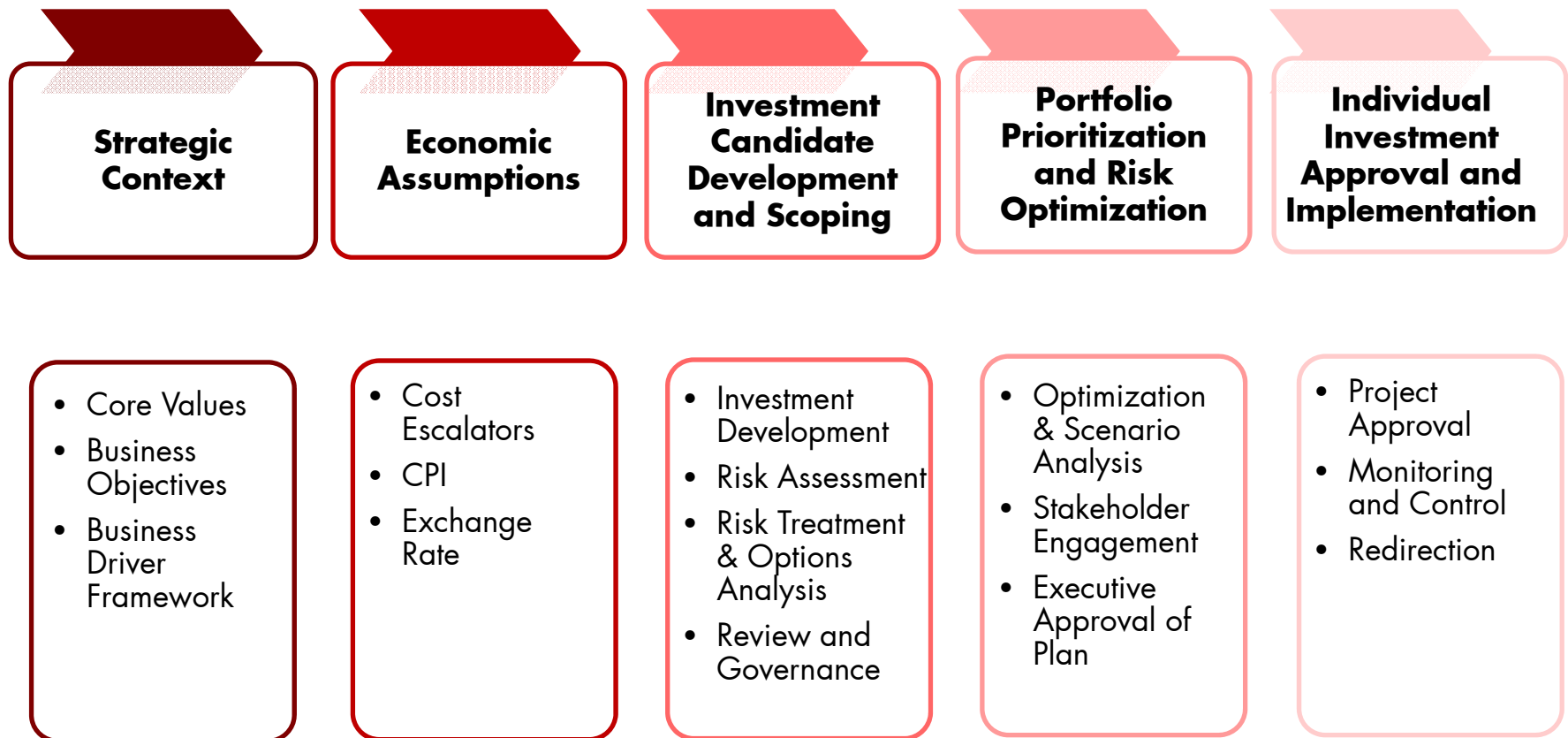
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