ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B) s. 78;

AND IN THE MATTER OF an application by Hydro One Networks Inc. for the relief necessary to increase transmission rates in 2017 and 2018.

EB-2016-0160

CROSS-EXAMINATION COMPENDIUM

PANEL 1

ANWAATIN INC.

November 25, 2016

TAB 1

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any state securities laws, and accordingly will not be offered, sold or delivered, directly or indirectly within the United States of America, its possessions and other areas subject to its jurisdiction, except in limited circumstances. See "Plan of Distribution".

SUPPLEMENTED PREP PROSPECTUS

Initial Public Offering
by way of Secondary Offering

October 29, 2015

HYDRO ONE LIMITED

$1,662,550,000
81,100,000 Common Shares

This prospectus qualifies the distribution of 81,100,000 common shares of Hydro One Limited ("**common shares**") being offered by the Province of Ontario (the "**Province**" or the "**Selling Shareholder**") at a price of $20.50 per common share. **Hydro One Limited will not receive any proceeds from this offering**. See "Principal and Selling Shareholder".

Immediately following the closing of this offering, and the other transactions contemplated by this prospectus, the Province will hold approximately 85% of Hydro One Limited's total issued and outstanding common shares (approximately 84% if the Over-Allotment Option is exercised in full). As a result, the Province will have a significant influence over Hydro One Limited and its affairs. See "Governance and Relationship with Principal Shareholder" and "Risk Factors".

Prior to the closing of this offering, Hydro One Limited will acquire all of the issued and outstanding shares of Hydro One Inc. Hydro One is the largest electricity transmission and distribution company in Ontario. Hydro One owns and operates substantially all of Ontario's electricity transmission network, and is the largest electricity distributor in Ontario by number of customers.

On August 31, 2015, at the direction of the Province, as sole shareholder of Hydro One Inc., Hydro One Inc. declared a dividend in-kind on its common shares payable in all of the issued and outstanding shares of Hydro One Brampton Networks Inc. The dividend was paid to the Province, at its direction, by transferring all of the issued and outstanding shares of Hydro One Brampton Networks Inc. to a company wholly-owned by the Province. See "Pre-Closing Transactions" for additional detail concerning this dividend and related transactions. Hydro One Brampton Networks Inc. was previously a wholly-owned subsidiary of Hydro One Inc.

There is currently no market through which Hydro One Limited's common shares may be sold, and purchasers may not be able to resell common shares purchased under this prospectus. This may affect the pricing of the common shares in the secondary market, the transparency and availability of trading prices, the liquidity of the common shares, and the extent of issuer regulation. See "Risk Factors". The Toronto Stock Exchange (the "**TSX**") has conditionally approved the listing of the common shares distributed under this prospectus on the TSX under the symbol "H". Listing will be subject to Hydro One Limited fulfilling all of the requirements of the TSX on or before January 25, 2016. See "Plan of Distribution".

Price: $20.50 per Common Share

	Price to the Public[1]	Underwriters' Fee[2]	Net Proceeds to the Selling Shareholder[3]
Per common share	$ 20.50	$0.205/$0.615	$ 20.172
Total offering[4]	$1,662,550,000	$ 26,600,800	$1,635,949,200

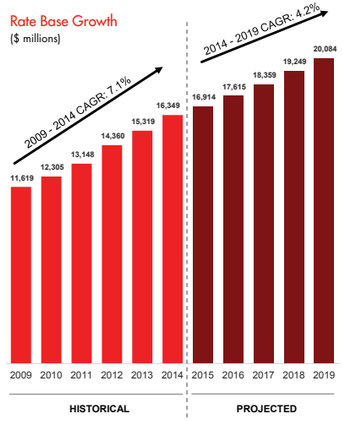
Notes:

(1) The offering price for the common shares will be determined by negotiations between the Province and the Underwriters (as defined below).

(continued on next page)

STABLE REGULATED CASH FLOWS AND STRONG BALANCE SHEET

- Essential rate-regulated infrastructure services generate 99% of revenues
- Stable, growing rate base underpins growth in net cash from operating activities and net income
  - Rate base growth of 7.1% (2009–2014 CAGR)
  - Net cash from operating activities growth of 7.1% (2009 – 2014 CAGR)
  - Net Income growth of 9.7% (2009 – 2014 CAGR)
- Active participant in public debt capital markets with strong "A" credit ratings



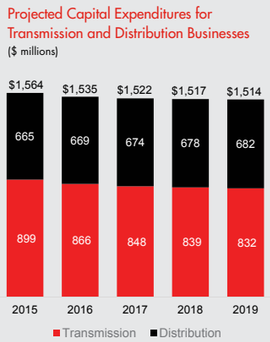
SIGNIFICANT SCALE AND LEADERSHIP POSITION IN ONTARIO

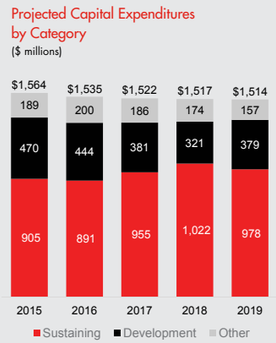
Key Advantages

- Low cost of borrowing and broad access to debt capital markets
- In-house team of industry experts
  - Asset management
  - Operations
  - Post-outage recovery
  - Project design
  - Engineering
  - Project management and construction
- Resources and commitment to invest in innovation, continuous improvement, customer service
- Comprehensive stakeholder engagement process
- Extensive experience building and maintaining effective relationships with First Nations and Métis communities
- Leading role in working with regulatory authorities on energy policy, regulatory changes, etc.

ROBUST AND PREDICTABLE ORGANIC GROWTH PROFILE

- Rate base growth represents greatest near term opportunity
- Estimated average annual capital investments of ~$1.5 billion per year over the next 5 years, with the focus on improving existing assets
- All capital expenditures are included in rate base
- Additional LDC consolidation opportunities





CONSISTENT AND STABLE, RATE-REGULATED ENVIRONMENT

- Stable and sophisticated regulator
- Transparent and predictable rate setting process
  - ROE set by a formula linked to long-term government bond yields and corporate bond spreads
- OEB-approved rates based on recovery of costs plus approved rate of return and incentive for productivity improvements
- Hydro One has earned or exceeded its allowed ROE on a consolidated basis

	2010	2011	2012	2013	2014	2015
Allowed ROE on Deemed Equity (40% of Capital Structure)						
Transmission	8.39%	9.66%	9.42%	8.93%	9.36%	9.30%
Distribution	9.85%	9.66%	9.66%	9.66%	9.66%	9.30%

differences occur. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking information include, among other things:

- regulatory risks and risks relating to Hydro One's revenues, including risks relating to rate orders, actual performance against forecasts and capital expenditures,
- the risk of claims by First Nations and Métis communities related to sovereignty and jurisdiction over reserve and traditional territories, or a perceived failure by the Crown to sufficiently consult a First Nations or Métis community,
- the risk that the Company may be unable to comply with regulatory and legislative requirements or that the Company may incur additional costs for compliance that are not recoverable through rates,
- the risk of exposure by the Company's facilities to the effects of severe weather conditions, natural disasters or other unexpected occurrences for which the Company is uninsured or to which the Company could be subject to claims for damage,
- the risk of labour disputes and inability to negotiate appropriate collective agreements on acceptable terms consistent with the Company's rate decisions,
- risks that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures,
- risks associated with fluctuations in interest rates and failure to manage exposure to credit risk,
- the risk that the Company may not be able to execute plans for capital projects necessary to maintain the performance of the Company's assets or to carry out projects in a timely manner,
- the risk of non-compliance with environmental regulations or failure to mitigate significant health and safety risks and inability to recover environmental expenditures in rate applications,
- the risk of not being able to recover the Company's pension expenditures in future rates and uncertainty regarding the future regulatory treatment of pension, other post-employment and post-retirement benefits costs,
- risks associated with the Province's significant share ownership and other relationships with the Province, including potential conflicts of interest that may arise between the Company, the Province and related parties,
- the risk of future sales of common shares by the Province or issuance of additional common shares by Hydro One Limited which may adversely affect the market prices for the common shares,
- the risk that Hydro One Inc.'s liability for payment-in-lieu of tax under the Electricity Act may be impacted by the valuation of the shares and debt of Hydro One Brampton Networks Inc. and risks associated with changes to Hydro One's tax status as a result of this offering, and
- assumptions and estimates required for the preparation of pro forma financial statements may be materially different from the Company's actual results and experience in the future.

Hydro One cautions you that the above list of factors is not exclusive. Some of these and other factors are discussed in more detail under "Risk Factors". You should review such section in detail.

In addition, Hydro One cautions the reader that information provided in this prospectus regarding Hydro One's outlook on certain matters, including potential future expenditures, is provided in order to give context to the nature of some of Hydro One's future plans and may not be appropriate for other purposes.

MARKET AND INDUSTRY DATA

This prospectus includes market and industry data obtained from third party sources, industry publications, and publicly available information, including Natural Resources Canada's *About Electricity*, the National Energy Board's *Canada's Energy Future 2013: Energy Supply and Demand Projections to 2035*, the Ontario Energy Board's *Yearbook of Distributors (2014)*, the Edison Electric Institute's *2014 Financial Review: Annual Report of the U.S. Investor-Owned Electric Utility Industry,* the U.S. Energy Information Administration's *Annual Energy Outlook 2015 with Projections to 2014* and market data sourced from Bloomberg, as well as industry and other data prepared by

Acquisition Opportunities

As the largest distributor in Ontario, Hydro One has been an active consolidator of local distribution companies. In the late 1990s and early 2000s, when significant changes were made to the electricity sector in Ontario, Hydro One acquired 88 individual local distribution companies, which were subsequently integrated into Hydro One's distribution business (with the exception of Hydro One Brampton Networks Inc., which was operated as a stand-alone entity). More recently, the Company acquired Haldimand Hydro in June 2015 and Norfolk Power in August 2014, adding more than 40,000 customers to its distribution network. A third Hydro One acquisition, of Woodstock Hydro, received Ontario Energy Board approval on September 11, 2015 and is expected to close later in 2015. Through these recent acquisitions, the Company will have increased its customer base by approximately 5%. Hydro One will continue to evaluate local distribution company consolidation opportunities in Ontario in the future and intends to pursue those acquisitions which deliver value to the Company and its shareholders.

Over time, the Company may also consider larger-scale acquisition opportunities or other strategic initiatives outside of Ontario to diversify its asset base and leverage its strong operational expertise. These acquisition opportunities may include other providers of electrical transmission, distribution and other similar services in Canada or in the United States.

Significant Scale and Leadership Position in Ontario

Hydro One plays an essential role in the electricity system of Canada's most populous province. Hydro One owns and operates substantially all of Ontario's transmission system, and is also the largest electricity distributor in Ontario. Management believes that Hydro One's significant scale and leading position in the electricity industry in Ontario provide it with several key competitive advantages that may not be available to smaller utilities, including:

- a low cost of borrowing and broad access to debt capital markets in order to fund its development and growth initiatives,
- the ability to draw on a large and highly experienced in-house team of experts covering all key aspects of Hydro One's business, including asset management, operations, post-outage recovery, project design, engineering, procurement, project management and construction,
- the resources and commitment to prudently invest in innovation, continuous improvement and customer service initiatives and to improve the reliability and performance of Hydro One's transmission and distribution systems and reduce operations, maintenance and administration costs,
- a refined and comprehensive stakeholder engagement process that covers Hydro One's customers, municipalities, remote communities and other parties,
- extensive experience building and maintaining effective relationships with First Nations and Métis communities, and
- a leading role in working with regulatory authorities on developments with respect to energy policy, regulatory changes, new transmission and distribution investments, regional planning and new technologies.

Management believes that these strengths have increased Hydro One's operational effectiveness, helped it maintain a positive and constructive relationship with its regulators, customers and stakeholders and ultimately contributed to achieving successful outcomes in its applications for the approval of transmission and distribution rates, new development projects and the acquisition of local distribution companies.

Consistent and Stable, Rate-Regulated Environment

Hydro One's transmission and distribution businesses operate in a stable, rate-regulated environment. Management believes the Ontario Energy Board is regarded in the electricity industry as a stable and sophisticated regulator with a transparent and predictable rate setting process. The allowed return on equity determined by the Ontario Energy Board is set by a formula linked to long-term government bond yields and corporate bond spreads. See "Rate-Regulated Utilities – Value Drivers for a Rate-Regulated Utility – Return on Equity". Hydro One does not set the price of electricity and has no direct exposure to electricity price risk because the cost of electricity is passed on

	to have all of the cash dividends of Hydro One Limited payable to them automatically reinvested in additional common shares, which will be either purchased on the open market or issued from treasury. The dividend reinvestment plan is currently intended to operate on a basis that does not result in significant dilution to holders of common shares. See "Dividends – Dividend Reinvestment Plan".
Lock-Up:	During the period beginning on the closing date of this offering and ending on the date that is 180 days following the closing date of this offering, each of Hydro One Limited and the Selling Shareholder will not, directly or indirectly, without the prior written consent of RBC Dominion Securities Inc. and Scotia Capital Inc., on behalf of the Underwriters, issue, sell, offer or grant any option, warrant or other right to purchase or agree to issue or sell, or otherwise lend, transfer, assign, pledge or dispose of any common shares or other securities of Hydro One Limited or other securities convertible into, exchangeable for, or otherwise exercisable into the common shares or other equity securities of Hydro One Limited or agree to do any of the foregoing or publicly announce any intention to do any of the foregoing, subject to certain exceptions. See "Plan of Distribution".
Pre-Closing Transactions:	Certain pre-closing transactions will occur prior to the closing date of this offering. This will include steps taken to complete the acquisition of Hydro One Inc. by Hydro One Limited, recapitalize Hydro One Inc.'s subsidiary, Hydro One Networks Inc., and pay a dividend or make a return of capital to the Province in the amount of $800 million. See "Pre-Closing Transactions".
Risk Factors:	Investors should read the "Risk Factors" section of this prospectus for a discussion of factors to consider carefully before deciding to invest in Hydro One Limited's common shares. These risks include, without limitation: **Risks Relating to Hydro One's Business** • Regulatory Risks and Risks Relating to Hydro One's Revenues • First Nations and Métis Claims Risk • Risk of Natural and Other Unexpected Occurrences • Risks Associated with Information Technology Infrastructure and Data Security • Work Force Demographic Risk and Labour Relations Risk **Risks Relating to the Company's Relationship with the Province** • Ownership by the Province and Voting Power • Continued Influence by the Province • Nomination of Directors and Confirmation of Chief Executive Officer and Chair • Board Removal Rights • 10% Ownership Restriction • Potential Difficulties in Enforcing Civil Liabilities Against the Province, Hydro One Limited and Other Persons **Risks Relating to this Offering** • Absence of a Prior Public Market • Potentially Volatile Market Price for Common Shares • Payment of Dividends • Tax Risks Relating to this Offering • Pro Forma Financial Information • First Nations and Métis Proceedings The above list of risk factors is not exclusive. These and other risk factors are discussed in more detail under "Risk Factors".

provide demand response, price information and ability to control usage to electricity customers. For example, in the event of a power interruption, smart grid technology can be used to more quickly detect and locate the source of the interruption and restore service by re-routing electricity to alternative supply lines and generation sources. Smart grids are at varying stages of development and usage. One of the objectives of the Ontario Energy Board is to facilitate the implementation of a smart grid in Ontario.

Competitive Processes for Developing Transmission Infrastructure

Consistent with the general trend seen in government procurement programs for infrastructure investments, governments and electricity sector regulators are increasingly using competitive bidding processes to select the applicant to develop new large transmission projects. For instance, in Ontario, the Ontario Energy Board used a competitive process to select the designated transmitter for the development phase of the proposed East-West Tie Line, which would be a transmission line running between Thunder Bay and Wawa, Ontario. In Alberta, the Alberta Electric System Operator conducted a similar process to award the agreement for the Fort-McMurray West Transmission Project.

Incumbent transmission companies may experience increased competition from other utilities, construction companies and private investors in the competitive bidding processes for new transmission projects and are using a greater range of strategies to bid for the development and construction of new transmission infrastructure. These include forming consortiums, alliances and joint ventures, such as those with First Nations and Métis communities, and adopting cost and revenue sharing arrangements to share project risk. Larger and more established electric utilities may be well-positioned to enter into these arrangements due to their experience, expertise and effectiveness in engaging with stakeholders, and their existing infrastructure and transmission corridors.

approximately 700 transmission towers and approximately 180 kilometres of double circuit lines. More recently, Hydro One was selected to develop the Northwest Bulk Transmission Line, another large scale transmission project that, if approved by the Ontario Energy Board, would reinforce the connection between Thunder Bay and Dryden.

As the Company owns substantially all of Ontario's transmission network, the Company believes that additional development opportunities for Hydro One may arise as a result of the requirement to connect new transmission lines to Hydro One's transmission system, even where Hydro One may not be the developer of the new line. For instance, in the case of the East-West Tie Line, which is being developed by NextBridge Infrastructure, management estimates that Hydro One may need to invest over $100 million in station upgrades in order to connect the new line to Hydro One's transmission system if the project is approved by the Ontario Energy Board.

Acquisition Opportunities

As the largest distributor in Ontario, Hydro One has been an active consolidator of local distribution companies. In the late 1990s and early 2000s, when significant changes were made to the electricity sector in Ontario, Hydro One acquired 88 individual local distribution companies, which were subsequently integrated into Hydro One's distribution business (with the exception of Hydro One Brampton Networks Inc., which was operated as a stand-alone entity). More recently, the Company acquired Haldimand Hydro in June 2015 and Norfolk Power in August 2014, adding more than 40,000 customers to its distribution network. A third Hydro One acquisition, of Woodstock Hydro, received Ontario Energy Board approval on September 11, 2015 and is expected to close later in 2015. Through these recent acquisitions, the Company will have increased its customer base by approximately 5%. Hydro One will continue to evaluate local distribution company consolidation opportunities in Ontario in the future and intends to pursue those acquisitions which deliver value to the Company and its shareholders.

Over time, the Company may also consider larger-scale acquisition opportunities or other strategic initiatives outside of Ontario to diversify its asset base and to leverage its strong operational expertise. These acquisition opportunities may include other providers of electrical transmission, distribution and other similar services in Canada or in the United States.

Significant Scale and Leadership Position in Ontario

Hydro One plays an essential role in the electricity system of Canada's most populous province. Hydro One owns and operates substantially all of Ontario's transmission system, and is also the largest electricity distributor in Ontario. Management believes that Hydro One's significant scale and leading position in the electricity industry in Ontario provides it with several key competitive advantages that may not be available to smaller utilities, including:

- a low cost of borrowing and broad access to debt capital markets in order to fund its development and growth initiatives,
- the ability to draw on a large and highly experienced in-house team of experts covering all key aspects of Hydro One's business, including asset management, operations, post-outage recovery, project design, engineering, procurement, project management and construction,
- the resources and commitment to prudently invest in innovation, continuous improvement and customer service initiatives and to improve the reliability and performance of Hydro One's transmission and distribution systems and reduce operations, maintenance and administration costs,
- a refined and comprehensive stakeholder engagement process that covers Hydro One's customers, municipalities, remote communities and other parties,
- extensive experience building and maintaining effective relationships with First Nations and Métis communities, and
- a leading role in working with regulatory authorities on developments with respect to energy policy, regulatory changes, new transmission and distribution investments, regional planning and new technologies.

Management believes that these strengths have increased Hydro One's operational effectiveness, helped it maintain a positive and constructive relationship with its regulators, customers and stakeholders and ultimately contributed to achieving successful outcomes in its applications for the approval of transmission and distribution rates, new development projects and the acquisition of local distribution companies.

Priorities are assigned to each type of investment based on the risks that it mitigates. Hydro One is continuously enhancing its asset planning process through the development and use of new tools. Multi-variable planning optimization software is employed to develop a prioritized portfolio of investments spanning Hydro One's entire operations, in order to establish investment plans that manage the risks associated with electrical safety, reliability, environmental considerations, customer satisfaction and operational efficiencies.

A key input to Hydro One's planning process and the optimization software is an accurate assessment of transmission asset condition. In 2013, Hydro One began using its Asset Analytics tool, which uses data regarding its assets and performance algorithms to improve its ability to establish transmission asset condition and criticality. The results from the tool support fact-based decisions regarding maintenance, refurbishment or replacement needs of specific assets and are one of a number of key inputs into the planning process. The Asset Analytics tool is relatively new and the Company continues to work on adding to this tool's data set, improving the quality of its data and refining its algorithms and logic. Hydro One's planners use the information drawn from the Asset Analytics tool along with other information and data to make planning or investment decisions.

The Company also engages with various stakeholders, including its customers, to determine the need, timing and technical solutions for new connection and transmission facilities or upgrades, as well as with affected communities and parties who may be impacted by the project. The Company also engages with First Nations and Métis communities whose rights may be affected as part of the project development process for new or upgraded transmission lines.

Competitive Conditions

The Company's operations are currently limited to Ontario, where the Company operates and maintains substantially all of Ontario's transmission system. Competition for transmission services in Ontario is currently limited. The adoption by the Ontario Energy Board of uniform transmission rates that apply to all transmitters also reduces the financial incentive for customers to seek alternative transmission providers, since each transmitter in Ontario charges the same uniform rate for transmission services. Hydro One competes with other transmitters for the opportunity to build new large-scale transmission facilities in Ontario. Management believes that Hydro One is well-positioned to pursue the development of such facilities. Hydro One does not compete with other transmitters with respect to investments which are made to sustain or develop its existing transmission infrastructure.

Distribution Business

Overview

Hydro One's distribution business consists of owning, operating and maintaining Hydro One's distribution system, which it owns primarily through Hydro One Networks Inc., the largest local distribution company in Ontario. The Company's distribution system is also the largest in Ontario. The Company's distribution business is a rate-regulated business that earns revenues mainly by charging distribution rates that must be approved by the Ontario Energy Board. The Company's distribution rates are generally determined using a performance-based model, except for the distribution rates of Hydro One Remote Communities Inc., which are set on a cost recovery basis and do not include a return on equity.

Distribution revenues include distribution rates approved by the Ontario Energy Board and amounts to reimburse Hydro One for the cost of purchasing electricity delivered to its distribution customers. Distribution revenues also include minor ancillary service revenues, such as fees related to the joint use of the Company's distribution poles by participants in the telecommunications and cable television industries, as well as miscellaneous charges such as charges for late payments.

As at June 30, 2015, Hydro One's distribution assets were $9,888 million, including Hydro One Brampton Networks Inc. Hydro One's current distribution business no longer includes the business of Hydro One Brampton Networks Inc. as on August 31, 2015, all of the issued and outstanding shares of Hydro One Brampton Networks Inc. were transferred to a company wholly-owned by the Province. See "Pre-Closing Transactions" for additional detail concerning the transfer and related transactions.

Business

During 2014, Hydro One (excluding Hydro One Brampton Networks Inc.) delivered electricity through its distribution network to approximately 1.3 million residential and business customers, most of whom are located in rural areas, as well as 56 local distribution companies.

Hydro One's distribution system (excluding Hydro One Brampton Networks Inc.) includes approximately 122,000 circuit kilometres of primary low-voltage distribution lines and approximately 1,000 distribution and regulating stations. Other distribution assets include poles, transformers, service centres and equipment.

Hydro One's distribution system was designed to service a rural territory. Because of the lower population density in the Company's service territory, the Company's costs to provide distribution services may be higher than distributors who service urban areas. As well, unlike the distribution systems found in urban areas, Hydro One's distribution system was not designed to be inter-connected in loops with other distribution lines, with the result that interruptions experienced at any point along a distribution line in Hydro One's network can cause all customers downstream of the interruption point to lose power. Accordingly, the reliability of Hydro One's distribution system would generally be expected to be inherently lower than that of local distribution companies which service urban territories. Fallen trees and component failures on the Company's distribution lines require immediate repair or replacement in order to restore service. As a result, the Company engages in vegetation management activities to maintain the reliability of Hydro One's distribution system on a preventative basis. This consists of the trimming or removal of trees to lower the risk of contact with distribution lines, thereby reducing the risk of power outages. The Company's monitoring systems assist with determining areas of priority and with system restoration. The Company relies on its local line crews comprised of full-time and union hiring hall staff for these preventive power outage and restoration activities. Hydro One may have a longer vegetation management cycle as compared with that of other local distribution companies. The Company believes this is consistent with its goal of maintaining a reasonable balance of reliability for its distribution system at a reasonable cost to its customers.

The Company completed the acquisitions of Haldimand Hydro in June 2015 and Norfolk Power in August 2014, adding more than 40,000 customers to its distribution network. A third acquisition – Hydro One's acquisition of Woodstock Hydro – received Ontario Energy Board approval on September 11, 2015 and is expected to close later in 2015. Woodstock Hydro has approximately 16,000 customers. Through these acquisitions, the Company will have increased its customer base by approximately 5%. Customers of Haldimand Hydro and Norfolk Power have seen, and customers of Woodstock Hydro are expected to see, a reduction in their monthly distribution rates, as well as a freeze in distribution rates for five years.