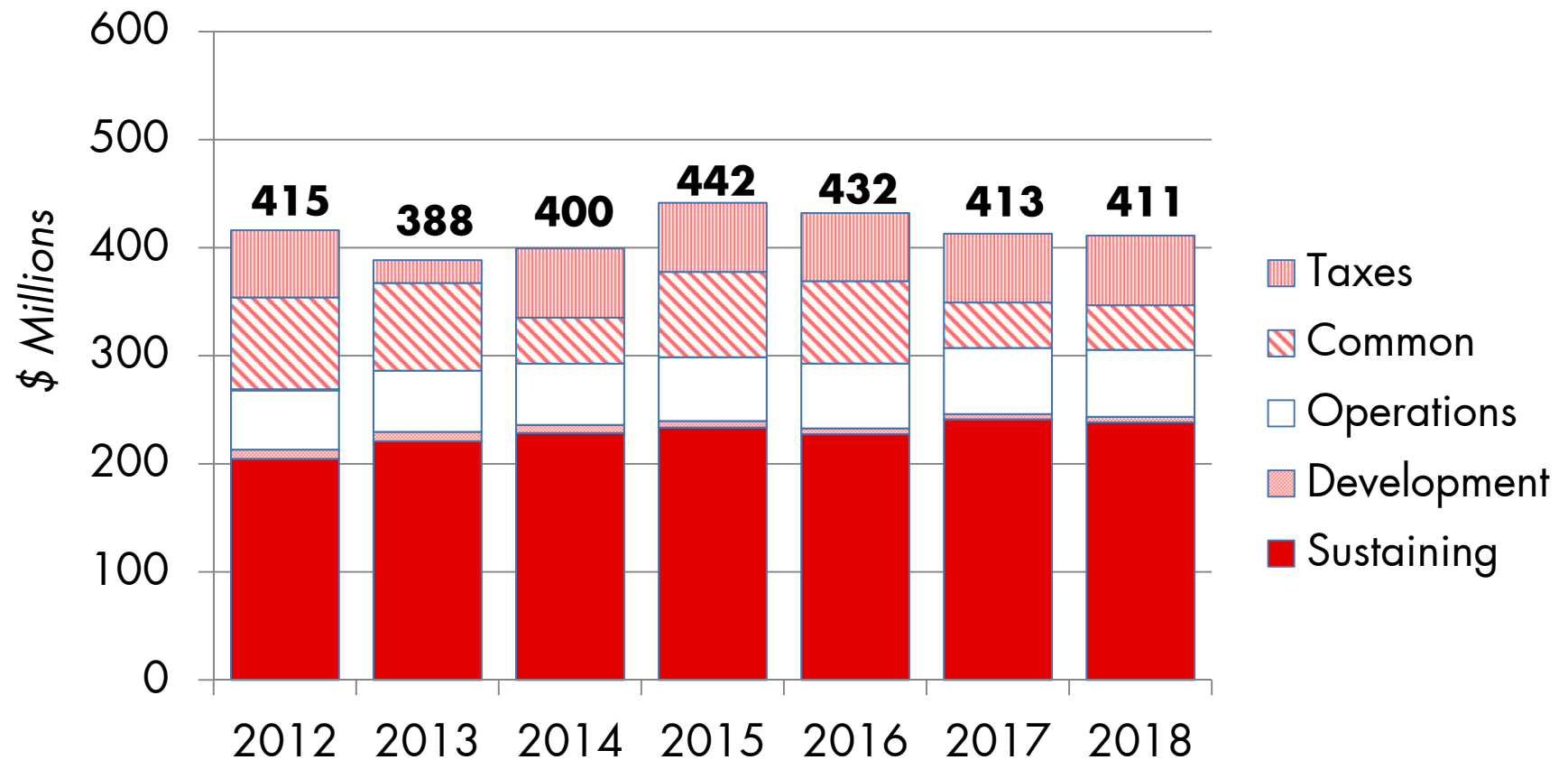
The Planning Process and the Investment Plan

Planning Process:



The Planning Process and the Investment Plan

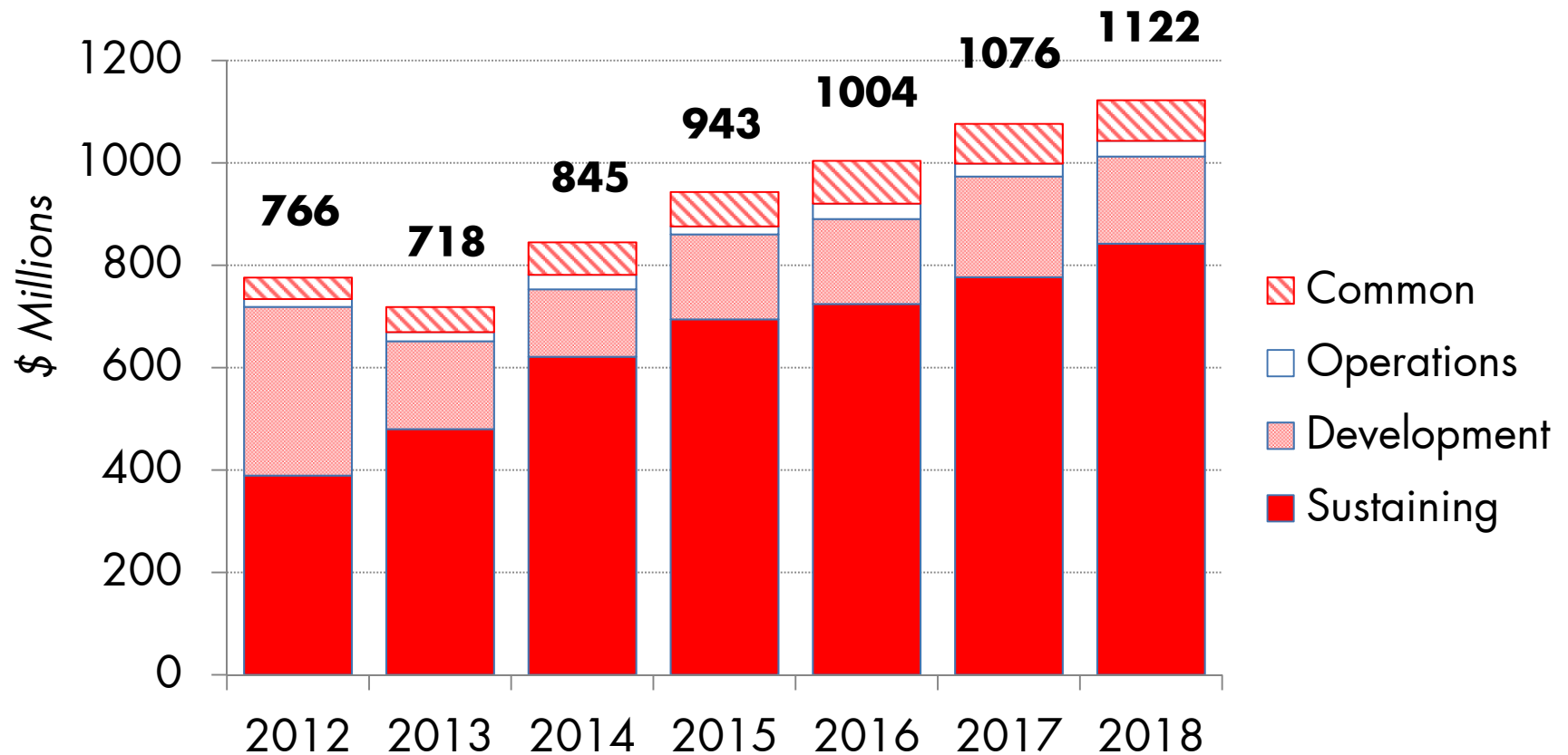
Operations, Maintenance & Administrative Budget



* The adjustments for Pension and B2M totaling -\$11.8M in 2017 and -\$10.1M in 2018 have been included in "Common".