Hydro One is committed to continuously improving customer service and putting customers first. This includes specific, measurable commitments to customers that encompass all areas of service, backed-up by best-in-class practices and performance metrics that Hydro One will share openly with its customers. The Company implemented a new billing system in 2013 as part of a larger initiative to adopt a new enterprise management platform. In connection with this implementation, some of Hydro One's customers experienced problems with their electricity bills, including errors or delays in receiving bills. The Company corrected the cause of these errors and delays and sought to address the resulting inconvenience caused to customers. Hydro One's new billing system is now outperforming its previous system in terms of timeliness, accuracy and reliability. Better processes have also been implemented for addressing and resolving billing issues in a timely manner. For the second quarter of 2015, "billing accuracy", as defined by the Ontario Energy Board, was 98.6% against Hydro One's target of 98.0% (which reflects the approval by the Ontario Energy Board of an exemption application excluding certain customers from this calculation), and the Company's internal measure of billing quality was 99.8% against a target of 99.0%. Further action and improvements are continuing to be pursued. Despite having taken these measures, the Company understands that a customer of Hydro One has commenced an action, proposed as a class action, alleging improper billing and account management practices in connection with the implementation of Hydro One's billing system. This claim is in a very early stage and has not been certified as a class action. Hydro One intends to defend the action. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Developments in 2015 – Class Action Lawsuit".

Hydro One's distribution business is involved in the connection of new sources of electricity generation, including renewable energy. Hydro One invests in upgrades and modifications to its distribution system in order to accommodate these new sources of generation and ensure the continued reliability of its distribution network. Hydro One has connected approximately 13,000 small, mid-size and large embedded generators to its distribution network, including approximately 12,200 generators with capacities of up to 10 kW. Hydro One also currently has approximately 1,500 generators that are pending connection.

As the largest distributor in Ontario, Hydro One played a major role in the installation of smart meters and the migration of distribution customers to time of use pricing. Smart meters are regarded by the Province and Hydro One as an integral means of promoting a culture of conservation. As of December 31, 2014, Hydro One had installed approximately 1.4 million smart meters (including smart meters for customers of Hydro One Brampton Networks Inc.),

Future Investments in Hydro One by First Nations and Métis Communities

In response to the Chiefs of Ontario's expression of First Nations' interest to own a portion of the Company, the Province has indicated that it is in discussions regarding potential equity participation by the First Nations. The Company understands that these discussions focus on facilitating equity participation for such communities through future offerings by the Province. These discussions are ongoing and are not expected to affect the number of shares available for purchase in this offering. In addition, the Métis Nation of Ontario has expressed an interest in dialogue with the Province in relation to this offering. The Province has indicated that it is also prepared to engage in a dialogue with the Métis in relation to broadened ownership of the Company.

DEPARTURE TAX

By virtue of being wholly owned by the Province, Hydro One is exempt from tax under the Tax Act and the *Taxation Act, 2007* (Ontario). However, under the Electricity Act, Hydro One is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The payments in lieu of tax are, in general, based on the amount of tax that Hydro One would otherwise be liable to pay under the Tax Act and the *Taxation Act, 2007* (Ontario) if it was not exempt from taxes under those statutes.

In connection with this offering, Hydro One's exemption from tax under the Tax Act and the *Taxation Act, 2007* (Ontario) will cease to apply. Under the Tax Act and the *Taxation Act, 2007* (Ontario), Hydro One will be deemed to have disposed of its assets immediately before it loses its tax exempt status for proceeds equal to the fair market value of those assets at that time. Hydro One will be liable to make a payment in lieu of tax under the Electricity Act in respect of the income and capital gains, calculated by reference to the Tax Act, that arise as a result of this deemed disposition. The amount payable is generally referred to as "departure tax".

In the context of a public offering of shares, and with the consent of the Minister of Finance, Hydro One will be authorized to pay to the Ontario Electricity Financial Corporation an amount that, in the Minister's opinion, reasonably approximates the amount of the departure tax that would be payable by Hydro One in respect of the deemed disposition of its assets. Hydro One has received a letter from the Minister of Finance confirming that the total amount of the departure tax payable by Hydro One is $2.6 billion. Prior to the completion of this offering, the Province, as shareholder, will subscribe for additional common shares of Hydro One Limited for an aggregate subscription price of $2.6 billion, which amount Hydro One will use to pay the applicable departure tax.

As a result of leaving the PILs regime and entering the corporate tax regime, Hydro One will recognize a deferred tax asset that is currently estimated in the unaudited pro forma condensed consolidated financial statements of Hydro One Inc. included elsewhere in this prospectus to be $1,245 million due to the revaluation of the tax basis of Hydro One's fixed assets at their fair market value and recognition of eligible capital expenditures. This estimated deferred tax asset was based on an estimated fair market value of Hydro One's net assets of approximately $13,522 million, which was the same estimated fair market value used for the purposes of determining the departure tax amount of $2.6 billion referred to above. This estimated fair market value of Hydro One's net assets was determined by Hydro One principally using a discounted cash flow approach for certain assets and an asset-based approach for other assets, and was used in calculating the amount of the departure tax payable that was agreed between Hydro One and the Province in early September 2015. The actual fair market value of Hydro One's net assets will be determined following pricing of this offering. The departure tax payable by Hydro One has been fixed at $2.6 billion, and will not be adjusted based on the fair market value of Hydro One's net assets as finally determined. See "Summary Consolidated Financial Information" and "Selected Consolidated Financial Information". Management believes the deferred tax asset will result in annual net cash savings over the next five years due to the reduction of cash taxes payable by Hydro One. See note 2C(vi) of the unaudited pro forma condensed consolidated financial statements of Hydro One Inc. included elsewhere in this prospectus for a presentation of the net cash savings that would have resulted for the periods shown if the transaction triggering the revaluation of the tax basis of Hydro One's fixed assets had occurred on January 1, 2014. Management believes that these net cash savings will not result in a corresponding reduction in its revenue requirement in future rate applications to the Ontario Energy Board. However, no determination has been made by the Ontario Energy Board and there can be no assurance that there will not be such a reduction. See "Risk Factors – Risks Relating to Hydro One's Business – Regulatory Risks and Risks Relating to Hydro One's Revenues".

Hydro One Inc. expects to pay the Ontario Electricity Financial Corporation approximately $200 million in additional payments in lieu of tax in connection with this offering. This is in addition to the departure tax payable of $2.6 billion. See note 2C(iii) of the unaudited pro forma condensed consolidated financial statements of Hydro One Inc. included elsewhere in this prospectus.

Health, Safety, Environment and First Nations & Métis Committee

The Health, Safety, Environment and First Nations & Métis Committee will consist of at least three directors, all of whom must be "independent" (within the meaning of all Canadian securities laws governing the disclosure of corporate governance practices, stock exchange rules applicable to service on this committee and the Governance Agreement). The Health, Safety, Environment and First Nations & Métis Committee will initially comprise Marianne (Margaret) Harris (Chair), George Cooke, James Hinds, Kathryn Jackson, Roberta Jamieson and Gale Rubenstein. The Health, Safety, Environment and First Nations & Métis Committee is responsible for assisting the Board in discharging its oversight responsibilities relating to: (i) effective occupational health and safety and environmental policies and practices at Hydro One; and (ii) Hydro One's relationship with First Nations and Métis communities.

Human Resources Committee

The Human Resources Committee will consist of at least three directors, all of whom must be "independent" directors (within the meaning of all Canadian securities laws governing the disclosure of corporate governance practices, stock exchange rules applicable to service on this committee and the Governance Agreement). The Human Resources Committee will initially comprise Ian Bourne (Chair), Charles Brindamour, Marc Caira, Christie Clark, Marianne Harris, Gale Rubenstein and Jane Peverett. All of the committee members have gained experience in human resources and compensation by serving as an executive officer (or equivalent) of a major organization and/or prior service on the compensation committee of a stock exchange listed company. For additional disclosure regarding the skills and experience that enable the members of the Human Resources Committee to make decisions on the suitability of the Company's compensation policies and practices, as well as the direct experience that is relevant to each committee member's responsibilities in executive compensation, see "Directors and Management of the Company – Biographical Information".

The Human Resources Committee is responsible for assisting the Board in fulfilling its oversight responsibilities relating to the compensation, attraction and retention of key senior management. The Human Resources Committee is responsible for assisting the Board in discharging its oversight responsibilities relating to: (i) reviewing and recommending to the Board compensation payable, including appropriate performance incentives, to the Chief Executive Officer and certain designated employees; (ii) reviewing the administration of employee compensation and incentive plans and programs; and (iii) reviewing executive and director compensation disclosure to be made in the Company's management information circular prepared in connection with the Company's annual meeting of shareholders and other public disclosure as appropriate. The Human Resource Committee's responsibilities also include reviewing the compensation policies of the Company, ensuring that the Company's compensation programs are aligned with the Company's strategic plans and risk profile, and reviewing the Company's succession planning and talent management processes.

EXECUTIVE COMPENSATION

Since the appointment of a new independent Board, Hydro One has been focused on recruitment of experienced executive leadership to lead the Company through this offering, and formulate a strategy for future growth. It has also recognized a need to implement a compensation system for incumbent management employees that is performance-based and reflects compensation systems appropriate for similarly-situated public companies.

Hydro One's compensation strategy is to attract, motivate and retain highly qualified executives with the skills to sustain and develop safe, reliable and affordable services for the Company's customers, while also aligning the interests of executives with the Company's shareholders. The compensation philosophy for Hydro One will reflect a stronger alignment between pay and performance, especially over the longer term, to provide a foundation to drive growth, deliver strong financial performance and create and sustain shareholder value. Leading compensation practices have been adopted for new management hires, including:

- a peer group for benchmarking Chief Executive Officer and Chief Financial Officer compensation prepared, with the assistance of the independent compensation advisor to the Human Resources Committee of the Board, following a careful review of power generation, transmission and distribution industry peers and comparably-sized companies with a similar business model within the broader energy industry;
- a substantially larger portion of executive compensation being variable and tied to performance over multiple years;

Risks Relating to Deferred Tax Asset

As a result of leaving the PILs regime and entering the corporate tax regime, Hydro One will recognize a deferred tax asset due to the revaluation of the tax basis of Hydro One's fixed assets at their fair market value and recognition of eligible capital expenditures. Management believes this will result in annual net cash savings over the next five years due to the reduction of cash taxes payable by Hydro One. There is a risk that, in future rate applications, the Ontario Energy Board will reduce the Company's revenue requirement by all or a portion of those net cash savings. If the Ontario Energy Board were to reduce the Company's revenue requirement in this manner, it could have a material adverse effect on the Company.

Risks Relating to Other Applications to the Ontario Energy Board

The Company is also subject to the risk that it will not obtain required regulatory approvals for other matters, such as leave to construct applications, applications for mergers, acquisitions, amalgamations and divestitures and environmental approvals. Decisions to acquire or divest other regulated businesses licensed by the Ontario Energy Board are subject to Ontario Energy Board approval. Accordingly, there is the risk that such matters may not be approved or that unfavourable conditions will be imposed by the Ontario Energy Board.

First Nations and Métis Claims Risk

Some of the Company's current and proposed transmission and distribution assets are or may be located on Reserve lands, and lands over which First Nations and Métis have Aboriginal, treaty or other legal claims. Although the Company has a recent history of successful negotiations and engagement with First Nations and Métis communities in Ontario, some First Nations and Métis leaders, communities and their members have made assertions related to sovereignty and jurisdiction over Reserve lands and traditional territories and are increasingly willing to assert their claims through the courts, tribunals, or by direct action. These claims could have a material adverse effect on the Company or otherwise materially adversely impact the Company's operations, including the development of current and future projects.

The Company's operations and activities may, on occasion, give rise to the Crown's duty to consult and potentially accommodate First Nations and Métis communities. Procedural aspects of the duty to consult may be delegated to the Company by the Province or the federal government. A perceived failure by the Crown to sufficiently consult a First Nations or Métis community, or a perceived failure by the Company in relation to delegated consultation obligations, could result in legal challenges against the Crown or the Company, including judicial review or injunction proceedings, or could potentially result in direct action against the Company by a community or its members. If this occurs, it could disrupt or delay the Company's operations and activities, including current and future projects, and have a material adverse effect on the Company.

Risk from Transfer of Assets Located on Reserves

The transfer orders by which the Company acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on Reserves. The transfer of title to these assets did not occur because authorizations originally granted by the federal government for the construction and operation of these assets on Reserves could not be transferred without required consent. In several cases, the authorizations had either expired or had never been issued.

Currently, the Ontario Electricity Financial Corporation holds legal title to these assets and it is expected that the Company will manage them until it has obtained necessary authorizations to complete the title transfer. To occupy Reserves, the Company must have valid permits issued by Her Majesty the Queen in the Right of Canada. For each permit, the Company must negotiate an agreement (in the form of a memorandum of understanding) with the First Nation, the Ontario Electricity Financial Corporation and any members of the First Nation who have occupancy rights. The agreement includes provisions whereby the First Nation consents to the federal government (presently Aboriginal Affairs and Northern Development Canada) issuing a permit. Where the agreement and permit are for transmission assets, the Company must negotiate terms of payment. It is difficult to predict the aggregate amount that the Company may have to pay, either on an annual or one-time basis, to obtain the required agreements from First Nations. If the Company cannot reach satisfactory agreements and obtain federal permits, it may have to relocate these assets to other locations at a cost that could be substantial. In a limited number of cases, it may be necessary to abandon a line and replace it with diesel generation facilities. In either case, the costs relating to these assets could have a material adverse effect on the Company if it is not able to recover them in future rate orders.

The Ontario Energy Board-approved adjustment formula for calculating return on equity in a deemed regulatory capital structure of 60% debt and 40% equity provides for increases and decreases depending on changes in benchmark rates of return for Government of Canada debt. The Company estimates that a 1% decrease in the forecasted long-term Government of Canada bond yield used in determining its rate of return would reduce the Company's transmission business' 2016 net income by approximately $21 million and its distribution business' 2016 net income by approximately $14 million. The Company's net income is adversely impacted by rising interest rates as the Company's maturing long-term debt is refinanced at market rates. The Company periodically utilizes interest rate swap agreements to mitigate elements of interest rate risk.

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. Derivative financial instruments result in exposure to credit risk, since there is a risk of counterparty default. Hydro One monitors and minimizes credit risk through various techniques, including dealing with highly-rated counterparties, limiting total exposure levels with individual counterparties, entering into master agreements which enable net settlement**,** and by monitoring the financial condition of counterparties. The Company does not trade in any energy derivatives. Currently, there are no significant concentrations of credit risk with respect to any class of financial assets. The Company is required to procure electricity on behalf of competitive retailers and certain local distribution companies for resale to their customers. The resulting concentrations of credit risk are mitigated through the use of various security arrangements, including letters of credit, which are incorporated into the Company's service agreements with these retailers in accordance with the Ontario Energy Board's Retail Settlement Code.

The failure to properly manage these risks could have a material adverse effect on the Company.

Risks Relating to Asset Condition and Capital Projects

The Company continually incurs sustainment and development capital expenditures and monitors the condition of its assets to manage the risk of equipment failures and to determine the need for and timing of major refurbishments or replacements of its transmission and distribution infrastructure. The risk of distribution equipment failures is higher due to the lack of real-time monitoring of these assets. The connection of large amounts of distributed generation on the distribution network has resulted in more equipment usage than in the past for the Company. This increases maintenance requirements and may accelerate the aging of the Company's assets.

Execution of the Company's capital expenditure programs, particularly for development capital expenditures, is partially dependent on external factors, such as environmental approvals, municipal permits, equipment outage schedules that accommodate the IESO, generators and transmission-connected customers, and supply chain availability for equipment suppliers and consulting services. Approvals may also include *Environmental Assessment Act* (Ontario), approvals which require public meetings, and appropriate engagement with First Nations and Métis communities or receipt of Ontario Energy Board approvals which may require early access to property or expropriation. Obtaining approvals and carrying out these processes may also be impacted by opposition to the proposed site of the capital investments. Delays in obtaining required regulatory approvals or failure to complete capital projects on a timely basis could materially adversely affect transmission reliability or customers' service quality, both of which could have a material adverse effect on the Company.

External factors are considered in the Company's planning process. However, if the Company is unable to carry out capital expenditure plans in a timely manner, equipment performance may degrade, which may reduce transmission capacity, compromise the reliability of the Company's transmission system or increase the costs of operating and maintaining these assets. Any of these consequences could have a material adverse effect on the Company.

Competitive bidding processes may become a more common means of selecting developers of large transmission projects. To date, there has been only one transmission project, the East-West Tie Line, which has been the subject of a competitive bidding process initiated by the Ontario Energy Board. However, this may change in the future. Increased competition for the development of large transmission projects could impact the Company's ability to expand its existing transmission system, which may have an adverse effect on the Company. To the extent that other parties are selected to construct, own and operate new transmission assets, this would reduce the Company's share of Ontario's transmission network.

Tax Risks Relating to this Offering

Hydro One Inc.'s liability for payment-in-lieu of tax under the Electricity Act for the taxation year that includes August 31, 2015 will be impacted by the fair market value of the shares and debt of Hydro One Brampton Networks Inc. transferred, at the Province's direction, to a company wholly-owned by the Province on August 31, 2015 by way of a dividend-in-kind and a return of capital, respectively. No advance ruling has been obtained from the Ministry of Finance (Ontario) as to the valuation of such shares and debt at the time of these dispositions. The Company could be materially adversely affected if the valuation of such shares and debt is reassessed or challenged.

As a result of this offering, Hydro One Limited and each of its subsidiaries will lose its tax exempt status and will be subject to income tax under the Tax Act, the *Taxation Act, 2007* (Ontario), and any other provincial or income tax statute applicable after the loss of such status. Despite the fact that Hydro One has made payments in lieu of tax, certain taxation issues may arise as a result of Hydro One's change in tax status which could negatively impact Hydro One and which may subject Hydro One to various types of tax. Hydro One has taken, and expects in the future to take, actions to minimize these potential impacts. No advance income tax ruling has been obtained from the Canada Revenue Agency in respect of any potential impacts.

Holding Company Risk

Following completion of this offering, Hydro One Limited will be a holding company and a substantial portion of its assets will be the shares of its subsidiaries. As a result, prospective purchasers of common shares are subject to the risks attributable to Hydro One Limited's subsidiaries. As a holding company, Hydro One Limited will conduct substantially all of its business through its subsidiaries, which will generate substantially all of its revenues. Consequently, Hydro One Limited's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to Hydro One Limited. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of Hydro One Limited's subsidiaries, holders of indebtedness and other creditors will generally be entitled to payment of their claims from the assets of such subsidiaries before any assets are made available for distribution to Hydro One Limited.

Pro Forma Financial Information

In preparing the unaudited pro forma condensed consolidated financial statements of Hydro One Inc. appearing elsewhere in this prospectus, the Company has given effect to certain transactions, as described in the notes to such financial statements. While management believes that the estimates and assumptions underlying the pro forma condensed consolidated financial statements are reasonable, such assumptions and estimates, including with respect to the annual net cash savings due to the reduction of cash taxes payable by Hydro One, may be materially different than the Company's actual results and experience in the future.

First Nations and Métis Proceedings

Certain First Nations and Métis organizations have asserted that the Province has an obligation to consult with them in respect of asserted potential adverse effects of the Province's proposed sale of common shares in this offering on their Aboriginal and treaty rights. Whether the Province has a duty to consult or not, it has indicated that it is in discussions regarding potential equity participation by the First Nations. The Company understands that these discussions focus on facilitating equity participation for such communities through future offerings by the Province. These discussions are ongoing and are not expected to affect the number of shares available for purchase in this offering. In addition, the Métis Nation of Ontario has expressed an interest in a dialogue with the Province in relation to this offering. The Province has indicated that it is also prepared to engage in a dialogue with the Métis in relation to broadened ownership of the Company. See "Principal and Selling Shareholder".

In addition, if a duty to consult exists in respect of this offering, it would rest with the Province and not Hydro One Limited and its subsidiaries. Broadening the ownership of Hydro One Limited will not alter the regulatory framework under which the Company operates and in which consultation with First Nation and Métis communities occurs, nor will it affect the Province's duty to consult, as appropriate.

To date, Canadian courts have been reluctant to enforce Aboriginal or treaty rights in a manner that would disturb established third party ownership interests, and the Province is not aware of any Canadian case where a court has unwound a public offering (whether as a result of an alleged breach of a duty to consult or otherwise). Accordingly, the Province has indicated that it considers it unlikely that any rights of holders of common shares that have been sold by the Province would be adversely affected by a claim that the Province has breached its duty to consult in respect of this offering. It is nevertheless possible that one or more First Nation or Métis organizations may commence legal proceedings in relation to this offering, seeking remedies that could include injunctive relief, damages or rescission of this offering.

PROMOTERS

Hydro One Inc. has taken the initiative in founding and organizing Hydro One Limited and may therefore be considered a promoter of Hydro One Limited for the purposes of applicable securities legislation. Hydro One Inc. will be Hydro One Limited's wholly owned subsidiary and will not hold any common shares or preferred shares of Hydro One Limited following the closing of this offering. Hydro One Inc. will not receive any benefits or proceeds, directly or indirectly, in connection with this offering. See "Corporate Structure – Corporate Structure and Subsidiaries".

Neither Hydro One Limited nor the Province is of the view that the Province is a promoter of Hydro One Limited for the purpose of this offering. However, as the Province may be perceived as having taken the initiative in founding, organizing or substantially reorganizing the business of Hydro One and who, in connection thereof, received consideration from the proceeds of the sale of common shares, the Province may be considered a promoter of Hydro One Limited for the purposes of applicable securities legislation. Accordingly, the Province has provided a promoter certificate in this prospectus.

The net proceeds to the Province from this offering will be approximately $1,635,949,200 after deducting the Underwriters' Fee (assuming that 70% of the common shares offered under this prospectus are sold to institutional investors) but before deducting the expenses of this offering ($1,800,351,000 if the Over-Allotment Option is exercised in full). Immediately following the closing of this offering, and the other transactions described in "Principal and Selling Shareholder – Share Purchase Arrangements with the Province", the Province will hold between 507,813,684 and 508,393,333 common shares (between 499,663,684 and 500,243,333 common shares if the Over-Allotment Option is exercised in full), representing approximately 85% of Hydro One Limited's total issued and outstanding common shares (approximately 84% if the Over-Allotment Option is exercised in full) and 16,720,000 Series 1 preferred shares, representing 100% of the total issued and outstanding Series 1 preferred shares of Hydro One Limited. See "Principal and Selling Shareholder" and "Governance and Relationship with Principal Shareholder".

LEGAL PROCEEDINGS AND REGULATORY MATTERS

The Company is from time to time involved in legal proceedings of a nature considered normal to its business. Except as disclosed below, Hydro One believes that none of the litigation in which it is currently involved, or has been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to its consolidated financial condition or results of operations.

In connection with the reorganization of Ontario Hydro, Hydro One Inc. succeeded Ontario Hydro as a party to various pending legal proceedings relating to the businesses, assets, real estate and employees transferred to it. Hydro One Inc. also assumed responsibility for future claims relating to the businesses, assets, real estate and employees acquired by Hydro One Inc. and arising out of events occurring prior to, as well as after, April 1, 1999. In addition to claims assumed by the Company, it is, from time to time, named as a defendant in legal actions arising in the normal course of business. There are currently no actions that are outstanding which are expected to have a material adverse effect on the Company.

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon by Osler, Hoskin & Harcourt LLP on behalf of Hydro One Limited, by Torys LLP on behalf of the Selling Shareholder and by Blake, Cassels & Graydon LLP on behalf of the Underwriters. The partners and associates of each of Osler, Hoskin & Harcourt LLP, Torys LLP and Blake, Cassels & Graydon LLP beneficially own, directly or indirectly, less than one percent of the securities of Hydro One Limited or any associate or affiliate of Hydro One Limited.

4. BUSINESS COMBINATIONS

B2M Limited Partnership

In 2012, Hydro One entered into an agreement with the Chippewas of Nawash First Nation and the Chippewas of Saugeen First Nation, collectively referred to as the Saugeen Ojibway Nation (SON), where a noncontrolling equity interest in Hydro One's new limited partnership, B2M LP, would be made available for purchase at fair value by the SON. B2M LP was formed by Hydro One in 2013 to hold most of the transmission lines and a licence to use the related land. These assets are associated with Hydro One's Bruce to Milton Transmission Reinforcement Project, an electricity transmission line (Bruce to Milton Line) in southwestern Ontario, from the Bruce Power facility in Kincardine to Hydro One's Milton Switching Station in the Town of Milton. Hydro One Networks will maintain and operate the Bruce to Milton Line in accordance with an operation and management services agreement. In November 2013, the OEB issued a Decision and Order granting B2M LP a transmission licence and granting Hydro One Networks leave to sell the relevant Bruce to Milton Line transmission assets to B2M LP.