The Planning Process and the Investment Plan

Capital Budget



The Planning Process and the Investment Plan

Customer Consultation Outcomes

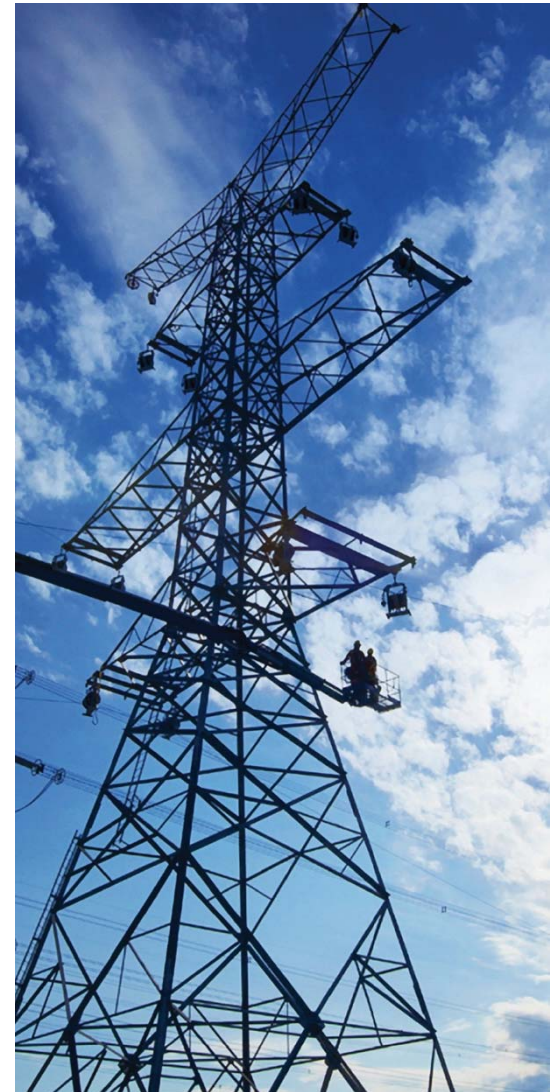
- ▶ Advanced Air Blast Circuit Breaker Project
- ▶ Increased Transmission Line Investments
- ▶ Expanded Power Quality Program
- ▶ Increased Sustainment Capital Program



The Planning Process and the Investment Plan

Capability to Deliver

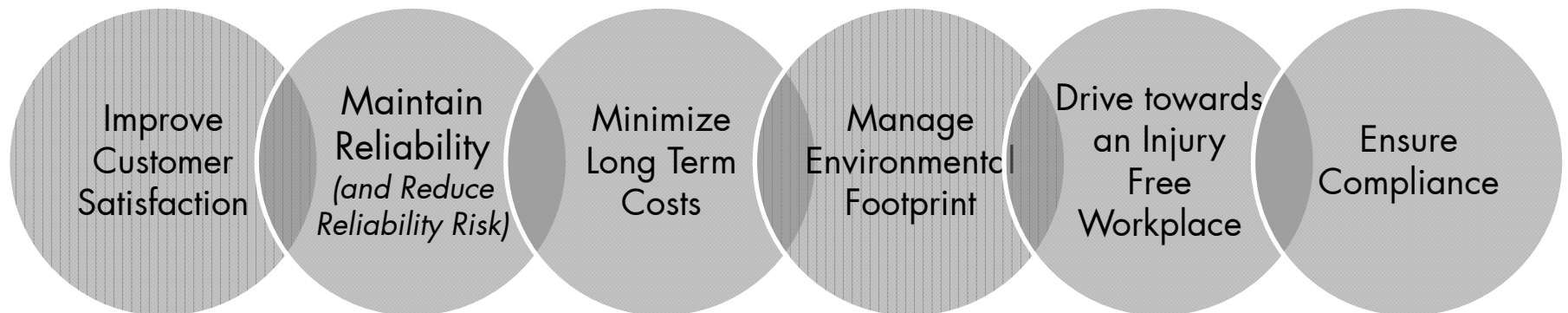
- ▶ Successfully completed 2015 capital plan
- ▶ On track to complete a similar-sized plan in 2016
- ▶ Initiatives are underway to ensure that the proposed capital plan
 - is achieved on schedule and on budget,
 - consistent with OEB-approved metrics, and
 - is flexible to respond to changing priorities and needs.



The Planning Process and the Investment Plan

Outcomes

Hydro One expects the plan to result in several key outcomes for Hydro One and its customers:



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Execution and Performance

Our Vision

Become a best-in-class, customer-centric commercial utility, with a culture of continuous improvement and excellence in execution.