On December 16, 2014, the relevant Bruce to Milton Line transmission assets totalling $526 million were transferred from Hydro One Networks to B2M LP. This was financed by 60% debt ($316 million) and 40% equity ($210 million). On December 17, 2014, the SON acquired a 34.2% equity interest in B2M LP for consideration of $72 million, representing the fair value of the equity interest acquired.

Part of the SON's equity interest in B2M LP is in Class B units of B2M LP that have a mandatory put option. The put option requires that upon the occurrence of an enforcement event (i.e. an event of default such as a debt default by the SON or insolvency event), the SON has the ability to require Hydro One to purchase the Class B units of B2M LP for net book value on the redemption date.

The noncontrolling interest relating to the Class B units is classified on the Consolidated Balance Sheet as temporary equity because the redemption feature is outside the control of the Company. The balance of the noncontrolling interest is classified within equity. At December 31, 2014, the total noncontrolling interest was reduced by the 2014 net loss attributable to noncontrolling interest totalling $2 million, including $1 million relating to noncontrolling interest subject to redemption.

Acquisition of Norfolk Power

On August 29, 2014, Hydro One acquired 100% of the common shares of Norfolk Power, an electricity distribution and telecom company located in southwestern Ontario. The total purchase price for Norfolk Power, net of the long-term debt assumed and adjusted for preliminary working capital and other closing adjustments, is approximately $68 million.

The following table summarizes the preliminary determination of the fair value of the assets acquired and liabilities assumed:

(millions of Canadian dollars)	
Working capital	6
Property, plant and equipment	56
Deferred income tax assets	1
Goodwill	40
Bank indebtedness	(3)
Derivative instruments	(3)
Long-term debt	(26)
Post-retirement and post-employment benefit liability	(1)
Environmental liability	(1)
Long-term accounts payable and other liabilities	(1)
	68

The determination of the fair values of assets acquired and liabilities assumed has been based upon management's estimates and certain assumptions with respect to the fair values of the assets acquired and liabilities assumed. The purchase agreement provides for final purchase price adjustments based on agreed working capital and other balances at the acquisition date which have not yet been finalized. The Company will continue to review information and perform further analysis prior to finalizing

TAB 2

ANNUAL INFORMATION FORM

FOR HYDRO ONE INC.

FOR THE YEAR ENDED DECEMBER 31, 2015

March 22, 2016

Investments in Hydro One's existing infrastructure are critical to maintain the safety, reliability and integrity of its transmission network. The Company incurs both sustaining capital expenditures and development capital expenditures required to upgrade or enhance Hydro One's system capabilities and networks. Sustaining capital expenditures are those investments required to replace or refurbish lines or station components to ensure that existing transmission assets function as originally designed. Development capital expenditures include those investments required to develop and build large-scale projects such as new transmission lines and stations and smaller projects such as transmission line or station reinforcements, extensions or additions. The Company expects that it will be required to make significant investments in its existing infrastructure over the long term. The Company anticipates that it will spend approximately $920 million to $1,020 million per year over the next five years on capital expenditures relating to its transmission business. For more information on future capital expenditures, see the Annual MD&A under the subheading "Capital Investments – Future Capital Investments".

Hydro One's plans to maintain, refurbish or replace existing assets on the basis of maintenance standards, transmission asset condition assessments and end-of-service life criteria specific to each type of asset. Priorities are assigned to each type of investment based on the risks that it mitigates.

The Company engages with various stakeholders, including its customers, to determine the need, timing and technical solutions for new connection and transmission facilities or upgrades, as well as with affected communities and parties who may be impacted by the project. The Company also engages with First Nations and Métis communities whose rights may be affected as part of the project development process for new or upgraded transmission lines.

Competitive Conditions

The Company's operations are currently limited to Ontario, where the Company operates and maintains substantially all of Ontario's transmission system. Competition for transmission services in Ontario is currently limited. The adoption by the OEB of uniform transmission rates that apply to all transmitters also reduces the financial incentive for customers to seek alternative transmission providers, since each transmitter in Ontario charges the same uniform rate for transmission services. Hydro One competes with other transmitters for the opportunity to build new large-scale transmission facilities in Ontario. Management believes that Hydro One is well-positioned to pursue the development of such facilities although, if enacted, Bill 135 could cause a change to the competitive process in Ontario by allowing for the selection of a transmitter outside the existing competitive process. See "The Electricity Industry in Ontario – Recent Policy Changes and Legislative Amendments Affecting the Electricity Industry – Legislative Amendments Generally" for more information.

Hydro One does not compete with other transmitters with respect to investments which are made to sustain or develop its existing transmission infrastructure.

Distribution Business

Overview

Hydro One's distribution business consists of owning, operating and maintaining Hydro One's distribution system, which it owns primarily through Hydro One Networks Inc., the largest local distribution company in Ontario. The Company's distribution system is also the largest in Ontario. The Company's distribution business is a rate-regulated business that earns revenues mainly by charging distribution rates that are subject to approval by the OEB. The Company's distribution rates are generally determined using a performance-based model, except for the distribution rates of Hydro One Remote Communities Inc., which are set on a cost-recovery basis and do not include a return on equity.

Hydro One's distribution business represented approximately 38% of its total assets as at December 31, 2015, and accounted for approximately 49% of its total revenue in 2015, net of purchased power and 47%

approximately 1% of its total revenue in 2015 and approximately 2% of its total revenue in 2014, in each case net of purchased power.

Review of Operations and Auditor General's Report

Hydro One has been focused on the identification of opportunities for improved corporate performance and the development of strategies to drive more efficient, cost-effective operations. Hydro One conducts regular reviews of key corporate activities and programs, covering areas such as construction services and project management practices, asset deployment and controls, information technology and cybersecurity, vegetation management practices, fleet services and utilization, supply chain management and business continuity planning, and has identified areas requiring improvements. The OEB's rate decisions also contain directions to Hydro One to reduce costs and improve value to customers. On December 2, 2015, the Auditor General of Ontario released her "value-for-money" audit report on Hydro One. This was the last "value-for-money" audit report that the Auditor General will conduct for Hydro One. The report was critical of Hydro One's management practices in a number of these areas, including its interactions with the OEB. In the report, Hydro One provided formal responses to her recommendations.

First Nations and Métis Communities

Management believes that building and maintaining positive and mutually beneficial relationships with First Nations and Métis communities is important to achieving the Company's corporate objectives. Hydro One is committed to working with First Nations and Métis communities in a spirit of cooperation and shared responsibility. Hydro One's recent equity partnership with the Saugeen Ojibway Nation in respect of the Bruce-to-Milton transmission line demonstrates the company's commitment to these principles. In keeping with the Company's First Nations and Métis Relations Policy, Hydro One's First Nations and Métis Relations team provides guidance and advice to support the Company in developing and maintaining positive relationships. Hydro One also has several programs to address the interests of First Nations and Métis communities and their citizens. These include dedicated summer student positions, pre-apprenticeship training opportunities, scholarships which provide opportunities for work terms, First Nations and Métis procurement procedures and community investments.

The Company's engagement with First Nations and Métis communities is overseen by the Company's Health, Safety, Environment and First Nations & Métis Committee. This committee is responsible for assisting the Board in discharging the Board's oversight responsibilities relating to effective occupational health and safety and environmental policies and practices at Hydro One, and its relationship with First Nations and Métis communities.

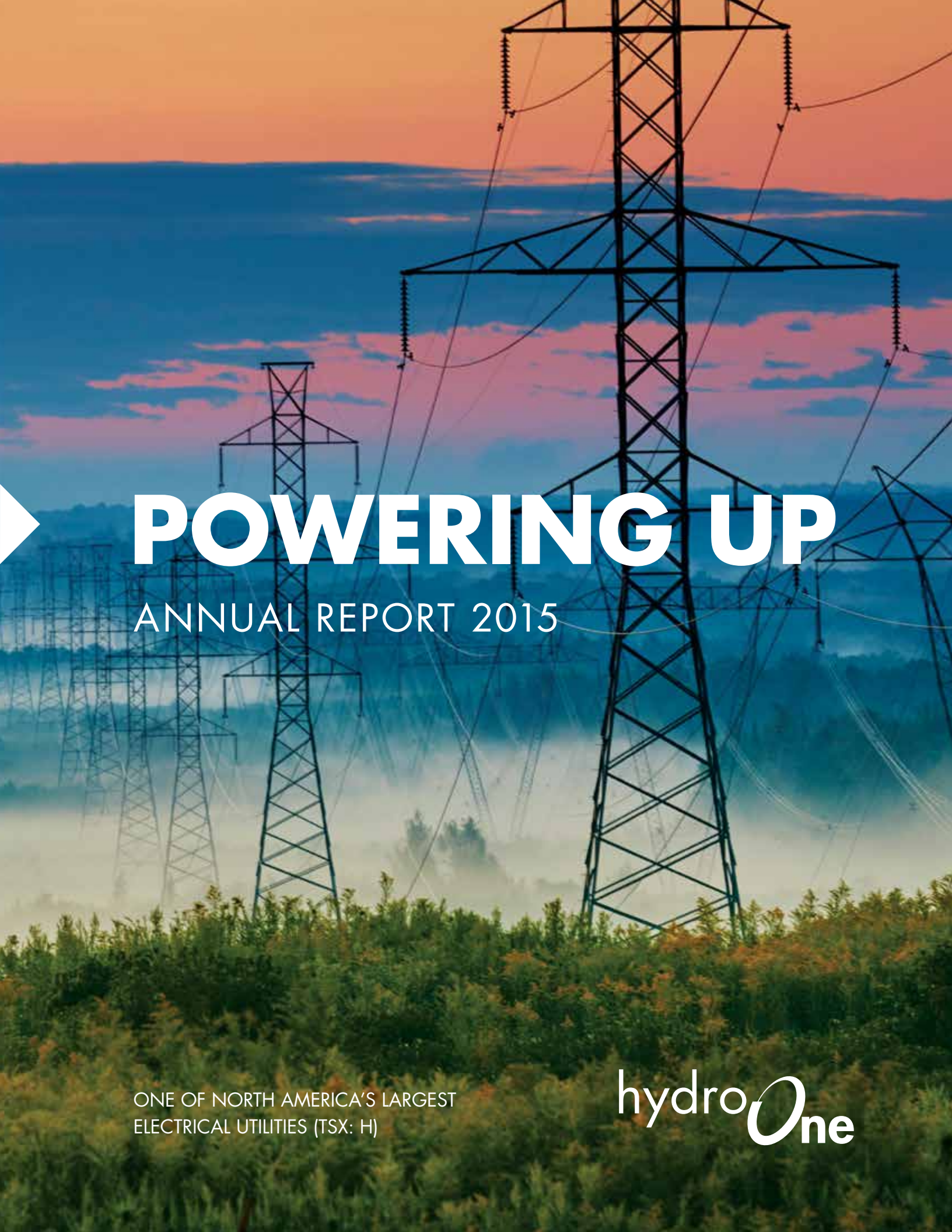
Outsourced Services

To gain efficiencies and cost reductions, Hydro One has outsourced certain non-core functions, including facilities management services with respect to its stations and other facilities, and certain back-office services such as information technology, payroll, supply chain, call centre and accounting services. Inergi LP (an affiliate of Capgemini Canada Inc.) provides the Company with back-office services and call centre services under an agreement that expires on December 31, 2019, for back-office services and on February 28, 2018, for call centre services. The Company has an option to renew the agreement for two additional terms of approximately one year each. Brookfield Global Integrated Solutions (formerly Brookfield Johnson Controls Canada LP) provides the Company with facilities management services under an agreement that expires on December 31, 2024, with an option for the Company to renew the agreement for an additional term of three years.

Employees

As at December 31, 2015, Hydro One had over 5,300 regular employees and over 2,000 non-regular employees province-wide, comprising a mix of skilled trades, lines staff, engineering, professional,

TAB 3



POWERING UP

ANNUAL REPORT 2015

ONE OF NORTH AMERICA'S LARGEST
ELECTRICAL UTILITIES (TSX: H)

hydro One

"2015 was a year of tremendous positive change for Hydro One. The team is intently focused on transforming this significant North American electrical utility into a high-performance commercial organization with considerable muscle to accelerate growth and consistently deliver on its promises…"

MAYO SCHMIDT

President and CEO

Dear fellow shareholders,

It is clear that 2015 was a pivotal year for your company as Hydro One charted a new course towards becoming a publicly traded, increasingly customer-focused and performance-driven company that offers dependable dividends and robust, predictable growth prospects.

It was a year of tremendous positive change that opened the door to a very bright future.

The size, strength and efficiency of our electrical grid is critical to reliably delivering the electricity that sustains and secures the economic and social well-being of every community in Ontario. This past year, the company made important investments to modernize and bolster the grid, investing approximately $1.7 billion in capital projects across both our transmission and distribution networks. Over the next few years, we will invest in significant infrastructure that is needed to maintain and modernize the critical electrical systems that we all depend on. We are stewards of this system, a mission we take very seriously.

Hydro One is embarking on a journey to take a leadership position in the North American utility landscape. Through building on our strong foundation, we have the opportunity to become a leader in this dynamic and evolving environment. To enable this, we have undertaken a strategic planning process to define our future.

We know that we need to understand the needs of our customers and stakeholders, including First Nations and Métis communities. Serving these needs effectively and efficiently will drive our business decisions. Our strategy will ensure we are ready to adapt to the emerging technology landscape and position our business for success. We will build world-class competencies and position ourselves to grow in the long term.

Hydro One is fortunate to operate in a stable and supportive regulatory environment with a transparent and predictable rate-setting process. The company plays an essential leadership role in the Ontario electricity industry.

We are focused on making life better for our customers. We improve their lives by treating them with respect, by making certain our system is reliable and ready for the future, by managing our costs and thus the cost of our service, and by having highly trained men and women across Ontario who are ready to respond 24/7 when storms and extreme weather disrupt service.

I believe we are uniquely positioned to make the most of the significant opportunities that lie ahead – and transform our business into a great Canadian company that stands out for its commitment to its customers and its performance for its shareholders.

On behalf of our 5,500 employees, thank you for your investment and interest in our progress. I would like to thank the Board of Directors for its support and its confidence in management. I would also like to thank employees across Ontario for embracing Hydro One's transformation and for their unwavering commitment to our customers. The future is bright.

Mayo Schmidt
President and CEO
Hydro One Limited

SAFETY, COMMUNITY AND THE ENVIRONMENT

SAFETY

The safety of the public, the communities Hydro One serves and the people of Ontario is every employee's responsibility.

From proper job planning to a trained and highly-skilled workforce, Hydro One emphasizes the importance of a safe workplace across every line of business. The result of this focus was seen in 2015 as Hydro One achieved its ambitious health and safety target, recording only 1.68 incidents per 200,000 hours worked.

Hydro One was awarded the Electrical Safety Authority's Powerline Safety Award for its community outreach with the company's mobile Electricity Discovery Centre. More than 30,000 visitors from 26 communities learned about electrical safety, how to conserve energy and the role Hydro One plays in the community.

COMMUNITY

Hydro One believes in the importance of connecting with the communities where we live and work through sponsorships, donations, scholarship programs and volunteering. These charitable giving programs broadly support safety and injury prevention, education and community support. They are an important link to the hundreds of communities that the company serves across the province.

Community Investment

Furthering the company's commitment to First Nations and Métis communities, in February 2015 Hydro One announced a three-year funding extension for Right to Play's Promoting Life-skills in Aboriginal Youth program. Hydro One is investing $100,000 each year to support after-school programming, sport for developmental activities, youth leadership, and health and wellness education.

Scholarship Programs

In 2015, 13 female engineering students received Hydro One's Women in Engineering Scholarship for their outstanding achievements in electrical engineering. Winners receive a financial award along with a paid opportunity to work for Hydro One in a developmental student work placement. In celebration of National Aboriginal Day, in June Hydro One awarded 12 students with the Leonard S. (Tony) Mandamin Scholarship, which is granted annually to First Nations, Métis or Inuit post-secondary students.

CORPORATE SOCIAL RESPONSIBILITY

In January, Hydro One was designated as a Sustainable Electricity Company by the Canadian Electricity Association (CEA). This designation established by the CEA for utilities across Canada recognizes success building on the three foundational pillars of sustainability – environmental, social, and economic performance. It requires utilities to establish an Environmental Management System consistent with the ISO 14001 standard; to take the actions and meet the expectations laid out in the ISO 26000 Guidance on Social Responsibility. Hydro One is only the fourth electric utility in Canada to receive this designation.

For further information on Hydro One's commitments to customers, safety, communities and the environment, please go to: www.HydroOne.com/OurCommitment.

CORPORATE GOVERNANCE OVERVIEW

Hydro One and the Board recognize the importance of corporate governance to the effective management of the company. Independence, integrity and accountability are the foundation of the company's approach to corporate governance. It is in the long-term best interests of our shareholders as well as our customers and promotes and strengthens relationships with employees, the communities in which the company operates and other stakeholders of the company.

Hydro One's Board of Directors was appointed on July 17, 2015, drawing upon a diverse and accomplished group of proven business leaders with deep corporate governance experience. The Board's primary role is overseeing corporate performance and the quality, depth and continuity of management required to meet the company's strategic objectives.

Hydro One is committed to best practices that will allow us to honour important fiduciary and oversight responsibilities. The Board regularly reviews and revises the company's governance practices in response to changing governance expectations and regulations. Our practices meet the rules and regulations issued by Canadian Securities Administrators and the Toronto Stock Exchange, including national corporate governance guidelines and related disclosure requirements.

The **Audit Committee** reviews the integrity of the company's financial statements and financial reporting process, internal control over financial reporting, enterprise risk management, disclosure controls and procedures, and compliance with other related legal and regulatory requirements. The committee also assists the Board in fulfilling its oversight responsibilities with respect to financial reporting, including overseeing the independence, qualifications and appointment of external auditors as well as the performance of the company's finance function, auditors (both external and internal) and the auditing, accounting and financial reporting process.

The **Nominating, Corporate Governance, Public Policy and Regulatory Committee** manages and oversees the process of nominating new directors to the Board in accordance with the governance agreement between the company and the Province of Ontario. The committee makes recommendations respecting the Board's approach to corporate governance, overseeing director orientation, education, performance evaluation, compensation and protection. The committee also oversees the company's relationship with shareholders, communities, stakeholders, electricity regulators, customers, the Province of Ontario and the company's approach to corporate social responsibility, including its sponsorship and donation programs.

The **Human Resources Committee** assists the Board in discharging the Board's oversight responsibilities relating to compensation, attraction and retention of key senior management, employee benefits, labour relations and succession planning.

The **Health, Safety, Environment and First Nations and Métis Committee** is responsible for oversight relating to effective occupational health and safety and environmental policies and practices at the company as well as the company's relationships with First Nations and Métis communities.

For a complete description of Hydro One's corporate governance structure and practices and individual director biographical information, please go to: **www.HydroOne.com/Investors.**

First Nations and Métis Claims Risk

Some of the Company's current and proposed transmission and distribution assets are or may be located on Reserve (as defined in the *Indian Act* (Canada)) lands, and lands over which First Nations and Métis have Aboriginal, treaty or other legal claims. Although the Company has a recent history of successful negotiations and engagement with First Nations and Métis communities in Ontario, some First Nations and Métis leaders, communities and their members have made assertions related to sovereignty and jurisdiction over Reserve lands and traditional territories and are increasingly willing to assert their claims through the courts, tribunals, or by direct action. These claims could have a material adverse effect on the Company or otherwise materially adversely impact the Company's operations, including the development of current and future projects.

The Company's operations and activities may, on occasion, give rise to the Crown's duty to consult and potentially accommodate First Nations and Métis communities. Procedural aspects of the duty to consult may be delegated to the Company by the Province or the federal government. A perceived failure by the Crown to sufficiently consult a First Nations or Métis community, or a perceived failure by the Company in relation to delegated consultation obligations, could result in legal challenges against the Crown or the Company, including judicial review or injunction proceedings, or could potentially result in direct action against the Company by a community or its members. If this occurs, it could disrupt or delay the Company's operations and activities, including current and future projects, and have a material adverse effect on the Company.

Risk from Transfer of Assets Located on Reserves

The transfer orders by which the Company acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to assets located on Reserves. The transfer of title to these assets did not occur because authorizations originally granted by the federal government for the construction and operation of these assets on Reserves could not be transferred without required consent. In several cases, the authorizations had either expired or had never been issued.

Currently, the Ontario Electricity Financial Corporation holds legal title to these assets and it is expected that the Company will manage them until it has obtained permits to complete the title transfer. To occupy Reserves, the Company must have valid permits issued by Her Majesty the Queen in the Right of Canada. For each permit, the Company must negotiate an agreement (in the form of a memorandum of understanding) with the First Nation, the Ontario Electricity Financial Corporation and any members of the First Nation who have occupancy rights. The agreement includes provisions whereby the First Nation consents to the federal government (presently Indigenous Affairs and Northern Development Canada) issuing a permit. For transmission assets, the Company must negotiate terms of payment. It is difficult to predict the aggregate amount that the Company may have to pay, either on an annual or one-time basis, to obtain the required agreements from First Nations. If the Company cannot reach satisfactory agreements with the relevant First Nation to obtain federal permits, it may have to relocate these assets to other locations at a cost that could be substantial. In a limited number of cases, it may be necessary to abandon a line and replace it with diesel generation facilities. In either case, the costs relating to these assets could have a material adverse effect on the Company if the costs are not recoverable in future rate orders.

Compliance with Laws and Regulations

Hydro One must comply with numerous laws and regulations affecting its business, including requirements relating to transmission and distribution companies, environmental laws, employment laws and health and safety laws. The failure of the Company to comply with these laws could have a material adverse effect on the Company's business. See also "– Health, Safety and Environmental Risk".

For instance, Hydro One's licensed transmission and distribution businesses are required to comply with the terms of their licenses, with codes and rules issued by the OEB, and with other regulatory requirements, including regulations of the National Energy Board. In Ontario, the Market Rules issued by the IESO require the Company to, among other things, comply with the reliability standards established by the NERC and Northeast Power Coordinating Council, Inc. (NPCC). The incremental costs associated with compliance with these reliability standards are expected to be recovered through rates, but there can be no assurance that the OEB will approve the recovery of all of such incremental costs. Failure to obtain such approvals could have a material adverse effect on the Company.

There is the risk that new legislation, regulations or policies will be introduced in the future. These may require Hydro One to incur additional costs, which may or may not be recovered in future transmission and distribution rates.

Risk of Natural and Other Unexpected Occurrences

The Company's facilities are exposed to the effects of severe weather conditions, natural disasters, man-made events including but not limited to cyber and physical terrorist type attacks, events which originate from third party connected systems, or any other potentially catastrophic events. Although constructed, operated and maintained to industry standards, the Company's facilities may not withstand

Execution of the Company's capital expenditure programs, particularly for development capital expenditures, is partially dependent on external factors, such as environmental approvals, municipal permits, equipment outage schedules that accommodate the IESO, generators and transmission-connected customers, and supply chain availability for equipment suppliers and consulting services. There may also be a need for, among other things, *Environmental Assessment Act* (Ontario) approvals, approvals which require public meetings, appropriate engagement with First Nations and Métis communities, OEB approvals of expropriation or early access to property, and other activities. Obtaining approvals and carrying out these processes may also be impacted by opposition to the proposed site of the capital investments. Delays in obtaining required approvals or failure to complete capital projects on a timely basis could materially adversely affect transmission reliability or customers' service quality or increase maintenance costs which could have a material adverse effect on the Company. External factors are considered in the Company's planning process. However, if the Company is unable to carry out capital expenditure plans in a timely manner, equipment performance may degrade, which may reduce transmission capacity, compromise the reliability of the Company's transmission system or increase the costs of operating and maintaining these assets. Any of these consequences could have a material adverse effect on the Company.

Increased competition for the development of large transmission projects and legislative changes relating to the selection of transmitters could impact the Company's ability to expand its existing transmission system, which may have an adverse effect on the Company. To the extent that other parties are selected to construct, own and operate new transmission assets, the Company's share of Ontario's transmission network would be reduced.

Health, Safety and Environmental Risk

Hydro One's health, safety and environmental management system is designed to ensure hazards and risks are identified and assessed, and controls are implemented to mitigate significant risks. This system includes a standing committee of the Board of Directors that has governance over health, safety and environmental matters. However, given the expansive territory that the Company's system encompasses and the amount of equipment that it owns, the Company cannot guarantee that all such risks will be identified and mitigated without significant cost and expense to the Company. The following are some of the areas that may have a significant impact on the Company's operations.

The Company is subject to extensive Canadian federal, provincial and municipal environmental regulation. Failure to comply could subject the Company to fines or other penalties. In addition, the presence or release of hazardous or other harmful substances could lead to claims by third parties or governmental orders requiring the Company to take specific actions such as investigating, controlling and remediating the effects of these substances. Hydro One currently has a voluntary land assessment and remediation program for off-site migration in place to identify and, where necessary, remediate historical contamination that has resulted from past operational practices and uses of certain long-lasting chemicals at the Company's facilities. Any contamination of the Company's properties could limit its ability to sell or lease these assets in the future.

In addition, actual future environmental expenditures may vary materially from the estimates used in the calculation of the environmental liabilities on the Company's balance sheet. The Company does not have insurance coverage for these environmental expenditures.

There is also risk associated with obtaining governmental approvals, permits, or renewals of existing approvals and permits related to constructing or operating facilities. This may require environmental assessment or result in the imposition of conditions, or both, which could result in delays and cost increases.

Although Hydro One is not a large emitter of greenhouse gases, the Company monitors all of these emissions and has a management plan in place to track and report on all sources, including sulphur hexafluoride or "SF6". In addition, the Company recognizes the risks associated with potential climate change and has developed plans to respond as appropriate.

The Company anticipates that all of its future environmental expenditures will continue to be recoverable in future rates. However, any future regulatory decision to disallow or limit the recovery of such costs could have a material adverse effect on the Company.

Pension Plan Risk

Hydro One has the Hydro One Defined Benefit Pension Plan in place for the majority of its employees. Contributions to the pension plan are established by actuarial valuations which are minimally required to be filed with the Financial Services Commission of Ontario on a triennial basis. The most recently filed valuation was prepared as at December 31, 2013, and was filed in June 2014, covering a three year period from 2014 to 2016. Hydro One contributed approximately $174 million in respect of 2014, approximately $177 million in respect of 2015, and is expected to contribute approximately $180 million by the end of 2016 to its pension plan to satisfy minimum funding requirements. Contributions beyond 2016 are expected to continue to be significant; actual amounts will depend on investment returns, interest rates, changes in benefits and actuarial assumptions, and may include additional voluntary contributions by the Company from time to time. A determination by

TAB 4

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the years ended December 31, 2015 and 2014

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the consolidated financial statements and accompanying notes (the Consolidated Financial Statements) of Hydro One Inc. (Hydro One or the Company) for the year ended December 31, 2015. The Consolidated Financial Statements are presented in Canadian dollars and have been prepared in accordance with United States (US) Generally Accepted Accounting Principles (GAAP). All financial information in this MD&A is presented in Canadian dollars, unless otherwise indicated.

The Company has prepared this MD&A in accordance with National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the US/Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which can vary from those of the US. This MD&A provides information for the year ended December 31, 2015, based on information available to management as of February 11, 2016.

INITIAL PUBLIC OFFERING

In November 2015, Hydro One Limited and the Province of Ontario (Province) completed an initial public offering (IPO) on the Toronto Stock Exchange of 15% of Hydro One Limited's 595 million outstanding common shares. Prior to the completion of the IPO, Hydro One and Hydro One Limited completed a series of transactions that resulted in, among other things, the acquisition by Hydro One Limited of all of the issued and outstanding shares of Hydro One from the Province. Both Hydro One and Hydro One Limited are reporting issuers.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

Year ended December 31 *(millions of Canadian dollars, except as otherwise noted)*	**2015**	**2014**	**Change**
Revenues	6,529	6,548	(0.3%)
Purchased power	3,450	3,419	0.9%
Revenues, net of purchased power	3,079	3,129	(1.6%)
Operation, maintenance and administration costs	1,130	1,192	(5.2%)
Depreciation and amortization	757	722	4.8%
Financing charges	376	379	(0.8%)
Income tax expense	114	89	28.1%
Net income attributable to common shareholder of Hydro One	**679**	**731**	**(7.1%)**
Basic and diluted earnings per common share (EPS)	$6,340	$7,319	(13.4%)
Net cash from (used in) operating activities	(1,259)	1,256	(200.2%)
Adjusted net cash from operating activities[1]	1,539	1,256	22.5%
Funds from (used in) operations (FFO)[1]	(1,464)	1,293	(213.2%)
Adjusted FFO[1]	1,334	1,293	3.2%
Capital investments	1,662	1,530	8.6%
Transmission:			
Average monthly Ontario 60-minute peak demand *(MW)*	20,344	20,596	(1.2%)
Distribution:			
Units distributed to Hydro One customers *(TWh)*	28.9	29.8	(3.0%)
Debt to capitalization ratio[2]	50.9%	52.8%	

[1] See section "Non-GAAP Measures" for description and reconciliation of adjusted net cash from operating activities, FFO and adjusted FFO.

[2] Debt to capitalization ratio has been calculated as total debt (includes total long-term debt and short-term borrowings, net of cash) divided by total debt plus total shareholder's equity, including preferred shares but excluding any amounts related to non-controlling interest.

Risks Relating to Capital Expenditures

In order to be recoverable, capital expenditures require the approval of the OEB, either through the approval of capital expenditure plans, rate base or revenue requirements for the purposes of setting transmission and distribution rates, which include the impact of capital expenditures on rate base or cost of service. There can be no assurance that all capital expenditures incurred by Hydro One will be approved by the OEB. Capital cost overruns may not be recoverable in transmission or distribution rates. The Company could incur unexpected capital expenditures in maintaining or improving its assets, particularly given that new technology is required to support renewable generation and unforeseen technical issues may be identified through implementation of projects. There is risk that the OEB may not allow full recovery of such expenditures in the future. To the extent possible, Hydro One aims to mitigate this risk by ensuring prudent expenditures, seeking from the regulator clear policy direction on cost responsibility, and pre-approval of the need for capital expenditures.

While the Company expects all of its expenditures and regulatory assets to be fully recoverable after OEB review, any future regulatory decision to disallow or limit the recovery of such costs would lead to a lower than expected approved revenue requirement or rate base, potential asset impairment or charges to the Company's results of operations, any of which could have a material adverse effect on the Company.

Risks Relating to Deferred Tax Asset

As a result of leaving the PILs Regime and entering the Federal Tax Regime, Hydro One recorded a deferred tax asset due to the revaluation of the tax basis of Hydro One's fixed assets at their fair market value and recognition of eligible capital expenditures. Management believes this will result in annual net cash savings over the next five years due to the reduction of cash taxes payable by Hydro One associated primarily with a higher capital cost allowance. There is a risk that, in future rate applications, the OEB will reduce the Company's revenue requirement by all or a portion of those net cash savings. If the OEB were to reduce the Company's revenue requirement in this manner, it could have a material adverse effect on the Company.

Risks Relating to Other Applications to the OEB

The Company is also subject to the risk that it will not obtain required regulatory approvals for other matters, such as leave to construct applications, applications for mergers, acquisitions, amalgamations and divestitures, and environmental approvals. Decisions to acquire or divest other regulated businesses licensed by the OEB are subject to OEB approval. Accordingly, there is the risk that such matters may not be approved or that unfavourable conditions will be imposed by the OEB.

First Nations and Métis Claims Risk

Some of the Company's current and proposed transmission and distribution assets are or may be located on Reserve (as defined in the *Indian Act* (Canada)) lands, and lands over which First Nations and Métis have Aboriginal, treaty or other legal claims. Although the Company has a recent history of successful negotiations and engagement with First Nations and Métis communities in Ontario, some First Nations and Métis leaders, communities and their members have made assertions related to sovereignty and jurisdiction over Reserve lands and traditional territories and are increasingly willing to assert their claims through the courts, tribunals, or by direct action. These claims could have a material adverse effect on the Company or otherwise materially adversely impact the Company's operations, including the development of current and future projects.

The Company's operations and activities may, on occasion, give rise to the Crown's duty to consult and potentially accommodate First Nations and Métis communities. Procedural aspects of the duty to consult may be delegated to the Company by the Province or the federal government. A perceived failure by the Crown to sufficiently consult a First Nations or Métis community, or a perceived failure by the Company in relation to delegated consultation obligations, could result in legal challenges against the Crown or the Company, including judicial review or injunction proceedings, or could potentially result in direct action against the Company by a community or its members. If this occurs, it could disrupt or delay the Company's operations and activities, including current and future projects, and have a material adverse effect on the Company.

Risk from Transfer of Assets Located on Reserves

The transfer orders by which the Company acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to assets located on Reserves. The transfer of title to these assets did not occur because authorizations originally granted by the federal government for the construction and operation of these assets on Reserves could not be transferred without required consent. In several cases, the authorizations had either expired or had never been issued.

Currently, the Ontario Electricity Financial Corporation holds legal title to these assets and it is expected that the Company will manage them until it has obtained permits to complete the title transfer. To occupy Reserves, the Company must have

valid permits issued by Her Majesty the Queen in the Right of Canada. For each permit, the Company must negotiate an agreement (in the form of a memorandum of understanding) with the First Nation, the Ontario Electricity Financial Corporation and any members of the First Nation who have occupancy rights. The agreement includes provisions whereby the First Nation consents to the federal government (presently Indigenous Affairs and Northern Development Canada) issuing a permit. For transmission assets, the Company must negotiate terms of payment. It is difficult to predict the aggregate amount that the Company may have to pay, either on an annual or one-time basis, to obtain the required agreements from First Nations. If the Company cannot reach satisfactory agreements with the relevant First Nation to obtain federal permits, it may have to relocate these assets to other locations at a cost that could be substantial. In a limited number of cases, it may be necessary to abandon a line and replace it with diesel generation facilities. In either case, the costs relating to these assets could have a material adverse effect on the Company if the costs are not recoverable in future rate orders.

Compliance with Laws and Regulations

Hydro One must comply with numerous laws and regulations affecting its business, including requirements relating to transmission and distribution companies, environmental laws, employment laws and health and safety laws. The failure of the Company to comply with these laws could have a material adverse effect on the Company's business. See also "– Health, Safety and Environmental Risk".

For instance, Hydro One's licensed transmission and distribution businesses are required to comply with the terms of their licenses, with codes and rules issued by the OEB, and with other regulatory requirements, including regulations of the National Energy Board. In Ontario, the Market Rules issued by the IESO require the Company to, among other things, comply with the reliability standards established by the NERC and Northeast Power Coordinating Council, Inc. (NPCC). The incremental costs associated with compliance with these reliability standards are expected to be recovered through rates, but there can be no assurance that the OEB will approve the recovery of all of such incremental costs. Failure to obtain such approvals could have a material adverse effect on the Company.

There is the risk that new legislation, regulations or policies will be introduced in the future. These may require Hydro One to incur additional costs, which may or may not be recovered in future transmission and distribution rates.

Risk of Natural and Other Unexpected Occurrences

The Company's facilities are exposed to the effects of severe weather conditions, natural disasters, man-made events including but not limited to cyber and physical terrorist type attacks, events which originate from third party connected systems, or any other potentially catastrophic events. Although constructed, operated and maintained to industry standards, the Company's facilities may not withstand occurrences of this type in all circumstances. The Company does not have insurance for damage to its transmission and distribution wires, poles and towers located outside its transmission and distribution stations resulting from these or other events. Losses from lost revenues and repair costs could be substantial, especially for many of the Company's facilities that are located in remote areas. The Company could also be subject to claims for damages caused by its failure to transmit or distribute electricity. Hydro One's risk is partly mitigated because its transmission system is designed and operated to withstand the loss of any major element and possesses inherent redundancy that provides alternate means to deliver large amounts of power. In the event of a large uninsured loss, Hydro One would apply to the OEB for recovery of such loss; however, there can be no assurance that the OEB would approve any such applications, in whole or in part, which could have a material adverse effect on the Company.

Risk Associated with Information Technology Infrastructure and Data Security

The Company's ability to operate effectively in the Ontario electricity market is, in part, dependent upon it developing, maintaining and managing complex information technology systems which are employed to operate and monitor its transmission and distribution facilities, financial and billing systems and other business systems. The Company's increasing reliance on information systems and expanding data networks increases its exposure to information security threats. The Company's transmission business is required to comply with various rules and standards for transmission reliability, including mandatory standards established by the NERC and the NPCC. These include standards relating to cyber-security and information technology, which only apply to certain of the Company's assets (generally being those whose failure could impact the functioning of the bulk electricity system). The Company may maintain different or lower levels of information technology security for its assets that are not subject to these mandatory standards. Unauthorized access to corporate and information technology systems or cyber-attacks could result in service disruptions and system failures, which could have a material adverse effect on the Company, including as a result of a failure to provide electricity to customers. In addition, in the normal course of its operations, the Company may collect, process or retain access to confidential customer, supplier, counterparty or employee information, which could be exposed in the event of a cyber security incident.

Market, Financial Instrument and Credit Risk

Market risk refers primarily to the risk of loss that results from changes in costs, foreign exchange rates and interest rates. The Company is exposed to fluctuations in interest rates as its regulated return on equity is derived using a formulaic approach that takes into account anticipated interest rates, but is not currently exposed to material commodity price risk or material foreign exchange risk.

The OEB-approved adjustment formula for calculating return on equity in a deemed regulatory capital structure of 60% debt and 40% equity provides for increases and decreases depending on changes in benchmark rates of return for Government of Canada debt. The Company estimates that a 1% decrease in the forecasted long-term Government of Canada bond yield used in determining its rate of return would reduce the Company's transmission business' 2017 net income by approximately $22 million and its distribution business' 2017 net income by approximately $14 million. The Company's net income is adversely impacted by rising interest rates as the Company's maturing debt is refinanced at market rates. The Company periodically utilizes interest rate swap agreements to mitigate elements of interest rate risk.

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. Derivative financial instruments result in exposure to credit risk, since there is a risk of counterparty default. Hydro One monitors and minimizes credit risk through various techniques, including dealing with highly-rated counterparties, limiting total exposure levels with individual counterparties, entering into master agreements which enable net settlement, and by monitoring the financial condition of counterparties. The Company does not trade in any energy derivatives. Currently, there are no significant concentrations of credit risk with respect to any class of financial assets. The Company is required to procure electricity on behalf of competitive retailers and certain local distribution companies for resale to their customers. The resulting concentrations of credit risk are mitigated through the use of various security arrangements, including letters of credit, which are incorporated into the Company's service agreements with these retailers in accordance with the OEB's Retail Settlement Code.

The failure to properly manage these risks could have a material adverse effect on the Company.

Risks Relating to Asset Condition and Capital Projects

The Company continually incurs sustainment and development capital expenditures and monitors the condition of its transmission assets to manage the risk of equipment failures and to determine the need for and timing of major refurbishments and replacements of its transmission and distribution infrastructure. However the lack of real time monitoring of distribution assets increases the risk of distribution equipment failure. The connection of large amounts of distributed generation on the distribution network has resulted in more equipment operations than in the past for the Company. This increases maintenance requirements and may accelerate the aging of the Company's assets.

Execution of the Company's capital expenditure programs, particularly for development capital expenditures, is partially dependent on external factors, such as environmental approvals, municipal permits, equipment outage schedules that accommodate the IESO, generators and transmission-connected customers, and supply chain availability for equipment suppliers and consulting services. There may also be a need for, among other things, *Environmental Assessment Act* (Ontario) approvals, approvals which require public meetings, appropriate engagement with First Nations and Métis communities, OEB approvals of expropriation or early access to property, and other activities. Obtaining approvals and carrying out these processes may also be impacted by opposition to the proposed site of the capital investments. Delays in obtaining required approvals or failure to complete capital projects on a timely basis could materially adversely affect transmission reliability or customers' service quality or increase maintenance costs which could have a material adverse effect on the Company. External factors are considered in the Company's planning process. However, if the Company is unable to carry out capital expenditure plans in a timely manner, equipment performance may degrade, which may reduce transmission capacity, compromise the reliability of the Company's transmission system or increase the costs of operating and maintaining these assets. Any of these consequences could have a material adverse effect on the Company.

Increased competition for the development of large transmission projects and legislative changes relating to the selection of transmitters could impact the Company's ability to expand its existing transmission system, which may have an adverse effect on the Company. To the extent that other parties are selected to construct, own and operate new transmission assets, the Company's share of Ontario's transmission network would be reduced.

Health, Safety and Environmental Risk

Hydro One's health, safety and environmental management system is designed to ensure hazards and risks are identified and assessed, and controls are implemented to mitigate significant risks. This system includes a standing committee of the Board of Directors that has governance over health, safety and environmental matters. However, given the expansive territory that

TAB 5

STAKEHOLDER AND FIRST NATIONS ENGAGEMENT

OVERVIEW

In early 2006, Hydro One began to design a process for consultation and two-way dialogue with stakeholders and First Nations to assist in its preparation of the 2007-2008 Transmission Rate Application. Based on its previous experience with such applications, the involvement of stakeholders and First Nations was recognized as critical to developing a submission that reflected the broad interests and concerns of Hydro One constituencies.

To assist in designing, implementing and facilitating the stakeholder consultation process, Hydro One retained Haussmann Consulting Inc. (HCI), and Hunter-Courchene Consulting Group Inc. was hired to undertake a similar process for First Nations organizations. Both firms were selected through a competitive RFP process in March and May 2006, respectively. The stakeholder consultation process was subsequently implemented in May 2006 and continued through to July 2006. First Nations discussions sessions were also held in July 2006.

The main objectives of the consultation process and discussion sessions were to inform stakeholders and First Nations about Hydro One's Transmission revenue requirement and rate application and the key issues and challenges facing its transmission business, and to learn about stakeholder issues. This was to be achieved in a non-adversarial manner that would allow for Hydro One, stakeholders and First Nations to discuss and explore questions and potential areas of agreement around key application-related issues, with a goal to scoping the issues to be addressed in pre-filed evidence where possible and/or at the OEB hearing.

Based on the potentially large number of interested groups and their diverse range of resources and interest levels, a two-pronged consultation approach was chosen to meet the needs of various audiences: (1) discussion sessions and (2) Web/E-mail information dissemination and exchange. In addition, informal dialogue (e.g., e-mail, telephone conversations) continued throughout the process between Hydro One staff and the stakeholders.

An initial list of stakeholders was developed based on previous participation in Hydro One transmission rate proceedings and included First Nations organizations. Subsequently, a separate First Nation process was designed to meet this community's specific needs. This process is described in Section 6. In total, twenty-two stakeholder organizations and twenty-six First Nations organizations and communities participated in these processes. These included electricity industry associations (e.g. Electricity Distributors Association and Association of Power Producers of Ontario), power generators; energy, consumer and environmental advocacy groups (e.g. Energy Probe,); trade associations (e.g. Association of Major Power Consumers, Canadian Manufacturers and Exporters); the Ontario Power Authority, the Independent Electricity System Operator and the Ontario Energy Board. Groups advised about the Web site included Hydro One's large transmission-connected customers, local distribution companies, First Nations political organizations and special interest groups that had participated in previous Hydro One rate proceedings.

Input received during the consultation process was documented, analyzed and addressed where possible at the discussion sessions, in notes of meeting, and through commitments to consider addressing or providing specific information in the rate application. Stakeholder and First Nations input had a direct influence on the content of Hydro One's rate application with respect to the types of information provided and the level of detail. For example:

- Three years of historical data (2003, 2004 and 2005) have been included rather than just two;
- The filing includes information on approaches used for evaluating the cost-effectiveness of line-loss programs;
- Information on transmission service quality indicators is included in the filing;
- The transmission benchmarking study includes peer utility companies with cost-of-service rates and some with performance-based rates;
- Capital and operating expenditures are treated as separate performance metrics in the benchmarking study.

Stakeholder input is also reflected in the cost allocation and rate design proposal put forward by Hydro One in this application:

- Dual Function Line (DFL) costs are split among Line Connection and Network pools;
- A Metering pool is added;
- Network Connection Rate design remains unchanged;

Written comments provided through evaluation forms indicated that stakeholders and First Nations felt that the consultations and discussions had been effective in achieving objectives and providing input and better understanding the Hydro One transmission rate application. The stakeholder consultation report is described in sections 2.0 – 5.0 and the First Nations program in sections 6.0 and 7.0.

2.0 STAKEHOLDER CONSULTATION REPORT

The following principles and objectives were developed at the outset of process to guide the stakeholder consultation design and implementation. These were reviewed with the

Hydro One Customer Advisory Board at its December 8, 2006 meeting, and shared with stakeholders in advance of the first consultation session.

2.1 Principles

- Hydro One entered into the stakeholder consultation process in good faith with a view to facilitating and streamlining future OEB proceedings related to the application;
- Hydro One received and considered all submissions made by stakeholders, while retaining control over the process for developing its application;
- All consultations were carried out on a without-prejudice basis;
- A neutral facilitator documented and reported the discussions and any agreements reached with all or some stakeholders;
- Agreements reached are being submitted to the OEB as part of the Hydro One evidence.

2.2 Goal

The goal for the stakeholder sessions was to create a forum for key stakeholders to gain information about the Hydro One transmission business with a view to facilitating discussion on issues related to Hydro One's 2007/08 Transmission Rate Application and to explore options or potential areas of agreement. To further this mandate, participants were asked to:

- Represent the various views of their customers/constituencies;
- Assist Hydro One to understand their goals and issues through participation in a process of open dialogue and submissions.

2.3 Objectives

The objectives set out for the stakeholder consultation process were to:

- Create better stakeholder understanding of the Hydro One transmission business, cost structure, business challenges, system development, and project costing, cost/reliability trade-offs and equity/user-pay considerations;
- Ensure stakeholder concerns and views are identified, understood and considered in the decision-making of Hydro One;
- Provide insight, advice, and feedback to Hydro One on any concerns, values, information and preferences regarding all aspects of Hydro One's transmission application;
- Act as a forum for the exchange of information and views;
- Assist Hydro One to anticipate and respond to stakeholder and customer views and preferences;
- Clarify as many issues as possible prior to the Hydro One submission to the OEB;
- Scope the transmission issues to be heard by the OEB; and
- Reduce the time and cost associated with the OEB hearings.

3.0 STAKEHOLDER CONSULTATION PROCESS

Building on these principles and objectives, a consultation strategy was developed that included stakeholder sessions, and a strategic communications plan. The communications plan included the use of e-mail and the company's web site to provide information to Hydro One stakeholders and to invite input at key points during the process.

Hydro One worked with Haussmann Consulting Inc. to design a process that would provide maximum opportunity to educate stakeholders about Hydro One's transmission business and receive feedback on key strategic areas. For stakeholders, the plan allowed flexibility to obtain information on the topics of most interest to them, and ensured full discussion of issues of concern.

The proposed approach was discussed with Hydro One's Customer Advisory Board (CAB) on December 8, 2005. Many of the members had been involved in Hydro One's 2006 Distribution Rates Consultation and were familiar with the approach. Overall, the CAB was supportive of the proposed approach; however, they did request that financial information be presented as early as possible in the process. Since Hydro One was basing its Transmission Rate Application on the 2007-2009 Business Plan, which was not available until late June 2006, the financial information was not available until early July 2006. Accordingly, the financial information was presented and discussed at the last consultation session held July 5 and 6, 2006. Hydro One was also encouraged to maintain a close working relationship with the Ontario Power Authority (OPA) during the development of its Integrated Power System Plan (IPSP). At that time, Hydro One was also proposing a fourth consultation session following the release of the OPA's IPSP. A suggestion was made to increase the time between the IPSP release and the fourth session to provide adequate time to consider the implications for Hydro One's transmission application and any necessary adjustments based on the IPSP. A fourth Hydro One consultation meeting was subsequently cancelled when the IPSP release date was postponed. As a result, the transmission plans included in the Transmission Rate Application are based on Hydro One's knowledge of the IPSP gained through participation in joint OPA/Hydro One working groups.

3.1 Participants

Key stakeholder groups were identified from Hydro One stakeholder lists, including intervenors from previous Hydro One rate proceedings. Participants included representatives from the electricity industry, trade groups, transmission consumers, energy and environmental groups and customer associations, as well as electricity generators, policy-makers and regulators. Stakeholders were invited to participate in the first stakeholder session via an invitation (Appendix A) and follow-up calls. Fifty-two groups were on this initial list. Hydro One believes that those invited were representative of the interests of the majority of its transmission stakeholders.

Stakeholder participation was guided by a Terms of Reference (see Appendix B). Funding guidelines were also developed to assist eligible intervenors (see Appendix C). The funding guidelines were based upon the Ontario Energy Board's Practice Direction on Cost Awards (October 2005) document.

3.2 Stakeholder Consultation Sessions

Three consultation sessions were held: one in May (Doubletree International Plaza Hotel in Toronto), June (Metropolitan Hotel in Toronto) and July (Metropolitan Hotel). These sessions were timed to coincide with key milestones in the development of the rate application. A half-day session was added to the second session in mid June (Hydro One Trinity Square) to obtain more detailed feedback from stakeholders on transmission rate design.

All discussions took place in plenary session. During these discussions, stakeholders indicated topics where they wanted more detailed information as well as information they would like to see included in the evidence. These requests and Hydro One response

commitments were recorded and allocated to one of four categories: (1) information to be provided in the rate application; (2) information to be provided in a future session; (3) information to be provided in the session meeting notes, or (4) other (e.g. follow up with one or more individuals or groups). Action items were tracked to ensure responsiveness.