Execution and Performance

New Governance Framework

- ▶ Independent Board of Directors
- ▶ Risk Management Function
- ▶ Code of Conduct
- ▶ Internal Control Systems
- ▶ Performance Measurement Systems
- ▶ Independent Internal Audit Function
- ▶ Independent Ombudsman

Execution and Performance

Increased Commercial Orientation

- ▶ Means:
 - Greater customer focus;
 - Corporate-wide accountability for outcomes; and
 - Productivity and efficiency.

- ▶ New senior leadership team empowered to achieve targeted commercial objectives.

Execution and Performance

Accountability for Outcomes

- ▶ Execution and performance start with defining relevant KPIs, measuring them regularly, and ensuring the organization is committed to achieving them.
- ▶ What we are doing differently to create greater accountability:
 - New KPIs used to manage the business;
 - Scorecard that aligns with the RRFE; and
 - Compensation and culture that align with outcomes.

Execution and Performance

KPIs Used to Manage Business

- ▶ Critical to the management of a commercial utility;
- ▶ Focus on measurement, accountability and continuous improvement;
- ▶ Refined over time to ensure that incremental efficiency improvements are captured effectively;
- ▶ 22 KPIs used in the proposed Scorecard; and
- ▶ Additional Tier 2 and 3 KPIs developed to augment Scorecard metrics.

Execution and Performance

Scorecard Aligns with RRFE

RRFE Principle	Category	Metric
Customer Focus	Service Quality	Satisfaction with Outage Planning Procedures (as % satisfied)
		Customer Delivery Point Performance Standard Outliers (as % of total DP)
	Customer Satisfaction	Overall Customer Satisfaction in Corporate Survey (as % satisfied)
Policy Response	Renewables	Percentage of renewables connection impact assessments completed within expected time
	Regulatory Compliance	NERC/NPCC Standards Compliance – # of High Impact Violations
		NERC/NPCC Standards Compliance – # of Med/Low Impact Violations
Regional Infrastructure	Regional Infrastructure Planning Progress (as % of deliverables met)	

Execution and Performance

Scorecard Aligns with RRFE *(continued)*

RRFE Principle	Category	Metric
Operational Effectiveness	Safety	Recordable Incident Rate <i>(as a # per 200,000 hours worked)</i>
	System Reliability	Average # of sustained interruptions per delivery point <i>(T-SAIFI-S)</i>
		Average # of momentary interruptions per delivery point <i>(T-SAIFI-M)</i>
		Average minutes of interruptions per delivery point <i>(T-SAIDI)</i>
		System unavailability (%)
		Unsupplied energy (minutes)
	Asset Management	In-service capital additions <i>(as % of OEB-Approved)</i>
		Capital expenditures <i>(as % of Budget)</i>
	Cost Control	Total OM&A and Capital expenditures per Gross fixed asset value (%)
		Total sustainment capital expenditures per Gross fixed asset value (%)
Total OM&A per Gross fixed asset value (%)		
Financial Performance	Leverage	Total Debt to Equity Ratio
	Liquidity	Current Ratio
	Profitability	Return on Equity – deemed (%)
		Return on Equity – achieved (%)

Execution and Performance

Compensation and Culture that Align with Outcomes

- ▶ RRFE-aligned KPIs and outcome measures now directly linked to non-union compensation plans;
- ▶ Goals cascaded down, ensuring alignment at all levels;
- ▶ Balanced scorecard used to manage and evaluate performance; and
- ▶ For 2017, Transmission KPIs will be included as appropriate in compensation targets, once Scorecard approved by the OEB.