Session #1 was held on May 3 and 4, 2006. Twenty-six people attended representing 21 organizations. The objectives of the session were to: provide stakeholders with a sound basis of information about Hydro One transmission operations in the context of the current Ontario regulatory and policy framework; outline the evidence Hydro One was proposing to submit in its rate application; discuss the metrics being developed to evaluate the performance of the Hydro One transmission service; outline some options for cost allocation and rate design; obtain stakeholder feedback on the proposed approaches and options; and, learn more about the issues and information that were most important to stakeholders.

Stakeholders were invited to comment on the following presentations during the session:

- Hydro One Networks Transmission Overview
- Asset Condition Assessment and Sustainment Programs
- Ontario Electricity Industry: Planning Ahead (OPA presentation regarding IPSP)
- Transmission Development Capital: Investments for New Facilities
- Transmission Business Performance
- Hydro One Business Planning and Work Program Prioritization
- Revenue Requirement Overview
- Load Forecast, Conservation & Demand Management
- Transmission Cost Allocation and Rate Design
- Overview of Transmission Application Exhibits
- Summary of OEB Directives

At the conclusion of Session #1, participants were asked to identify the information items that they would like to see in the Hydro One application to assist in their review. The following e items were identified and taken under advisement by Hydro One.

- Identify development projects that went through a *Section 92* process and which will do so on a go-forward basis.
- Provide more historical data (i.e., data for the years since the last Transmission filing) on O&M and Capital Expenditures. Hydro One committed to provide data back to 2003. Identify the extent to which capital expenditures are dependent on the IPSP.
- For 2007/2008, identify projects that have approval or are underway versus those that are planned, and the drivers for these projects.
- Information about the impact and mitigation of transmission losses.

Session #2 was held on June 1, 2006. Twenty-one people attended this session representing 16 stakeholder organizations. The agenda was designed to respond to stakeholder requests made during Session #1 for more detailed information. Also, it provided an opportunity for Tom Parkinson, President and CEO of Hydro One, to present the company's business strategy, including its goals, progress made over the past several years, the current situation and the need for investment in the transmission system to maintain reliability and meet growing demand.

Following Tom Parkinson's presentation, stakeholders were invited to engage in discussion during the following presentations:

- Transmission Benchmarking (presented in collaboration with P.A. Consulting Group)
- Depreciation
- Working Capital Study

- Cost Allocation Options, and
- Rate Design Options.

This session provided valuable feedback for Hydro One in designing its transmission benchmarking study and its cost allocation model. It was also determined that stakeholders would require more detailed information in order to provide useful feedback on rate design. To this end, a half-day session (#2a) was held on June 19 to further discuss transmission rate design.

Session #2a was held in on June 19, 2006. Twelve people representing ten stakeholder organizations attended. Line and Network rate design options were discussed in greater detail at this meeting, and stakeholder preferences were clearly identified, providing Hydro One with a better sense of direction in preparing its rate design proposals for the application.

Session #3 was held on July 5 and 6, 2006. 21 people attended this session representing 17 stakeholder organizations. This session was dedicated to providing stakeholders with an early view of the Hydro One 2007/2008 Transmission Rate Application including the revenue requirement and rate implications, and follow-up information in response to requests from previous sessions. Accordingly, there was a high level of interest in this session. Topics presented and discussed included:

- Transmission Revenue Requirement
- Transmission Capital Investments
- Primary Drivers for Transmission OM&A
- Transmission Cost Allocation and Rates
- Proposal for Incentive Adjustments to Transmission Rates
- Transmission Benchmarking

- Transmission Reliability
- Transmission Power Quality
- Hydro One Transmission Use of the Microwave System

3.3 Ongoing Dialogue

Hydro One maintained continual dialogue with stakeholders between the formal sessions and this usually took the form of email or other written exchanges. In most cases, stakeholders sought clarification on information presented; more detailed information or specifically made a request for a presentation at future sessions. The requests included:

- Description of major capital and maintenance projects planned for 2007/2008;
- Description of conservation and demand management initiatives.
- Hydro One responded to these through presentation material or written responses directly to the interested stakeholder.

3.4 Web/E-Mail Information

Recognizing the vast geographic area serviced by Hydro One, and the large number of potentially interested stakeholders spread over this area, Hydro One launched a Transmission Rate Application Web site. The intent was to provide interested stakeholders the opportunity to monitor the consultation process and to provide input at key points throughout the consultation.

The 2007 and 2008 Transmission Rate Application web page (http://www.hydroonenetworks.com/en/regulatory/) was launched on April 28, 2006. The web page contained background information, as well as documents and presentations made available at the stakeholder discussion sessions. Meeting notes and participant

evaluations from the stakeholder discussions were also posted on the web page as they became available. Similarly, a web page was established for the First Nations process.

An invitation to participate in the web consultation activities was sent to Hydro One large transmission customers, local distribution companies, and any intervenors not able to participate in the discussion sessions. The web page was used by stakeholders solely as a tool for monitoring the process. No written submissions or requests were received from intervenors who did not attend the sessions.

3.5 Stakeholder Evaluation Results

Comments received in the stakeholder evaluation questionnaire indicated that:

- Stakeholders were unanimous in their positive rating of the consultation process, indicating that information was presented clearly, the reporting of the meetings was thorough and accurate, and they would participate again in future Hydro One stakeholder sessions;
- The process provided ample opportunity for stakeholders to make their views known, and Hydro One was responsive to stakeholder comments;
- One stakeholder would have liked more detail on the proposed new approach to financing major capital projects, and others would have preferred to receive the notes and presentations further in advance of the sessions or in smaller packages.

Overall, stakeholders found the process to be extremely open and consultative, in a manner that provided them with a better understanding of the issues and Hydro One's Transmission operations, needs and positions.

4.0 SUMMARY OF STAKEHOLDER DISCUSSIONS

This section provides a brief overview of the key topics of interest to stakeholders, the concerns raised and the responses provided by Hydro One at the sessions.

4.1 Performance Measures, Reliability, Power Quality and Customer Needs

At Session #1, stakeholders expressed an interest in how Hydro One measures its transmission performance, and whether power quality was considered in performance measurement. There is a growing demand for consistent power quality to meet computerized process control specifications. Hydro One explained that it has some devices in the field (at 30 of 850 delivery points) to measure power quality (e.g., voltage sag and abnormalities in voltage profile). The locations are chosen to assist in resolving customer issues. Hydro One uses the CBEMA (Computer and Business Equipment Manufacturers Association) curve (developed for the computer industry) as a comparator. If a voltage excursion is outside the CBEMA envelope, it may impact computerized systems such as industrial process controllers and computers. There is a process by which customers can report if they were 'shaken off' by a power quality event. If this is not done Hydro One may not know about the impact nor would we be able to learn from it. This is a worldwide challenge faced by the electricity industry, and CBEMA may not be the best measure. The measures in the industry are evolving and Hydro One is working with the utility industry to define appropriate measures.

Stakeholders expressed concern that special power quality needs of a small group of customers not drive investments that would be paid for by all customer classes. Hydro One explained that it does not propose to pursue different rate structures based on power quality requirements, as this could become very complicated. Hydro One explained that it has a power quality response process in place that was designed with customer input. The process

has been presented and communicated to many Hydro One customers and can be accessed on the Hydro One Networks web site. This approach deals with power quality on a case-by-case basis as most power quality problems require individual consideration. At Session #3, Hydro One provided additional detail on its power quality monitoring program and its leadership role in industry efforts to develop a more proactive approach to managing power quality. Stakeholders acknowledged that this issue is a highly complex and presents a difficult challenge.

In response to stakeholder interest, Hydro One provided a presentation on Transmission Reliability at Session #3, describing in some detail the manner in which reliability is measured and monitored in terms of SAIDI, SAIFI and unsupplied energy, and how performance issues are identified and addressed. Stakeholder interest in the reliability of delivering power to the grid at generation delivery points was noted. Data collection at generation delivery points is planned to begin in 2007 as part of a study to develop a measure of generation delivery point performance reliability as specified in the Transmission System Code RP2002-0120.

4.2 Applicability of OEB Decisions from Hydro One 2006 Distribution Rate Case

There appeared to be general consensus regarding the interpretation of the OEB Distribution decisions on various methodologies that are also applicable to the transmission application, with the proviso that it would be good practice to outline in the filing the approach being followed in each major area. It was recognized that the application of these methodologies would update information common to the distribution and transmission businesses, while capturing the circumstances unique to the transmission business.

4.3 Benchmarking

Hydro One made a presentation on transmission benchmarking at the May session. In response to stakeholder requests for participation in developing the criteria to be applied in the benchmarking study, a follow-up presentation was made at Session #2 in June by Ken Buckstaff of P.A. Consulting Group, the consultant engaged to conduct the study on high-level benchmarking for the Hydro One Transmission business.

Stakeholder input was sought regarding the characteristics that companies should possess in order to establish peers utilities for Hydro One, and the categories of performance metrics to be used in the benchmarking study. These suggestions were assessed for inclusion in the benchmarking study given constraints such as study schedule, and the availability and relevance of information.

In particular, the following suggestions were incorporated into the peer selection:

- Regulatory environment and
- System configuration differences that drive outcome differences.

The following suggestions were incorporated in the metric selection:

- Service quality performance levels;
- OM&A + CapEx per MWh with the sustaining and development costs separately identified;
- Asset utilization, measured in terms of percentage of peak station capacity utilized;
- Leading safety indicators versus lagging safety outcomes (it was noted that this type of data is difficult to obtain as many companies do not track it, but ‘near misses’ was offered as a possible metric that could supply similar information); and

- Multi-skilled vs. specialized labour, professional and management group rates.

The following suggestions were considered, but excluded from the study:

- Rates as a high-level metric – the scope for the study was on performance and cost, and not directed at rates;
- Asset condition - asset condition information, although relevant to investment levels, is too difficult to obtain and appropriately assess for a high level study;
- A metric that reflects the extent to which new/smart technologies are utilized – although this might be a good criterion, information would be too difficult to obtain and assess;
- Reliability standards and meter services - it was noted that these generally do not have a large operational or financial impact on utilities;
- A metric related to the debt service coverage ratio – the scope of this study was on performance and costs; and
- Urban versus rural service territories – this is more of a distribution related metric, whereas for transmission, the size of the transmission system was reviewed in peer selection.

4.4 Revenue Requirement and Major Capital and OM&A Drivers

The capital structure, rate base, cost of service and return on capital proposed by Hydro One was presented at Session #3 in July. It was explained that the main drivers for the expenditures over this period are the requirement to operate and maintain the transmission system within target performance levels in the context of an aging asset base and growing load. The aging asset base and increasing equipment failure rates were shown to be a major driver of transmission OM&A costs. The aging asset base is also a key driver of transmission sustainment capital costs such as the Microwave System

Replacement program and other programs to replace obsolete technology. Load growth, retirement of generation and a more diversified generation mix are drivers of development costs. The proposed inclusion of some generation mix project expenditures in the rate base was also presented and explained. The overall effect of the revenue requirement on transmission rates and the total customer bill were also presented.

Stakeholders were most interested in the proposed capital structure and the increase on return on equity. It was noted that, unlike the past, today Hydro One must compete internationally for financing. This places a requirement on Hydro One to achieve a competitive rate of return and to have a capital structure that ensures it will retain its favourable rating with financial institutions. This is particularly important as Hydro One moves into a period of heavy borrowing to finance the increased sustainment and development costs of the transmission system.

Stakeholders were also interested in the rationale for including large generation mix based transmission project expenditures in the rate base as expenditures are incurred, rather than being financed in the traditional manner. This is required to mitigate the risk of delays in initiating generation projects over which Hydro One has no control and to smooth the rate impacts.

In response to stakeholder interest, Hydro One provided an overview of some of the key development projects and details of the Microwave System Replacement Program and how costs are allocated between Hydro One Networks and Hydro One Telecom. As well as a detailed breakdown of the shared costs and explanation of the capital structure and return on equity were provided.

4.5 Cost Allocation

The presentation on cost allocation and rate design in Session #1 prompted much interest and discussion. The OEB direction to review the allocation of dual function lines (DFL) was included in this discussion. Hydro One also presented a proposal to create a new Transmission Meter Pool. These topics carried over into Session #2 at which more detailed information was provided.

Four DFL cost allocation options were presented and discussed:

- Option 1 (Status Quo) – DFL in Network Pool
- Option 2 – DFL Costs Split between Network and Line Connection
- Option 3 – No Line Connection Charges for Short Taps
- Option 4 – Only Dedicated Lines in the Line Connection Pool

After extensive discussion focusing on questions of equity, practicality and how to send the right conservation signals, stakeholders indicated a preference for Options 1 or 2. Stakeholders expressed the view that the existing pools should be maintained (Network, Line Connection and Transformation Connection), but that a different split between Network and Line Connection pools should be considered to deal with the manner in which DFLs are actually used and to reflect the cost causality principle. Stakeholders also supported the development of a Metering Pool.

Taking into consideration feedback from stakeholders, Hydro One is proposing the following changes to its transmission cost allocation structure:

- Addition of a new fourth Transmission Meter Pool to be paid by customers for whom Hydro One provides regulated meter service;

- Allocation of DFL costs split by the degree to which DFL capacity is utilized for either Network purposes or Line Connection purposes (75% to the Network pool and 25% to the Line Connection pool).

At session #3 in July, Hydro One presented the four proposed rate pools and information related to the export transmission service. The allocation of assets among the four pools was explained and the rate implications for different customer classes were presented. Stakeholders were most interested in how the dual function line costs were split among the Network and the Line Connection pools, and gaining access to the Export Transmission Service Study in advance of the filing.

4.6 Rate Design

Two Line Connection rate design alternatives were presented and discussed relative to the status quo:

- Alternative 1 – Customer Capacity-based
- Alternative 2 – Status Quo on an Ex Ante basis

Discussion of Alternative 1 focused on whether the definition of 'capacity' based on the Transmission System Code was appropriate in this context, the instability in revenue flows created for LDCs with this option in contrast to the revenue stability it creates for Hydro One, and whether or not it sends appropriate utilization and conservation signals to customers. Discussion of Alternative 2 focused mostly on the lack of conservation signals and the overall effect on system utilization rates. For the Line Connection pool, stakeholders clearly preferred the status quo, seeing no significant benefit to switching to either of the two alternative rate designs.

In the context of the ratemaking principles enunciated in previous OEB decisions and the pros and cons of time-of-use rates, four network rate design alternatives were presented and evaluated:

1. Higher of Monthly Coincident Peak (Monthly CP) and 85% of NCP, between 7:00 AM and 7:00 PM on workdays (status quo);
2. Maximum Customer Demand during the hours of the month when the total system demand exceeds 90 % of the System Peak Demand;
3. Monthly Coincident Peak demand between 7:00 AM and 7:00 PM (Status quo excluding 85% back-stop);
4. Average Customer Demand during the three hours of System Peak on three different days within the two key months of each season (Winter & Summer).

Network rate design discussion during the May 4, June 1 and June 19 sessions centred on: implementation issues; the effectiveness of moving load off system peaks; the effectiveness of time-of-use signals at the transmission level, especially with LDCs who represent 90% of the load; how well the cost causality principle is reflected in each option; and the rate implications for customers. Option #4 was rejected as being too complicated and potentially fraught with the danger that it might just shift system peaks rather than reduce them.

Stakeholders agreed on six criteria by which to evaluate the options:

1. Benefit provided to the electricity market as a whole (more is better);
2. Revenue stability and security for Hydro One and LDCs (more is better);
3. Degree of cost-shifting between customers (fewer is better);
4. Alignment with OEB precedents (more is better);
5. Implementation issues for IESO and transmitters (fewer is better); and

6. Alignment with the transmission cost causality principle (more aligned is better).

Using these criteria, the stakeholders ranked the status quo option highest.

Based on stakeholder input received at session #2, Hydro One presented its proposed transmission rate design without significant change in either the Line Connection or the Network rate design from the status quo, other than the cost allocation changes referred to in the previous section.

4.7 Incentive Adjustments

Hydro One presented the rationale for its proposed plan for incentive based adjustments to establish 2009 and 2010 transmission revenues. Approval in principle will be sought for an indexed incentive plan which provides for automatic adjustment of transmission revenue components to establish 2009 and 2010 transmission revenue.

5.0 CONCLUSION

Hydro One initiated the stakeholder consultation process to meet the objectives described in Section 2.3. Based on the discussions that took place and the feedback from stakeholders, the consultation process met these objectives to a large extent. The enhanced understanding by stakeholders of Hydro One operations, business practices and demands on the transmission system that resulted from the consultation dialogue should significantly reduce the effort required by Hydro One to explain its Transmission business at the OEB hearing. Hydro One obtained a good understanding of stakeholder concerns through the consultation. Stakeholders provided constructive feedback, which tended to focus on understanding the Hydro One cost structure, benchmarking and performance measurement over time versus the revenue requirement, the criteria and process for making investment decisions, how costs are allocated within the Transmission

business and cost allocation and rate design alternatives. Input provided by the stakeholders assisted Hydro One to better focus and explain its Transmission Rate Application in those areas of particular interest to stakeholders, including:

- Performance measurement;
- Benchmarking;
- Cost Allocation; and
- Rate Design.

At the conclusion of the third consultation session, stakeholders were asked to complete an evaluation and comment form to provide Hydro One with feedback on the process. While stakeholders would have liked to receive information more in advance of the meetings and to have a little less technical jargon in some of the presentations, the responses were largely positive. Stakeholders felt:

- Information was presented in a clear manner;
- Stakeholders had ample opportunity to express their views and ask questions;
- Hydro One was responsive to stakeholder requests and queries;
- Notes of the meetings were thorough and accurately reflected the dialogue;
- The consultations met stakeholders' expectations.

A few comments captured the overall sense of the meetings:

> *"The openness of the team to suggestions and frank dialogue is a welcome trend, which builds on the same approach Hydro One Networks Inc. (HONI) adopted during the hearing for the Distribution Rate Application in 2005/2006."*
> *"HONI took a good run at resolving rate structure issues."*

"Better appreciation of the actual HONI Transmission rate submission and support data."

Stakeholder input helped Hydro One to refine the organization and content of the transmission rate application to account for customer and stakeholder concerns. For example, in response to stakeholder requests, in its Application Hydro One:

- Provides additional historic data (i.e. included 2003 as an additional historical year);
- Provides list of Section 92 and approved vs. planned projects;
- Identifies capital expenditures dependent on the IPSP;
- Discusses line-loss reduction approaches used within the transmission business;
- Included market regulatory structure (e.g. cost-of-service vs. PBR) as a peer selection criterion in the benchmarking study;
- Includes the following performance metrics:
  - Separate Capital and OM&A expenditures broken down into Sustainment and Development costs;
  - Safety targets and outcomes;
  - Standard deviations when reporting labour rate comparisons; and
- Reflects stakeholder preferences in its cost allocation and rate design proposal.

6.0 FIRST NATIONS REPORT

6.1 Discussion Sessions

Hydro One conducted a series of discussion sessions with First Nations governments, tribal councils, and communities across Ontario to inform them about the 2007/2008 Transmission Rate Application and seek their input. Meetings were scheduled in both southern and northern Ontario to facilitate participation from a wide range of First Nations

organizations and communities, as well as to recognize that issues could be different across the different geographical areas. A web site was also established to enable those unable to attend, to review the materials and provide comments through the web site.

The location of the discussion sessions and number participants are listed in Table 1.

Table 1
First Nations Discussion Sessions

Date	Location	Number of Participants
July 17, 2006	Toronto	12
July 18, 2006	London	12
August 20, 2006	Thunder Bay	17

The agenda and background materials were distributed to all participants prior to the sessions. At each session, Hydro One provided a brief overview of the transmission business, the regulatory environment, transmission rate application content, process and timelines and the need for stakeholder and First Nation input on the application. Detailed presentations were made around key application issues including: transmission benchmarking, reliability and cost allocation and rate design. There were a total of forty-one participants who attended the discussion sessions. A list of participants is attached as Appendix D. Participants had the opportunity to ask questions of clarification as well as identify issues related to the application. Other issues not directly pertaining to the rate application were similarly recorded and a commitment made by Hydro One to follow up on those concerns. A session report detailing the action items and response was provided to participants and posted on the external web site.

Each discussion session was facilitated by an external consultant, Hunter-Courchene Consulting Group, who was also responsible for coordinating the meetings and preparing

a final report. Hunter-Courchene assisted in developing the initial list of participants which included the Chiefs of Ontario, Union of Ontario Indians, treaty organizations, and organizations of Independent First Nation. Subsequently, a number of the treaty organizations advised Hydro One to directly invite their individual member First Nations, which was done.

7.0 ISSUES RESPECTING THE TRANSMISSION RATE APPLICATION

7.1 Issues

In response to feedback received from First Nations at the July sessions, Hydro One has established a working group to address First Nation issues that are not related to the transmission rate application and action items will be reported directly to participant First Nations. Issues related to the transmission rate application are noted below, as well as any follow-up required from Hydro One.

7.1.1 Consultation Process

Many First Nations participants noted that the term consultation has a different meaning for their communities and while many participants indicated that the meetings were valuable and provided relevant information, they did not recognize Hydro One's process as a true consultation. Some indicated that Hydro One should be meeting with individual First Nations to outline its transmission application. Hydro One explained that its consultation process had been established originally for the intervenor and customer constituencies, but had recognized the unique status of the First Nations and therefore, chose to undertake a separate process. To address this concern, Hydro One agreed that the First Nations meetings would be referred to as discussion session and not consultation throughout the report and evidence in the transmission rate application. Some participants indicated that if background materials had been sent out more in advance,

this would have resulting in more meaningful discussions. In addition, some felt that there was too much information to absorb in a one day session.

7.1.2 Transmission Rate Increase

Participants indicated that overall the 4.3% increase in the transmission rates was not a significant one. The overall customer bill increase was described as less than 0.5%. Some participants felt that expressing the rate increase as a percentage of the total bill unfairly represents the actual increase for the Company. Others thought the proposed rate increase was not robust enough given pressures from an aging asset base and the growth in the transmission system as a whole. Hydro One stated that there were factors such as a reduction in interest rates and taxes along with many initiatives implemented to improve efficiencies and increase productivity that would provide confidence that the proposed increase is sufficient.

7.1.3 Load Growth/ Development Projects

Participants requested a complete list of capital projects to be included in the transmission rate filing. This will be completed prior to the filing of the application. Hydro One was asked whether additional land requirements would be necessary to accommodate new load growth. Hydro One stated that various areas in the province might require new transmission right of ways. However, Hydro One tried to build on existing right of ways, and therefore, limit the impact of new transmission lines on the environment.

7.1.4 Cost of Electricity

It was suggested that even a modest increase in electricity rates might mean that many Aboriginal people with low incomes might no longer be able to afford electricity. Some participants expressed the concern that some Aboriginal communities were not as economically advanced as others and consideration should be given by Hydro One to subsidizing rates for some customers on First Nation communities. Others participants were not in agreement with this proposal.

7.1.5 Generation Development and Connections

Numerous participants indicated that First Nations were developing or considering new power generation projects. Hydro One indicated that First Nations should advise them of these projects since they would require system analysis and could require adjustments to Hydro One's 07-09 development plans. Some participants felt that First Nation generators should be allowed to connect at no charge to the transmission and distribution systems since they had borne the environmental impacts of transmission system development.

7.1.6 Conservation

There was interest expressed about the impact of conservation on the transmission application. Hydro One stated that for the most part conservation efforts were focused on the distribution side of the business to reduce consumption, and, therefore, load requirements on the transmission side. Conservations efforts were however, incorporated when Hydro One built new transmission lines or replaced a conductor. Energy efficiency in the design of assets was considered.

7.1.7 Sustaining Development

Reliable electricity was recognized by participants as critical to the economic development of their communities. It was noted that off-grid communities experienced lower levels of reliability. Participants were looking to Hydro One to support investments to enable off-grid First Nations to connect to the grid. Hydro One Remote Communities serves 18 off-grid communities, and connections to the grid must comply with the Transmission System Code, which provides a basis for economic evaluation of such proposals.

7.1.8 Transmission Benchmarking Study

The transmission benchmarking report will be part of the Hydro One transmission rate filing and it will indicate the peer utilities. Stakeholders requested a copy of this report in advance of the filing to which Hydro One stated that the report would be posted on their web site if it was available prior to the submission.

7.1.9 Projected vs. Actual Costs

Participants questioned the impacts on the transmission business if actual costs were higher than projected. Hydro One explained that it had a re-direction process where projected costs were tracked and it would prioritize spending activities to stay within the budget. Any unexpected events would be absorbed within the expected return and have no impact on the rates.

7.2 Summary

Hydro One initiated the First Nation discussion sessions to inform the Aboriginal community about its 2007/08 transmission rate application and receive their input. Based

on Hydro One's and the First Nation participant assessment, the sessions achieved these objectives. Participants were asked to complete an evaluation form at the end of each session, and the feedback received indicates that the sessions were generally well-received. Materials presented were considered informative, participants felt they had opportunities to share their views. About half felt that Hydro One responded to the issues raised, others did not share this opinion, of these, many indicated that they were waiting to see that action items were addressed.

Most participants did indicate that they would participate in future meetings with Hydro One. Some suggested that this process should occur at the community level, while others at the treaty or national level, while others still with community experts in the field of energy. It was also suggested that Hydro One should be working with the Chiefs of Ontario of the political territory organizations to co-develop a consultation process to ensure it is most effective and culturally appropriate. These suggestions will be taken into consideration by Hydro One in the future when planning to engage First Nations communities and political and treaty organizations.

All input received by the First Nations was of assistance to Hydro One in developing its Application. These sessions also provided Hydro One an opportunity to better understand the issues and concerns of First Nations, and provided foundation for future dialogue with the Aboriginal community.

APPENDIX A – Stakeholder Invitation Letter and Stakeholder Participant List

APPENDIX B – Participant Terms of Reference

APPENDIX C – Funding Guidelines

APPENDIX D – First Nations Participant List

Appendix "A"
Stakeholder Consultation Sessions
2007/2008 Rate Application

PARTICIPANT LIST

STAKEHOLDER ORGANIZATION	NAME
Association of Major Power Consumers	Wayne Clark
Association of Power Producers of Ontario	Jake Brooks
Canadian Manufacturers & Exporters Association	Malcolm Rowan
Canadian Niagara Power Inc.	Doug Bradbury
Canadian Niagara Power Inc.	Glen King
Electricity Distributors Association (EDA)	Maurice Tucci
Electrical Contractors Association of Ontario	Heather Landymore
Energy Probe	Tom Adams
Energy Probe	David MacIntosh
Falconbridge - Sudbury Smelter	Mark W. Passi
Federation of Ontario Cottage Association (FOCA)	John McGee
Federation of Northern Ontario Municipalities (FONOM)	Peter Scully
Federation of Northern Ontario Municipalities (FONOM)	Richard Adams
Five Nations Energy Inc.	Larry Brooksbank
Great Lakes Power Limited	Viggo Lundhild
Great Lakes Power Limited	Charles Keizer
Great Lakes Power Limited (Ogilvy Renault)	Jennifer Tuer
Great Lakes Power Limited	Bob Coghlan
Green Energy Coalition (GEC)	David Poch
Inco - Sudbury Operations	John LeMay
Independent Electricity System Operator	Helen Lainis
OEB	Martin Davies
OEB	Nabi Mikhail
OEB	Harold Thiessen
OEB	Chris Cincar
Ontario Federation of Agriculture	Ted Cowan
Ontario Power Authority	Vipin Prasad
Ontario Power Authority	Suresh Advani
Ontario Power Generation Inc.	Tony Petrella
Pollution Probe	Jack Gibbons
PowerStream Inc.	Ted Wojcinski
Power Workers' Union (PWU)	Judy Kwik
Power Workers' Union (PWU)	Bayu Kidane
School Energy Coalition (SEC)	Jay Shepherd
School Energy Coalition (SEC)	John DeVellis
Toronto Hydro	Timothy Turner
Union Gas	Partick McMahon
Vulnerable Energy Consumers Coalition (VECC)	Bill Harper
Vulnerable Energy Consumers Coalition (VECC)	Michael Buonaguro

Filed: September 12, 2006
EB-2005-0501
Exhibit A-16-1
Appendix B

Stakeholder Consultation

2007/08 Transmission Rate Application

Participant Terms of Reference

Background

Hydro One Networks Inc. (Hydro One) is a company committed to business excellence. Building positive and lasting relationships with stakeholders is key to our success. To continue to build these relationships, Hydro One is undertaking a stakeholder consultation process to assist in the preparation of its 2007/08 Transmission Rate Application to the Ontario Energy Board (OEB). This process will involve a number of consultation sessions and a project website. The purpose of the consultation sessions is to provide a forum for dialogue between Hydro One and key stakeholders and customers to discuss, clarify and prioritize key topics related to the application. These consultation sessions, along with any submissions received through the website, will be considered in the development of the content of Hydro One's submission to the OEB.

Stakeholder Consultation Principles

- Hydro One is entering into the stakeholder consultation process in good faith with a view to facilitating and streamlining future OEB proceedings related to the application;
- Hydro One will receive and consider all submissions made by stakeholders, while retaining control over the process for developing its application;
- All consultations are carried out on a without-prejudice basis;
- A neutral facilitator will document and report the discussions and any agreements reached with all or some stakeholders;
- Agreements reached will be submitted to the OEB as part of its evidence.

Goal

The goal for the stakeholder sessions is to create a forum for key stakeholders to gain information about the Hydro One transmission business with a view toward facilitating discussion on issues related to Hydro One's 2007/08 Transmission Rate Application and to explore options or potential areas of agreement. To further this mandate, participants are asked to:

- Represent the various views of their customers/constituencies;
- Assist Hydro One to understand their goals and issues through participation in a process of open dialogue and submissions.

Objectives

- Create better stakeholder understanding of the Hydro One transmission business, cost structure, system development challenges and costing, cost/reliability trade-offs and equity/user-pay considerations;
- Ensure stakeholder concerns and views are identified, understood and considered in the decision-making of Hydro One;
- Provide insight, advice, and feedback to Hydro One on any concerns, values, information and preferences regarding all aspects of Hydro One's transmission application and operations;
- Act as a forum for the exchange of information and views;
- Assist Hydro One to anticipate and respond to stakeholder and customer views and preferences;
- Clarify as many issues as possible prior to the Hydro One submission to the OEB;
- Scope the transmission issues to be heard by the OEB; and
- Reduce the time and cost associated with the OEB hearings.

Membership

Participation in the workshop(s) has been invited from key stakeholder groups, namely: active intervenors from previous proceedings, energy and environmental associations, Local Distribution Companies, major customers, other transmitters and the Aboriginal community.

Hydro One believes that those invited are "representative" of the interests of the majority of its stakeholders. Stakeholder discussion sessions may be limited in size to ensure adequate time to fully explore issues.

Alternate Members

It is Hydro One's intention that the same stakeholder representatives be actively involved throughout the process. This continuity will aid in the effectiveness of the process. In the event a participant is unable to attend one or more meetings, one designated alternate may be assigned to take their place. In the event that a participant and their alternate are both unable to attend a meeting, input may be submitted to Hydro One, in writing, prior to the meeting.

Roles and Responsibilities

Hydro One

- Provide adequate background information to enable participation;
- Provide overview/presentations of key issues;
- Act as a resource for main discussion and breakout sessions;
- Inform stakeholder participants how consultation has influenced Hydro One application.

Stakeholder Representatives

- Review Hydro One material presented;
- Identify key issues;
- Provide and present input, advice and feedback on issues relating to Hydro One's transmission rate application;
- Explore potential areas of agreement around key issues;
- Participate in all stakeholder sessions.

Stakeholder Discussion Sessions

- Meetings are to be convened at the request of Hydro One;
- At least three 1 or 2-day sessions (May, June and July) are envisioned, with a fourth meeting possible;
- All meetings will be held in the Greater Toronto Area.
- The input received during the Hydro One consultation will be used solely for the purpose of developing the 2007/08 Hydro One Transmission Rate Application.

Working Group Meetings/Subcommittees

If, during the course of the consultation sessions, it is apparent that additional time to explore an issue(s) would be of benefit, subcommittees may be convened to discuss a specific issue/topic for a predetermined period of time. If required, facilitation and reporting resources will be provided for subcommittee meetings.

Consultation Process Support

Haussmann Consulting Inc. (HCI) has been retained to provide third party facilitation and reporting of consultation sessions. Assistance in identifying issues where discussion will be of benefit, exploring stakeholder views, and identifying any common ground are key parts of the facilitation role.

HCI will prepare meeting notes that document discussions and stakeholder submissions received during this process, as well as any areas of agreement that are reached between Hydro One and stakeholders. Where stakeholders take firm positions on an issue, this will be recorded in the meeting notes if the stakeholder is willing to be identified in the notes. If an organization wishes to go on the record with a particular position, this should be confirmed in writing to Hydro One. These formal responses, along with stated positions will be reflected in the final consultation report that will form part of the Hydro One submission to the OEB.

Participant Funding

Funding may be provided for participants who qualify for funding under the *Funding Guidelines* attached. No other participant funding will be offered.

Duration of the Consultation Period

The purpose of this consultation is to provide an opportunity for Hydro One-stakeholder dialogue during the time in which Hydro One is preparing its 2007/08 Transmission Rate Application. It is anticipated that the Application will be submitted in the fall of 2006.

Additional Consultation Opportunities

Parties who are not available to attend or cannot be accommodated in the stakeholder consultation sessions are encouraged to follow the process and submit comments through the Hydro One Web site (www.hydroonenetworks.com).

Accountability:

- Responsibility for the stakeholder consultation program rests with Susan Frank, Vice President and Chief Regulatory Officer, Hydro One.
- Participants are to be governed according to the policies/procedures of their respective organizations. In the event that agreements are reached during the consultation process, they must be consistent with relevant policies of the respective organizations and must be supported by written documentation from the organization.

Hydro One Contact

Should you have any questions about this document or the consultation program, please contact:

Ms. Enza Cancilla
Manager, Public Affairs
Tel: 416-345-5892
Fax: 416-345-6984
Email: enza.cancilla@HydroOne.com

Filed: September 12, 2006
EB-2005-0501
Exhibit A-16-1
Appendix C

Stakeholder Consultation

2007/08 Transmission Rate Application

Funding Guidelines

In order to facilitate dialogue with its stakeholders, Hydro One Networks Inc. (Hydro One) will provide funding to assist some stakeholders to participate in its 2007/08 Transmission Rate Application stakeholder consultation process. The funding criteria that will be used are based upon those found in the Ontario Energy Board's (OEB) most recent Practice Direction on Cost Awards (October 2005).

Eligibility

- Hydro One will determine which stakeholders are eligible for funding. This will normally be limited to intervenors who have participated in past Hydro One distribution or transmission rate proceedings.
- Transmitters, wholesalers, generators, distributors, electricity retailers and marketers of natural gas and gas storage companies (either individually or in a group), parties with a direct commercial or business interest, the Ontario Power Authority and the Independent Electricity System Operator are not eligible for funding.
- Municipal or provincial government staff or representatives are not eligible for funding.
- Funding will be provided only to stakeholders participating in person at scheduled meetings
- The burden of establishing eligibility for funding is on the party applying for support. Interested parties must provide Hydro One with a statement justifying their eligibility.

Funding Principles

- Only one representative from each stakeholder organization will be funded. Alternates must be designated in advance and Hydro One notified.
- Groups with common interests are encouraged to combine their participation, or show cause as to why separate funding is justified.

- Funding will be provided for meeting preparation, attendance, travel to and from meetings, reasonable out-of-pocket expenses, and follow-up, as necessary, based upon the rates outlined in the OEB's Cost Award Tariff, with an agreed upon cap for preparation time not to exceed an amount equal to the meeting time. (See Attachment 1: OEB Cost Award Tariff or available at: http://www.oeb.gov.on.ca/documents/practice_directions_costawards_appa.pdf)

- Preparation time will not be reimbursed unless the stakeholder attends the discussion session for which preparation time was spent.

Funding Process

- Reimbursement for costs claimed will require the use of a Hydro One-approved form. (See Attachment 2: Reimbursement of Costs Form, OEB forms available at: http://www.oeb.gov.on.ca/html/en/industryrelations/rulesguidesandforms_regulatory.htm#)

- Requests should be submitted not later than 30 days following the completion of the meetings/workshops.

- Parties should submit their request for financial support to:

  Glen MacDonald, Senior Advisor – Regulatory Review
  Regulatory Affairs
  Hydro One Networks
  8th Floor, South Tower
  483 Bay Street
  Toronto, ON M5G 2P5
  Fax: 416-345-5913

Hydro One Contact

Should you have any questions about this document or the stakeholder consultation process, please contact:
Enza Cancilla
Manager, Public Affairs
Tel: 416-345-5892
Fax: 416-345-6984
Email: enza.cancilla@HydroOne.com

Appendix "D"
First Nation Discussion Sessions
Final Participant List

Jul-06	Name
Fort Frances First Chiefs Secretariat - Nigigoonsiminikaaning First Nation	Garry Allen
Nigigoonsiminikaaning First Nation	Ron Allen
Grand Council Treaty #3	Clifford Bob
Bimose Tribal Council	George Boyd
Wikwemikong Unceded Indian Reserve	Cherie L. Brant
Mohawks of the Bay of Quinte	Barry Brant
Chippewas of Nawash (Cape Croker)	Walter Chegahno
Chiefs of Ontario	Sue Chiblow
Ojibways of Anigaming	Anthony Copenace
Wikwemikong Unceded Indian Reserve	Robert Corbiere
Mohawks of Akwesasne	Brian David
Association of Iroquois and Allied Indians	Rolanda Elijah
M'Chigeeng/United Chiefs and Council of Manitoulin	Joe Endanawas
Mushkegowuk Tribal Council	Gilbert Etherington
White Dog First Nation	Eric Fisher
Kenora Chiefs Advisory	Corrina Gagnon
Windigo First Nations Council	Allyne Gliddon
Biinjitiwaabik Zaaging Anishinaabek (Rocky Bay)	James Hardy Sr.
Beausoleil First Nation	Arnold Jamieson Jr.
Seine River First Nation	Andrew Johnson
Fort Frances Chiefs Sercretariat - Seine River First Nation	Earl Klyne
Mohawks of the Bay of Quinte	Todd Kring
New Credit First Nation	Stace Laforme
Union of Ontario Indians	Byron Leclair
Biinjitiwaabik Zaaging Anishinaabek (Rocky Bay)	Victor Lesperence
New Credit First Nation	Sherry Lickers
Ogemawahj Tribal Council	Keith Maracle
Windigo First Nations Council	Kelly McKay
Long Lake First Nation	Frank Onabigon
White Dog First Nation	John Paishk
Wikwemikong Unceded Indian Reserve	Roland Pangowish
Shawanaga First Nation	Dan Pawis
Dokis First Nation	Cory R. Restoule
New Credit First Nation	Margaret Sault
Chippewas of Nawash (Cape Croker)	Frank Solomon
Ojibways of Anigaming	Jimmy Spruce
Mohawks of Akwesasne	William Sunday
Long Lake First Nation	Ervin Waboose
Bkejwanong Territory (Walpole Island)	Lee R. White
Bkejwanong Territory (Walpole Island)	David White
Chiefs of Ontario	Nathan Wright

TAB 6

Anwaatin Inc. (Anwaatin) INTERROGATORY #001

Reference:

Exhibit A, Tab 9, Schedule 1
Exhibit A, Tab 5, Schedule 1, page 7 of 8
Exhibit 81, Tab 1, Schedule 2, page 10 of 13
Exhibit 82, Tab 1, Schedule 1, page 1,2
Exhibit 82, Tab 2, Schedule 1, Attachment 2-4

Interrogatory:

Hydro One Networks Inc. (Hydro One) has committed to business objectives including customer focus, operational effectiveness, public policy responsiveness and financial performance. The establishment of a scorecard is one of the key elements of performance measurement under the OEB's new Filing Requirements for Electricity Transmission Applications. Hydro One's evidence lists various "stakeholder sessions" in 2015 and 2016, including a session on April 27, 2016, to discuss a proposed transmission scorecard and cost efficiencies, productivity improvements and key performance indicators (KPis).

Hydro One is aware that Chiefs of Ontario leader Isadore Day has stated publicly that the Ontario government should have engaged in "extensive consultation" with First Nations governments about the semi-privatization of the company, which has numerous transmission and distribution lines running through First Nations' territory.

In its century-long history, Hydro One (previously Ontario Hydro) projects have caused serious disruption on First Nations' territories, and Hydro One has sought to address these "legacy issues" by implementing a strict consultation and grievance process for First Nations.

Hydro One has established partnerships with aboriginal communities for infrastructure projects, such as B2M Limited Partnership with the Saugeen Ojibway Nation. B2M Limited Partnership owns most of the assets relating to specific Bruce-to-Milton transmission line assets, and is a significant source of economic development and wealthbuilding for First Nations people.

First Nations have constitutionally recognized legal status within Ontario, and they and their members are important Hydro One customers who have unique insights on the performance of Hydro One's transmission business, the proposed transmission scorecard, cost efficiencies, productivity improvements and KPis. Transmission reliability and delivery performance are very important to First Nations.

Witness: Oded Hubert/Michael Vels

a) Please describe all measures undertaken by Hydro One to ensure First Nations inclusion in the stakeholder sessions that took place on February 11, 2015, August 6, 2015, and January 11, 2016, and the stakeholder session held on April 27, 2016, on Hydro One's proposed transmission scorecard and cost efficiencies, productivity improvements and KPis.

b) Please list which, if any, First Nation governments and First Nation organizations Hydro One invited to the stakeholder sessions listed in Question1(a).

c) Please describe any and all assistance Hydro One made available to First Nation entities to facilitate their attendance at the stakeholder sessions listed in Question 1(a).

d) Please provide all input that Hydro One has sought and received from First Nations governments, groups and businesses with respect to its proposed transmission scorecard and cost efficiencies, productivity improvements and KPis, and specifically from First Nations governments and organizations in the regions of Northwest Ontario and North/East of Sudbury.

Response:

a) Hydro One invited all intervenors of record from Hydro One's EB-2014-0140 transmission rates proceeding to the stakeholder sessions. This is consistent with the normal practice that is accepted by the OEB. Notice of Hydro One's EB-2014-0140 proceeding, to set 2015 and 2016 transmission rates, was provided to the public by the OEB. The OEB's Notice included an invitation to become an active participant in that proceeding.

b) Please see the response to part a) of this question.

c) As prescribed by the OEB, Hydro One pays the costs incurred for interested parties to participate in proceedings Hydro One brings before the OEB. Cost award Decisions are issued by the OEB at the conclusion of each proceeding. This includes participation in stakeholder sessions.

d) Please see the response to part a) of this question.

TAB 7

News Release

Ontario and First Nations Announce Agreement-in-Principle for Sale of Hydro One Shares

Agreement Strengthens Relationship Between First Nations in Ontario and the Province

July 12, 2016 9:00 A.M. | Ministry of Energy

Today the Province and First Nations in Ontario, as represented by the Chiefs-in-Assembly, announced an agreement-in-principle for the Province to sell to First Nations for their collective benefit, up to approximately 15 million shares of Hydro One Limited (2.5 per cent of the total current outstanding common shares), depending on the level of First Nation participation.

This agreement-in-principle demonstrates the goodwill envisioned by the Political Accord to promote stronger economic relations and is one of many steps on Ontario's journey of healing and reconciliation with Indigenous peoples. If ratified, this new arrangement will provide meaningful opportunities to First Nations for collective wealth creation and to advance economic development initiatives. Each First Nation will have up to two years from signing of binding agreements to decide whether to participate in this arrangement. All First Nations in Ontario are invited to participate. A minimum threshold of 80 per cent First Nation participation by the end of 2017 is required for this transaction to close.

If the agreement is ratified, Ontario would sell the shares to a new investment vehicle owned collectively by First Nations. This purchase would be financed with a 25-year loan from the Province of up to approximately $268 million, depending on the level of First Nation participation. The interest rate for the loan would be at the Province's relevant borrowing rate, plus 15 basis points. The shares would be sold at $18 per share, which is above the Province's book value for the shares. Ontario would also provide seed capital to a new First Nation investment fund of up to $45 million in cash, depending on the level of First Nation participation, over the initial three years.

Ontario and the Chiefs Committee on Energy, on behalf of First Nations, began engaging in discussions regarding potential equity ownership as part of the initial stages of the Initial Public Offering (IPO), as described in the October 2015 Hydro One Limited Supplemented PREP Prospectus.

Quick Facts

- The Chiefs-in-Assembly established a Chiefs Committee on Energy to undertake this initiative on behalf of the 133 First Nation communities in Ontario.
- As the Province and the Chiefs Committee on Energy work towards definitive agreements and to respect the ongoing First Nation discussions, the Government of Ontario does not intend to comment further pending outcomes of that process.
- The Ontario government will remain the largest shareholder of Hydro One Limited, and by law no other shareholder or group of shareholders is permitted to own more than 10 per cent.
- Hydro One rates will continue to be set by the independent regulator, the Ontario Energy Board.

- Net revenue gains from the Province's public sales of Hydro One Limited common shares will be dedicated to the Trillium Trust to help fund infrastructure projects that will create jobs and strengthen the economy.
- Ontario is making the largest investment in public infrastructure in the province's history -- about $160 billion over 12 years for projects such as roads, bridges, transit systems, schools and hospitals. This investment is supporting 110,000 jobs every year across the province. In 2015, the government announced support for more than 325 projects that will keep people and goods moving, connect communities and improve quality of life.

Additional Resources

- Political Accord Between First Nations and the Government of Ontario
- The Initial Public Offering of Hydro One common shares closed on November 5, 2015
- The Trillium Trust and Moving Ontario Forward

Quotes

"Meaningful First Nations' participation in the energy sector is a priority for the Province and enables economic development opportunities with First Nation communities across Ontario. This new agreement-in-principle is transformational and unprecedented, and reflects the spirit of the Political Accord in strengthening Ontario's relationship with First Nations."

Glenn Thibeault
Minister of Energy

"Today, through our modern Political Accord, we can realize an economic opportunity stemming from a better approach and renewed commitment to working together. This is an example of reconciling our interests. Having meaningful equity participation in Hydro One is a unique long-term wealth creation opportunity for our collective First Nations. More significantly, we now have the opportunity to secure our rightful place not only in the energy sector but in the economy as a whole."

Isadore Day
Ontario Regional Chief

"By facilitating an opportunity for First Nations to participate in the broadening of ownership of Hydro One, this agreement-in-principle reflects Ontario's strong commitment in supporting Indigenous communities to shape their own economic future."

David Zimmer
Minister of Indigenous Relations and Reconciliation

Media Contacts

Aslan Hart
Communications Branch
416-326-4542

Katrina Xavier
Minister's Office
416-325-2690

TAB 8

STAKEHOLDER CONSULTATION

1. INTRODUCTION

In preparing this Application, Hydro One sought stakeholder comments on: (1) the total cost benchmarking study provided in Exhibit B2, Tab 2, Schedule 1; (2) a draft of the performance scorecard included in Exhibit B2, Tab 1, Schedule 1; and (3) the customer consultations it held in the spring of 2016 to inform its investment planning process, as described in Exhibit B1, Tab 2, Schedule 7.

This Exhibit focuses on Hydro One's April 27, 2016 stakeholder consultation session on its draft performance scorecard and customer consultation activities. The stakeholder activities in respect of the total cost benchmarking study are described in Exhibit B2, Tab 2, Schedule 1 of this Application.

2. CONSULTATION PRINCIPLES, DESIGN AND PROCESS

The principles and objectives described in this section provided the framework for Hydro One's stakeholder consultation session on April 27, 2016.

2.1 Principles

- Equal Footing – All participating stakeholders had an equal opportunity to ask questions and provide their feedback on the session topics. Hydro One considered all submissions made, but retained control of the development of this Application.

- Due process – Hydro One retained an independent facilitator, Swerhun Facilitation, to:
    - moderate the stakeholder session, protect the schedule, agenda, and ability of all stakeholders to ask questions and provide feedback;
    - ensure that discourse was professional and constructive; and
    - document the feedback and discussions conducted during the session.
- Open and transparent discourse– Open, transparent discourse on the session topics was encouraged, subject to the limited restriction that Hydro One could not discuss confidential information, information that had not been reviewed by its Board of Directors, or provide information in contravention of its legal obligations. In representing the views of their constituents, stakeholder participants were asked to assist Hydro One in understanding their goals and issues.

2.2 Objectives

In its stakeholder session, Hydro One intended to:

- inform and seek feedback from stakeholders about the customer consultations Hydro One held in the spring of 2016 as part of its investment planning process;
- seek input from stakeholders on a draft performance scorecard that formed the basis for the performance scorecard included in this Application;
- provide a forum for the exchange of information and views; and
- identify and clarify as many related issues as possible prior to filing this Application with the OEB.

2.3 Participation Process

OEB staff and intervenors from previous Hydro One transmission rate proceedings were invited to participate in the April 27, 2016 stakeholder session by e-mail. Intervenors from Hydro One's last two transmission revenue requirement applications were invited to participate in the stakeholder session. One week in advance of the consultation date, presentation materials were distributed by email, allowing interested stakeholders to review materials and prepare discussion points in advance.

Stakeholder participation was guided by a terms of reference, and funding was made available to eligible intervenors consistent with the current OEB's Practice Direction on Cost Awards.

2.4 Consultation Format and Outcomes

The consultation session was held on April 27, 2016 at the DoubleTree Hotel in Toronto. 17 individuals attended, representing 14 stakeholder organizations, and OEB staff. In this session, presentations were given on the customer consultation, as described in Exhibit B1, Tab 2, Schedule 2, and on a draft performance scorecard to be included in this Application. Broad questions were posed to the participants to help guide the discussions, which were moderated by Swerhun Facilitation. After the session, meeting notes were circulated by email to participants to review for accuracy.