Execution and Performance

June 2016 Hydro One Team Scorecard

Strategic Objectives	Definition	Measure	Year-to-Date			Full Year	
			Actual	Budget	Last Year	Budget	Target
Safety (10%)	Recordable Incidents	Incidents per 200,000 hours	1.3	1.6	1.8	1.6	1.5
Customer (25%)	Tx Satisfaction Note 1	% satisfied of total surveyed	n/a	n/a	n/a	80%	82%
	Dx Satisfaction	% satisfied of total surveyed	68%	73%	70%	73%	79%
	Tx Customer Commitments	% of commitments kept made to Tx Customers	90%	74%	n/a	74%	81%
	Dx Customer IT Enablement	Provide Customers tools and technology (3 projects initiated)	Note 2	Note 2	n/a	2	3
Net Income (40%)	Net Income to Common Shareholders	\$M	360	381	359	Note 3	Note 3
Work Program (25%)	Dx Pole Replacement	# of Poles	8,273	6,404	7,334	12,000	12,600
	Dx Line Clearing	KM Controlled	5,952	5,207	5,669	11,000	12,100
	Tx In Service Capital	\$M	230	266	225	+3% or -5%	910
	Dx In Service Capital	\$M	294	313	288	+3% or -3%	622

Note 1: The Tx Satisfaction survey results will be received in Q3

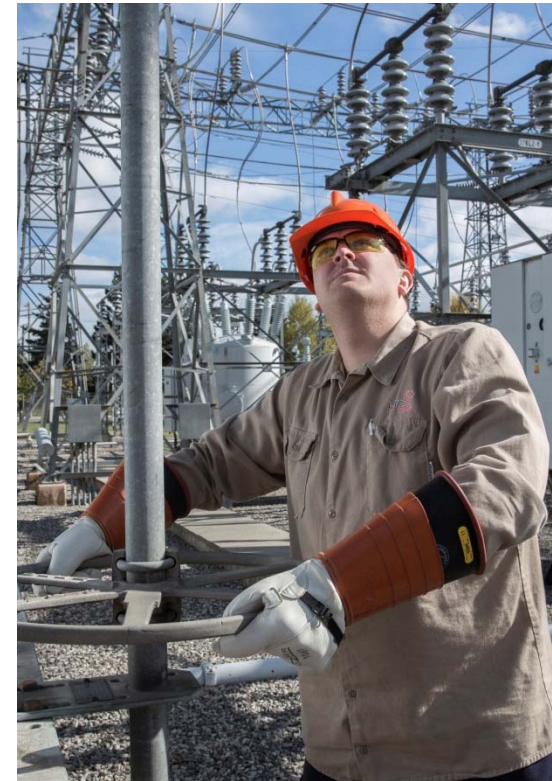
Note 2: We are on track to deliver three projects this year to benefit communication and interaction with customers

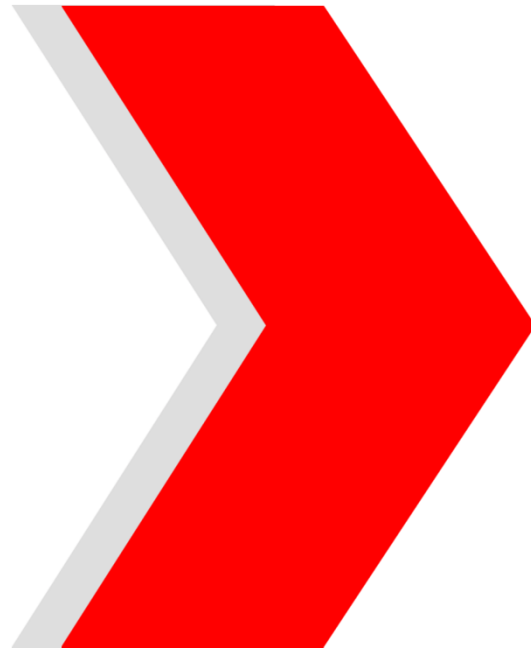
Note 3: As we are a public company, we cannot communicate full year net income budgets widely

Execution and Performance

Productivity/Efficiencies

- ▶ We have begun and will continue several initiatives to aggressively reduce costs while maintaining safe and reliable service to customers.
- ▶ Manage by measuring. Continuous improvement will be embedded in our culture.
- ▶ We are committed to reducing OM&A in the next two years, although several external factors are pushing costs up above inflation.
- ▶ 3 KPIs included in the Scorecard to address productivity and cost efficiency.





LET'S GET
GREAT

hydro**One**