Hydro One incorporated feedback given at the stakeholder session into this Application. For example, the performance scorecard in Exhibit B2, Tab 1, Schedule 1 was modified to include T-SAIFI-S and T-SAIFI-M metrics. Respectively, these metrics measure the average number of sustained (i.e. longer than one minute) and momentary (i.e. less than

one minute) unplanned interruptions that customers experience. Each metric is presented as a number of interruptions per delivery point per year.

3. PARTICIPANTS

The following organizations participated in the April 27, 2016 stakeholder session:

- Consumers Council of Canada;
- Toronto Hydro Electric System Limited;
- HQ Energy Marketing Inc.;
- Power Workers Union;
- Vulnerable Energy Consumers of Coalition;
- Ontario Power Generation;
- Schools Energy Coalition;
- Independent Electricity System Operator;
- Building Owners and Managers Association;
- Association of Major Power Consumers of Ontario;
- Brookfield Renewable Energy Group;
- Ontario Clean Air Alliance;
- Society of Energy Professionals; and
- Ontario Energy Board (Staff).

The presentation materials and meeting notes of the April 27, 2016 stakeholder consultation session have been provided in Attachment 1 to this Exhibit.

CONFIDENTIAL

Transmission Cost of Service Stakeholder Session

April 27, 2016

Agenda

Time	Item	Presenter
1:00 p.m.	Registration	
1:30 p.m.	Welcome	Oded Hubert
1:35 p.m.	Introductions and Agenda Review	Facilitator
1:40 p.m.	**PRESENTATION:** Customer Presentation Overview	Graham Henderson Scott McLachlan
2:00 p.m.	Questions of Clarification	Facilitator
2:10 p.m.	**PRESENTATION:** Customer Engagement Feedback	Ipsos Reid
2:30 p.m.	Questions of Clarification & Discussion	Facilitator
3:15 p.m.	Afternoon Break	
3:30 p.m.	**PRESENTATION:** Draft Performance Scorecard	Jeffrey Smith Carm Altomare
3:50 p.m.	Questions of Clarification & Discussion	Facilitator
5:00 p.m.	Closing Remarks/Next Steps	Oded Hubert

hydro one

CONFIDENTIAL INFORMATION

In these presentations, “Hydro One” or “the Company” refers to Hydro One Networks Inc. and its affiliates, taken together as a whole.

Hydro One is providing the information contained in the following presentations on a confidential basis in furtherance of the stakeholdering requirements of the OEB.. You should not trade in securities of Hydro One Limited or Hydro One Inc. based on any of the information contained within these presentations and should not use the information for any other purpose.

In these presentations, all amounts are in Canadian dollars, unless otherwise indicated. Any graphs, tables or other information in these presentations demonstrating the historical performance of Hydro One is intended only to illustrate past performance and is not necessarily indicative of future performance.

Forward-Looking Information

These presentations contain “forward-looking information” within the meaning of applicable Canadian securities laws. Forward-looking information in these presentations is based on current expectations, estimates, forecasts and projections about Hydro One’s business and the industry in which Hydro One operates and includes beliefs of and assumptions made by management. Such statements include, but are not limited to: statements regarding potential capital expenditures, the timing of these expenditures and the Company’s investment plans; the use of customer feedback from the consultation process and its impact on the Company’s investment plans; the impact of future investments on customer risk, reliability performance and risk, and service interruptions; statements about asset condition, the average ages of critical assets, and their future expected condition; statements about types of asset replacements and their expected associated costs; statements regarding the Transmission Regulatory Scorecard; and statements about illustrative scenarios and their impact on capital spend, expected outcomes, rates, changes in risk profile according to asset class, and increased or decreased system risk impact.

Words such as “aim”, “could”, “would”, “expect”, “anticipate”, “intend”, “attempt”, “may”, “plan”, “will”, “believe”, “seek”, “estimate”, “goal”, “target”, “project” and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking information. Hydro One does not intend, and it disclaims any obligation to update any forward-looking information, except as required by law.

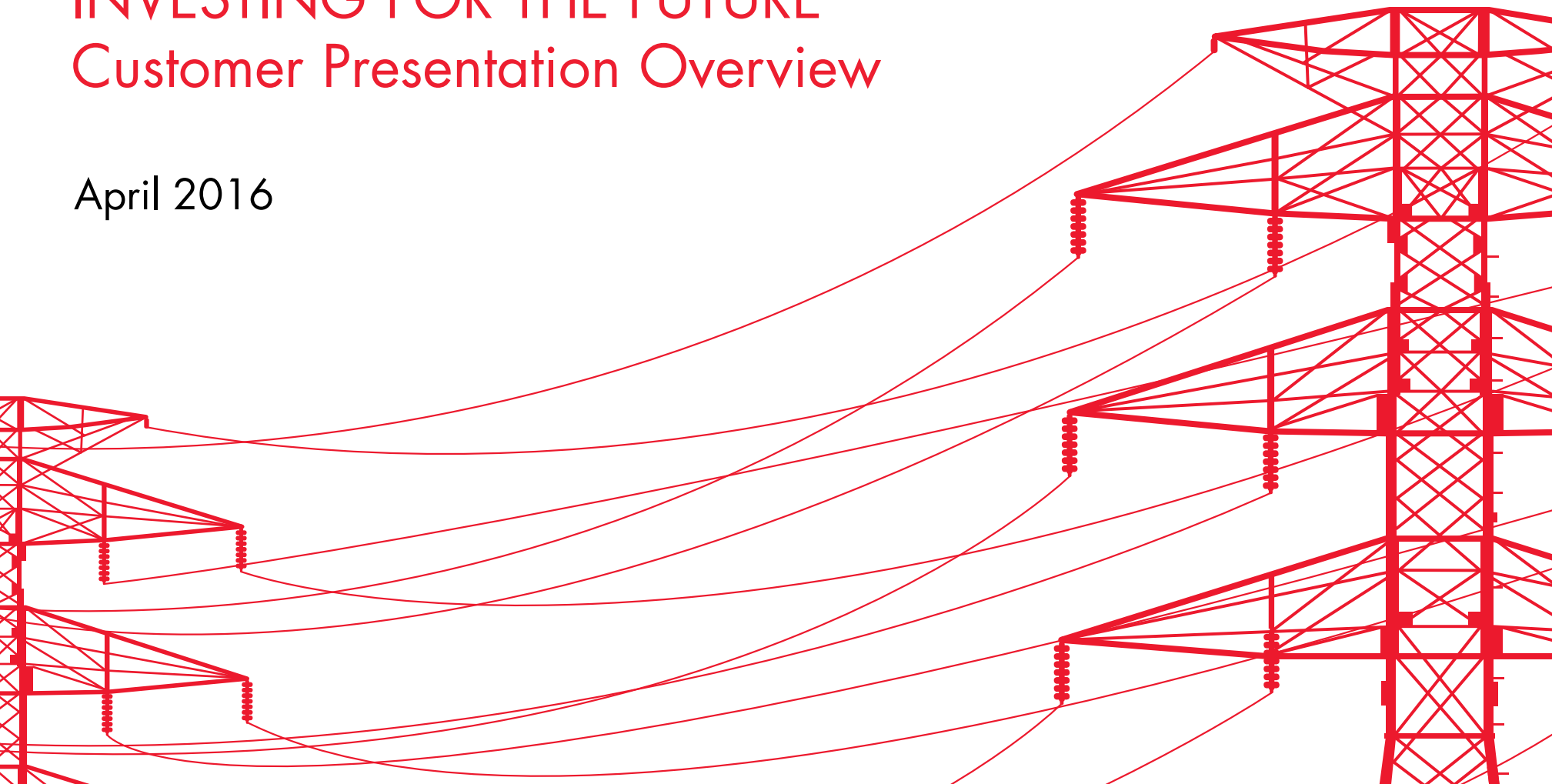
The forward-looking information in these presentations is based on a variety of factors and assumptions. Actual results may differ materially from those predicted by such forward-looking information. While Hydro One does not know what impact any of these differences may have, Hydro One’s business, results of operations and financial condition may be materially adversely affected if any such differences occur. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking information are: the risk that previously granted regulatory approvals may be subsequently challenged, appealed or overturned; the risk of public opposition to and delays or denials of requisite approvals and accommodations for the Company’s planned projects; the risk that the Company is not able to arrange sufficient cost-effective financing to fund capital expenditures; the risk that the Company may not be able to execute plans for capital projects necessary to maintain the performance of the Company’s assets or to carry out projects in a timely manner; the risk that the Company’s Board of Directors may not approve the projected expenditures; and the risk that the regulator may alter or deny approval for requested investments and recoverability in rates.

TRANSMISSION STAKEHOLDER ENGAGEMENT

INVESTING FOR THE FUTURE

Customer Presentation Overview

April 2016



OUR CUSTOMER ENGAGEMENT PROCESS

Hydro One is in the process of **developing its Transmission Investment Plan** for 2017 and beyond.

This investment plan will in turn, underpin our **Transmission Rate Application** to the OEB later this spring.

Our Investment Plan will be based on our customers' needs and preferences, our analysis of assets' needs and of our ability to resource, schedule and execute work.

All transmission-connected customers will have the opportunity to provide input that will support the development of the Investment Plan through:

- One-on-one discussions
- Larger, professionally facilitated customer engagement sessions held in Toronto, London, Ottawa, Thunder Bay, and Sudbury
- An online survey

Approach -> consistent with the OEB's Renewed Regulatory Framework

---

Illustrative scenarios have been developed for various levels of sustainment expenditures.

These in turn, **result in different rate impacts and reliability risks.**

These scenarios focus on the Sustainment Capital portion of our Investment Plan and are meant to represent a spectrum of potential investments.

We do not have a recommended scenario, nor are we asking you to choose from the scenarios presented.

The asset solutions identified are flexible. The inclusion and pacing of investments in the plan may vary from what is presented in the scenarios.

Through this conversation, we would like to better understand your business needs and preferences to inform our 5-year Investment Plan.

SUMMARY OF SYSTEM PERFORMANCE

Hydro One's transmission reliability has remained flat.

The **transmission system faces increasing challenges** due to asset condition.

Hydro One planning and work processes improvements continually explored

Equipment performance is the largest controllable factor, contributing 42% of system *interruption*[1] minutes. Assets continue to age (e.g., 20% of conductors now beyond *expected service life*[2] of 70 years).

Evidence suggests that underlying reliability risk is increasing:

- Equipment outages[3] caused by failure or necessary repairs/replacements increased ~300% from 2011 – 2015.
- Increased duration of placing customers, normally served by a multi-circuit system[4] on single supply, increasing interruption risk by ~400%.

Condition assessments have identified critical replacement needs, for example:

- 2,300 cct-km of conductors identified for priority replacement due to being at or near end of useful life[5].
- 9,100 steel towers at heightened failure risk due to depletion of their corrosion protection layer.

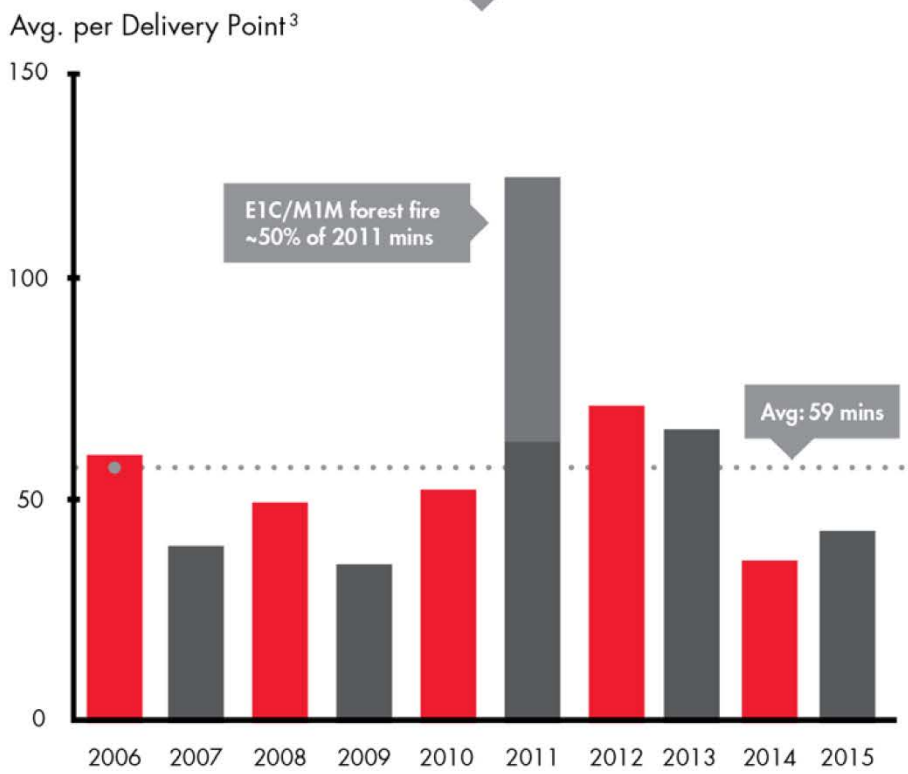
Hydro One continues to take action to mitigate reliability risk by:

- Managing equipment performance through robust, condition-based asset replacement programs.
- Reducing customer exposure to single-supply through improved planning and work processes.

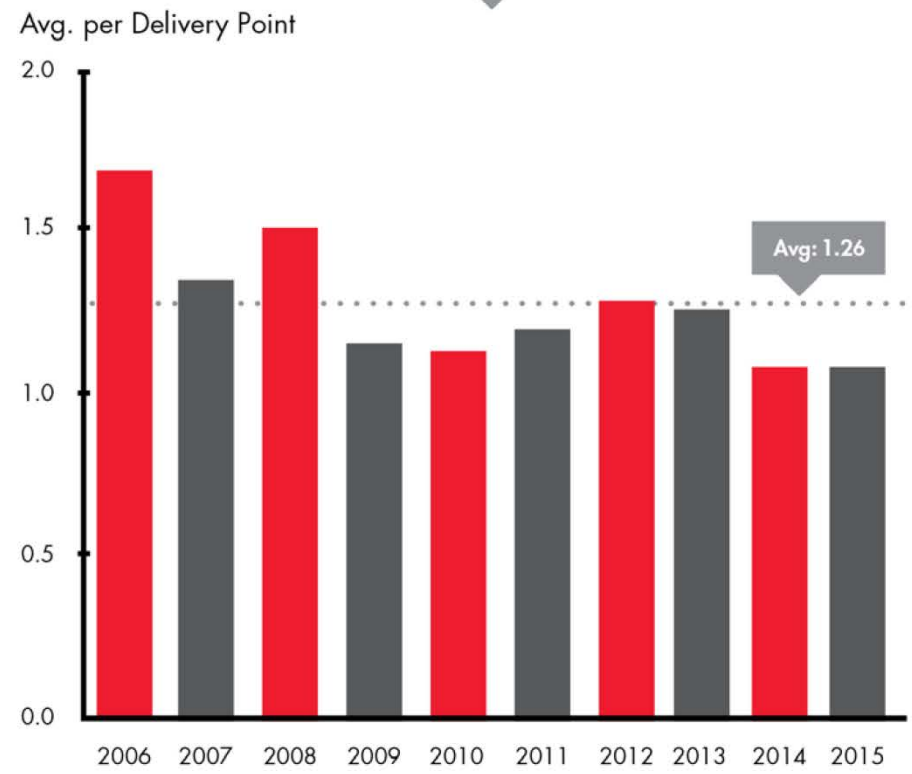
1. Outages on the transmission system that interrupt the supply of energy to transmission customers.
2. The average time in years that an asset can be expected to operate under normal system conditions.
3. The removal of facilities from service, unavailability for connection of facilities, temporary de-rating, restriction of use or reduction in the performance of facilities for any reason, including to permit the inspection, testing, maintenance or repair of facilities.
4. Delivery points served by multiple transmission circuits, creating system redundancy; tend to be located in the southern areas of the province.
5. As asset-specific determination based on an asset's condition, criticality, performance, demographics, utilization and economics.

OVERALL TRANSMISSION RELIABILITY HAS REMAINED FLAT

DURATION OF INTERRUPTIONS (SAIDI)[1]
2006 – 2015



FREQUENCY OF INTERRUPTIONS (SAIFI)[2]
2006 – 2015



Note: Includes both sustained and momentary interruptions. Excludes planned interruptions and interruptions due to customer activity. Excludes 2013 GTA flood (extreme Force Majeure event - a natural consequence of external forces that are beyond reasonable control).

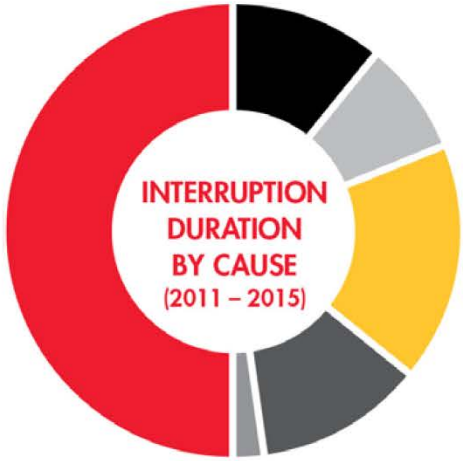
1. System Average Interruption Duration Index
2. System Average Interruption Frequency Index
3. Interface between the Hydro One transmission system and its load customers. Delivery points consist of: (a) all Hydro One owned step-down transformer stations' low-voltage buses, and (b) stations owned by end-use transmission customers, including LDCs and other transmitters operating at 115kV or higher.

EQUIPMENT PERFORMANCE AND DRIVERS VARY ACROSS MULTI-CIRCUIT AND SINGLE-CIRCUIT SYSTEMS (2011-2015)

Equipment failure is the single largest driver of customer interruption minutes across both systems.

MULTI-CIRCUIT SYSTEM (SAIDI)

KEY FACTS:
- ~70% of delivery points • ~85% of total load
- Located primarily in Southern Ontario



- 50% Equipment
- 17% Weather
- 12% Foreign
- 11% Power System
- 2% Human
- 0% Environment
- 8% Unknown/Other

Average interruption duration per delivery point: **10 mins**

Duration of interruptions limited by redundancy in the multi-circuit network

SINGLE-CIRCUIT SYSTEM (SAIDI)[1]

KEY FACTS:
- ~30% of delivery points • ~15% of total load
- Located primarily in Northern Ontario

- 41% Equipment
- 18% Weather
- 13% Foreign
- 13% Power System
- 0% Human
- 23% Environment *Includes 2011 forest fire*
- 2% Unknown/Other

Average interruption duration per delivery point: **211 mins**

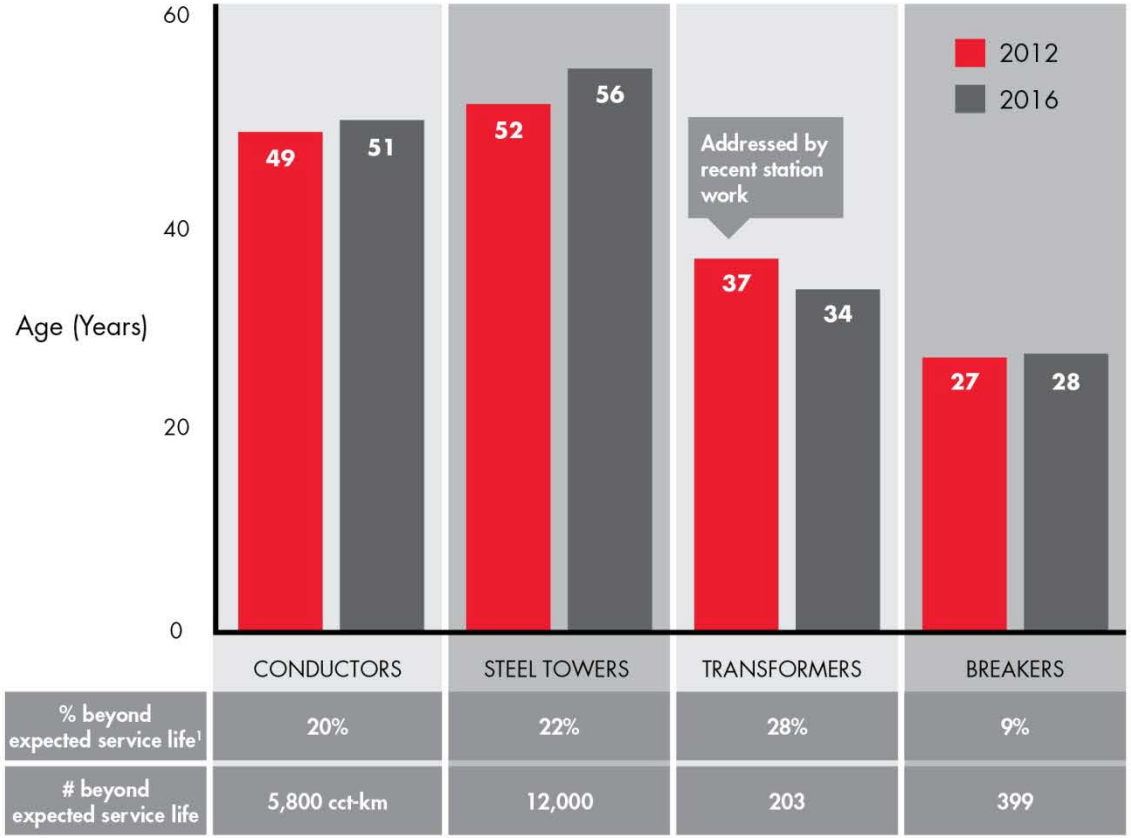
Lack of redundancy drives increased duration of interruptions

Note: Excludes planned interruptions and interruptions due to customer activity. Excludes Force Majeure events.

1. Delivery points served by sole transmission circuit, leading to limited redundancy; tend to be located in the northern areas of the province.

THE AVERAGE AGE OF CRITICAL ASSETS HAS INCREASED IN RECENT YEARS, AND TESTING HAS IDENTIFIED PRIORITY ASSETS FOR REPLACEMENT

HISTORICAL REPLACEMENT RATE HAS BEEN INSUFFICIENT TO ADDRESS SYSTEM AGING...



	CONDUCTORS	STEEL TOWERS	TRANSFORMERS	BREAKERS
% beyond expected service life[1]	20%	22%	28%	9%
# beyond expected service life	5,800 cct-km	12,000	203	399

+

CONDITION ASSESSMENTS HAVE IDENTIFIED SPECIFIC ASSETS FOR REPLACEMENT.

ASSET	CONDITION
CONDUCTORS	• Based on actual conductor sample testing, 2,300 cct-km of transmission lines known to be at or approaching end of useful life
STEEL TOWERS	• 9,100 steel structures located in known high-corrosion areas based on inventory assessment
TRANSFORMERS	• 31 transformers (4.3%) rated high-risk or very high-risk based on condition assessment
BREAKERS	• ~470 breakers rated high-risk or very high-risk based on condition assessment
INSULATORS	• ~25% of insulators at greater risk of failure • Ongoing testing will determine remaining insulator strength

1. The average time in years that an asset can be expected to operate under normal system conditions.

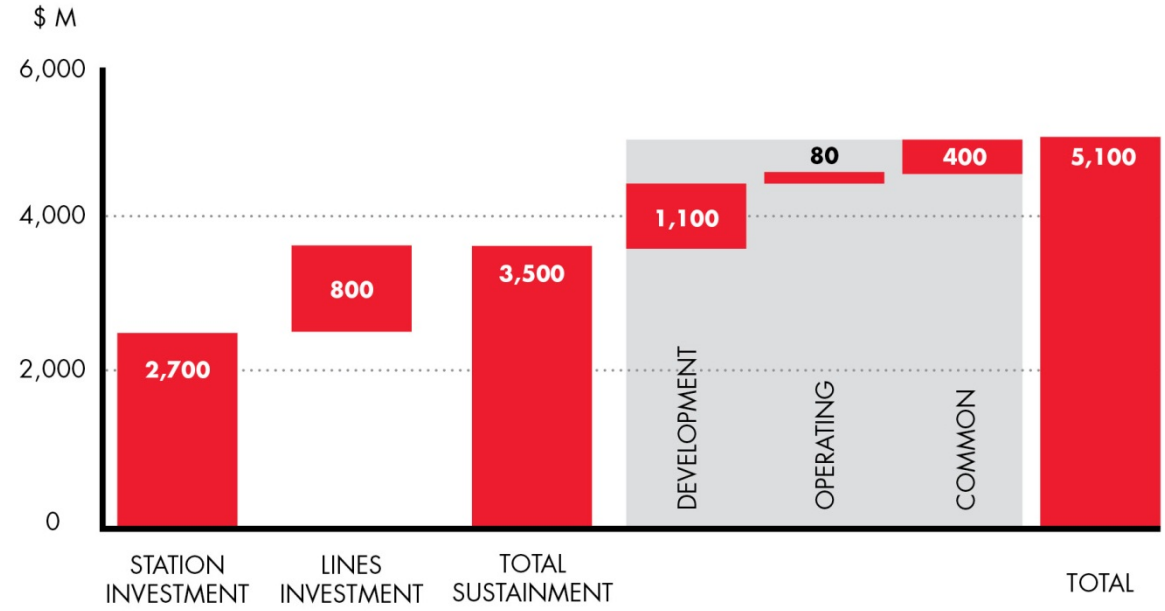
SCENARIO ONE

SCENARIO 1
~$5,100M (2016 – 2020)

KEY ELEMENTS OF SCENARIO 1

- Coordinated replacement of multiple elements at stations to reduce outages
- Investment to replace high risk air-blast circuit breakers
- Replacement of aging transformer population
- Does not fully address increasing risk due to line asset aging/conditions

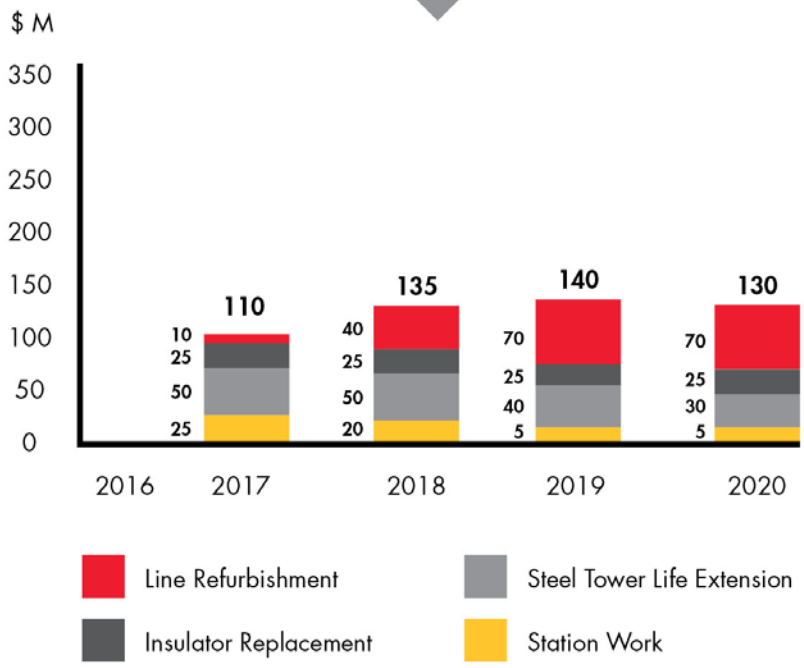
Note: Benchmarking suggests that Hydro One's total historic spending on its transmission system has been less than comparators



Overall risk profile:
Reliability risk expected to increase

SCENARIOS TWO AND THREE

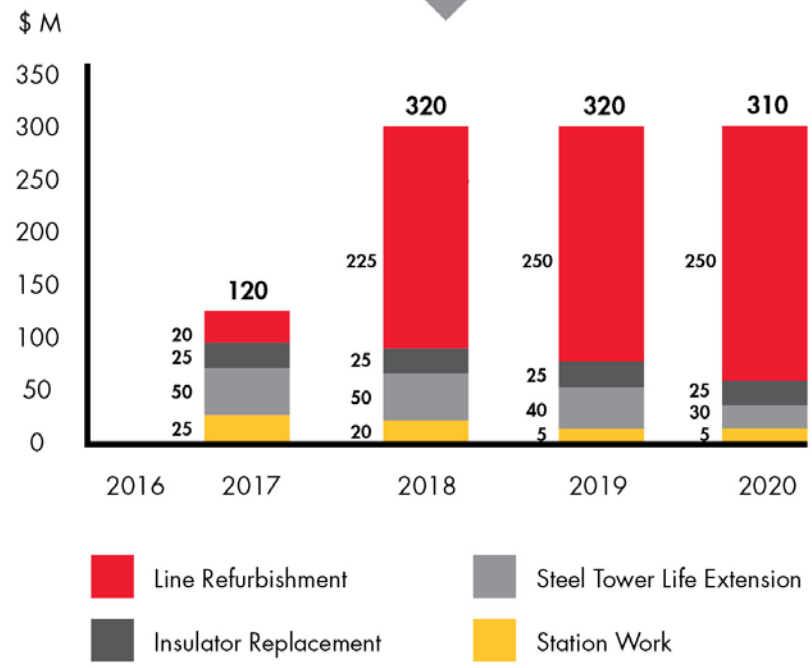
SCENARIO 2
~$520M in incremental CapEx from 2016 – 2020



- Scenario 1 and additional station work, insulator replacement, and steel tower life extension program
- Projected replacement of 1,200 cct-km of conductors, including all copper conductors at end of useful life

Overall risk profile:
Current reliability risk expected to remain unchanged

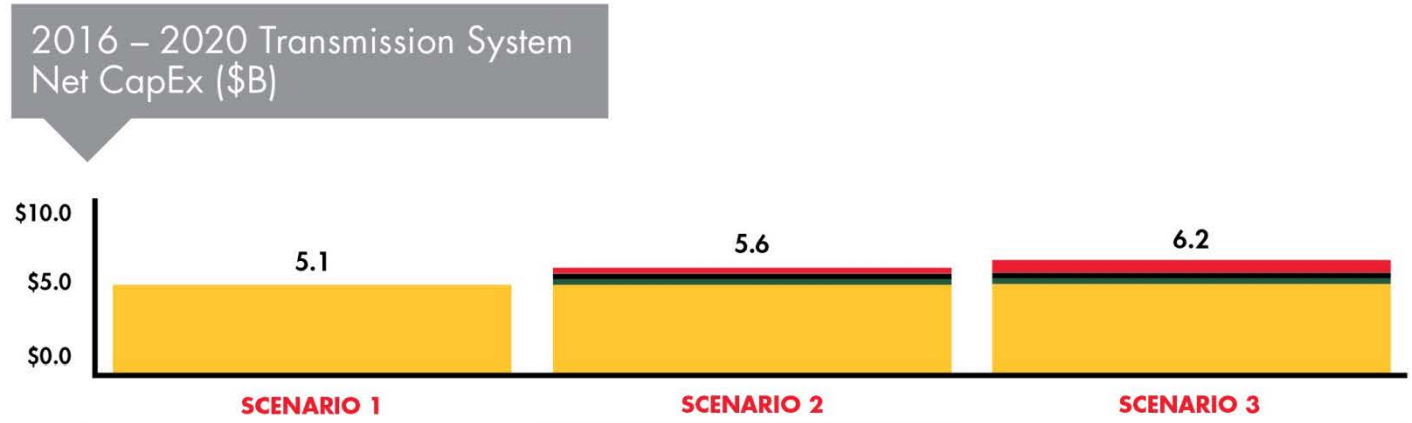
SCENARIO 3
~$1.1B in incremental CapEx from 2016 – 2020



- Scenario 1 and additional station work, insulator replacement, and steel tower life extension program
- Projected replacement of 2,300 cct-km of conductors, including all copper conductors at end of useful life

Overall risk profile:
Reliability risk expected to decrease

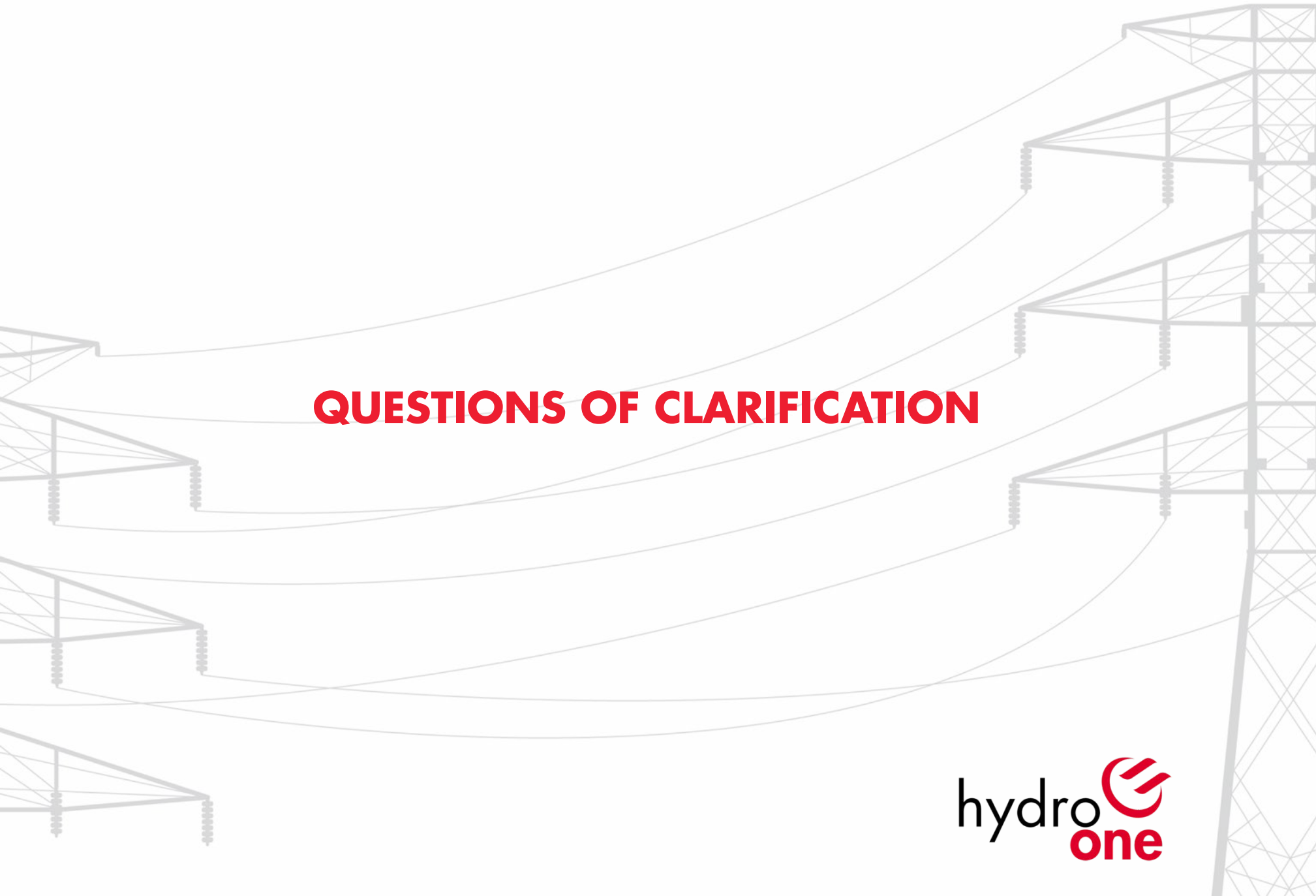
OVERVIEW OF THREE POTENTIAL SCENARIOS



		SCENARIO 1	SCENARIO 2	SCENARIO 3
Capital Spend	Sustainment ($B)	3.5	4.0	4.6
	Development ($B)	1.1	1.1	1.1
	Other ($B)	0.5	0.5	0.5
Expected Outcomes	Frequency and duration of interruptions	▲ Expected increase in line-related interruptions	▶ Some increase in lines risk offset by limiting unplanned outages and improved station performance	▼ Reduce risk from lines and continue to limit exposure to unplanned outages
	Reliability risk[1]	▲ Risk is expected to increase	▶ Current risk expected to remain essentially unchanged	▼ Risk is expected to decrease
Rates	Transmission rate impact (Compound Annual Growth Rate for 2017 – 2020)[2]	▲ ~5.8%	▲ ~6.3%	▲ ~6.8%

1. Reliability risk is a probabilistic calculation based on asset demographics and the historical relationship between its age and its failure or replacement.
2. Excludes impacts of potential changes in load forecast and any potential change to operations and maintenance spending.

QUESTIONS OF CLARIFICATION



Development of Transmission Investment Plan

Customer Engagement Feedback

Presentation by Ipsos
April 27, 2016

Agenda

- Background and Context
- Consultation Objectives
- Consultation Methodology and Approach
- Summary of Consultation Discussions
- Feedback on Consultation Process

Background and Context

Ipsos was commissioned by Hydro One Networks Inc. (Hydro One) to assist with the design, execution, documentation and analysis of feedback for its transmission-connected customer engagement and consultation process

The feedback and insight from customers is being considered by Hydro One as it develops its investment plan to support its Transmission Revenue Requirement and Rate Application for 2017-2018

Consultation Objectives

- To provide transmission-connected customers with an opportunity to achieve a common level of understanding about Hydro One's system performance
- To provide sufficiently detailed plans and illustrative investment scenarios so that customers can provide informed feedback
- To allow an open forum for discussion of customer needs and preferences to inform the development of the investment plan
- To gather qualitative feedback and allow for brainstorming, the consultation was not intended to provide a statistically representative measurement of customer support for a specific investment plan

Transmission-Connected Customers

The consultations were designed to reflect the specific segments of transmission-connected customers of Hydro One

- **Generators:** Generators are transmission customers of Hydro One
- **Local Distribution Companies (LDC):** OEB-licensed distributors that provide electricity to their residential and business customers
- **Large Industrial Businesses:** End-users connected to Hydro One's transmission system

Methodology and Approach

Feedback from transmission-connected customers was collected in three ways:

- One-on-one dedicated meetings with selected customers (Wave 1)
- Larger, facilitated group sessions (Wave 2)
- Ipsos' online consultation tool (Wave 3)

Every transmission-connected customer of Hydro One was afforded the opportunity to participate in at least one wave

A professional note-taker recorded each of the Wave 1 and Wave 2 discussions

Methodology and Approach

All transmission-connected customers were emailed an advance copy of Hydro One's Transmission Consultation Materials, which included:

- a presentation of Hydro One's system performance from 2011 to 2015
- three illustrative investment scenarios

The scenarios were illustrative examples of:

- investment plans, each containing details of potential investments in assets and asset classes
- the change to the reliability risk profile
- the overall capital expenditure required
- the incremental difference between scenarios and the corresponding rate increase for each scenario

Wave 1: Dedicated Meetings

WHO PARTICIPATED

A total of 42 individuals participated representing 12 customers

- 4 LDCs
- 6 end-users (large industrial)
- 2 generators

HOW CUSTOMERS WERE CHOSEN

Customers were selected and invited by Hydro One for one-on-one meetings based on a number of criteria:

- The customers represented at least 5 per cent of Hydro One's overall revenue in the transmission-connected customer segment
- Were among the largest customers within each sub-segment (LDCs, large end-users, and electricity generators)

The selected customers represented:

- A range of customer satisfaction scores based on Hydro One's 2015 Transmission Customer Satisfaction Survey (i.e. both satisfied and non-satisfied customers were included)
- A range of reliability performance
- Geographic diversity

Wave 2: Facilitated Group Sessions

WHO PARTICIPATED

A total of 33 individuals participated representing 22 customers

- 13 LDCs
- 8 end-users (large industrial)
- 1 other

LOCATION OF SESSIONS

Sessions took place in:

- London
- Ottawa
- Sudbury
- Thunder Bay
- Toronto

Wave 3: Online Consultation Tool

WHO PARTICIPATED

A total of 31 individuals representing 28 customers provided responses to some or all of the questions

- 9 LDCs
- 11 end-users (large industrial)
- 6 generators
- 2 others

HOW IT WORKED

All transmission customers were emailed a link to the online consultation tool hosted by Ipsos to provide their feedback at a time convenient to them

The online consultation tool included questions similar to those posed during the Wave 1 and Wave 2 sessions

Discussion Guide

HYDRO ONE

1. Introduction of **customer engagement process** as it relates to developing their Investment Plan and rate filing
2. Introduction to **their organization, transmission system, and asset portfolio**, and the goals for the session

4. Presentation of **Hydro One's System Performance** from 2011 to 2015

6. Illustrative **investment scenarios**

FACILITATOR

3. **Key questions:** customer needs and preferences, industry challenges, satisfaction with Hydro One, greatest concerns about Hydro One

5. **Key questions:** clarity of presentation information, understanding of the difference between reliability performance and reliability risk, level of concern about reliability risk

7. Probe on: **comments, questions, clarifications,** acceptance that an improvement in reliability risk comes at a cost, ideas and suggestion for an ideal scenario
8. Final comments and feedback on consultation process

Customer Needs and Preferences

- **Reliability** was the most frequently and consistently mentioned 'need' that was raised by customers across all the consultation activities.

- For most large industrial customers, **frequency of interruptions** is a greater concern than duration. Conversely, Local Distribution Companies (LDCs) were more likely to say that **duration of interruptions** is a greater concern than frequency of interruptions.

- Planned outages are considered by many to be much more manageable and less of a concern than **unplanned interruptions**.

- Overall **power quality and transmission capacity** were also raised as major issues facing customers, particularly those in the North.

- Cost was raised at various times throughout the consultation. **The desire for good reliability at a competitive or low cost is universal.**

Satisfaction with Hydro One

- Customers expressed satisfaction with Hydro One's performance overall.
- Reliability of service and power quality are two aspects customers are less satisfied with.
- Several customers stated that they have a good relationship with their Account Executive.
- Concerns were prevalent that the broader Hydro One relationship should be more transparent.
- Some customers commented that Hydro One management should be more open in sharing information that affects its decision-making, particularly when the customer and Hydro One are dealing with similar issues.

Concerns about Hydro One

- Interruptions and rates (specifically rate increases greater than 5%) were mentioned most often.
- Other concerns were acknowledged as being important but interruptions have the biggest impact on productivity and revenue loss, while rates are most important for managing bottom lines and communicating with ratepayers of LDCs.
- Many customers provided examples of the financial and health and safety impacts of even short interruptions in service. Given these impacts, customers wanted to see Hydro One strike the right balance between reliability and rates.
- Adequate asset management and replacement was also frequently mentioned.

Addressing Reliability Risk vs Deferring Investment

- Most customers indicated that Hydro One needs to be more proactive in addressing current and emerging reliability risk now, rather than deferring investments.

- Those customers that did not strongly agree, subsequently stated that they themselves have not had many transmission interruptions.

- There was a general acceptance that Hydro One's assets appear to be aged.

- Some customers stated that they do not have enough information on asset age/performance, or the methodology of condition assessment and maintenance in order to confidently provide an opinion on whether Hydro One should be more proactive in addressing current and emerging reliability risks now, rather than deferring investments.

Reliability Risk vs. Rates (illustrative scenarios)

- The majority of customers who participated in the consultation activities indicated that increased reliability risk, particularly at the magnitude of approximately 10% is unacceptable.

- Most would be willing to support the investment required to at least maintain the current level of reliability risk.

- The general sentiment, overall, was that the right balance between reliability risk and rates is somewhere between illustrative Scenario 2 (6.3% rate increase for an essentially unchanged reliability risk) and Scenario 3 (6.8% rate increase for approximately 10% improvement in reliability risk).

- Based on the scenarios, a marginal improvement in reliability risk (less than 10%) would reflect a rate increase that falls between 6.3% and 6.8%.

Reliability Risk vs. Rates (illustrative scenarios)

- A few of the large industrial customers, particularly those experiencing a relatively high number/frequency of unplanned interruptions, made it quite clear that Scenario 3 is a minimum requirement.

- However, these same customers, as well as others, expect to see an improvement in actual reliability performance, not necessarily a reduced reliability risk for this level of investment.

- Customers across all segments (LDC, generator and industrial) consistently stated an expectation to see an improvement in their service performance in terms of reliability (fewer unplanned interruptions) as well as power quality.

Feedback on Consultation Process

- Overall customers provided positive feedback about the consultation process and several commended Hydro One for engaging in a consultative process for the development of the investment plan.

- There was a high level of interest in learning more about Hydro One's system performance, asset age, condition assessments, and the specific actions Hydro One has undertaken and plans to undertake to mitigate reliability risk.

- When asked, most customers agreed that that their feedback was heard. Opinions were divided as to whether the sessions got to the right issues. Those that indicated that the session may not have gotten to the right issues were unsure they received a sufficient amount of information from Hydro One in order to fully form an opinion on Hydro One's illustrative scenarios.

- There was a general consensus that Hydro One should hold similar consultation sessions annually.

Thank You

QUESTIONS OF CLARIFICATION AND DISCUSSION

Based on the presentation, do you have feedback you would like Hydro One to consider as they prepare their transmission application for their 2017-2018 revenue requirement?

Transmission Regulatory Scorecard (Proposed)

Jeffrey Smith **Carm Altomare**

Regulatory Affairs

April 27, 2016

Purpose

- Used to measure and monitor the performance of Hydro One Transmission to drive improvement over time
- Similar to regulatory scorecard developed for distribution so that stakeholders are familiar with the format
- Includes the primary measures to effectively monitor the Performance Outcomes
- Satisfy new filing requirements

Performance Measures

- Many of the proposed measures allow for benchmarking comparisons
- Scorecard will be used to identify trends, outliers and opportunities for improvement
- Hydro One is familiar with this model – "Balanced Scorecard" – having used it for years for monitoring performance
- Results for certain measures TBD – will be complete for filing

Four Performance Outcomes (RRFE)

- **Customer Focus** – provide services in a manner that responds to customer preferences
- **Operational Effectiveness** – continuous improvement in productivity and cost performance
- **Public Policy Responsiveness** – deliver on obligations mandated by Gov't and Regulators
- **Financial Performance** – financial viability is maintained and savings from operational effectiveness are sustainable

Proposed Tx Scorecard

Performance Outcomes	Performance Categories	Measures	Historical Years 2011	2012	2013	2014	2015	Trend
Customer Focus **Services are provided in a manner that responds to identified customer preferences.**	**Service Quality**	Satisfaction with Outage Planning Procedures (% Satisfied)	N/A	78%	N/A	86%	92%	▲
		Customer Delivery Point (DP) Performance Standard Outliers as % of Total DPs	13.8	10.8	12.8	11.8	TBD	▲
	Customer Satisfaction	Overall % Customer Satisfaction in Corporate Survey	85%	76%	81%	77%	85%	-
Operational Effectiveness **Continuous improvement in productivity and cost performance is achieved; and transmitters deliver on system reliability and quality objectives.**	**Safety**	Recordable Incident Rate (# of recordable injuries/illnesses per 200,000 hours worked)	3.7	2.3	2.5	1.8	1.7	▲
	System Reliability	T-SAIFI (Ave. # Power Interruptions per per Delivery Point)	1.19	1.26	1.26	1.08	1.09	▲
		T-SAIDI (Ave. # Minutes of Power Interruptions per Delivery Point)	127.90	71.50	66.00	36.61	44.30	▲
		System Unavailability (%)	0.50%	0.48%	0.37%	0.48%	0.66%	▲
		Unsupplied Energy (minutes)	21.64	14.04	20.86	12.24	11.79	▲
	Asset Management	In-Service Additions(% of OEB approved plan)	95%	90%	94%	99%	104%	▲
		CapEx as % of Budget	78%	81%	73%	90%	106%	▲
	Cost Control	Total OM&A and Capital per Gross Fixed Asset Value (%)	9.8	8.6	7.6	8.4	9.0	▲
		Sustainment Capital per Gross Fixed Asset Value (%)	2.6	2.8	3.3	4.2	4.6	1
		OM&A per Gross Fixed Asset Value (%)	3.4	3.0	2.7	2.7	2.9	▲
Public Policy Responsiveness **Transmitters deliver on obligations mandated by government (e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).**	**Connection of Renewable Generation**	% on time completion of renewables connection impact assessments	100%	100%	100%	100%	100%	-
	Regulatory Compliance	NERC/NPCC Reliability Standards Compliance						
		- Number of High Impact Violations	N/A	N/A	N/A	19	2	
		- Number of Medium/Low Impact Violations	N/A	N/A	N/A	6	11	
	Regional Infrastructure	Regional Infrastructure Planning progress - % Deliverables met	N/A	N/A	N/A	100%	100%	-
Financial Performance **Financial viability is maintained; and savings from operational effectiveness are sustainable.**	**Financial Ratios**	Liquidity: Current Ratio (Current Assets/Current Liabilities)	0.24	0.29	0.80	0.69	TBD	▲
		Leverage: Total Debt (includes short-term & long-term debt) to Equity Ratio	1.22	1.22	1.17	1.22	TBD	-
		Profitability: Regulatory Return on Equity — Deemed (included in rates)	9.66%	9.42%	9.16%	9.36%	TBD	
		Profitability: Regulatory Return on Equity — Achieved	10.90%	12.40%	13.20%	13.10%	TBD	

1. In 2014 strategic decision made to increase sustainment capital.

Legend:
▲ Performance Improving
▼ Performance deteriorating
- No change

Customer Focus
Performance Outcome

			Historical Years					
Performance Outcomes	**Performance Categories**	**Measures**	**2011**	**2012**	**2013**	**2014**	**2015**	**Trend**
Customer Focus **Services are provided in a manner that responds to identified customer preferences.**	**Service Quality**	Satisfaction with Outage Planning Procedures (%	N/A	78%	N/A	86%	92%	▲
		Customer Delivery Point (DP) Performance Standard Outliers as % of Total DPs	13.8	10.8	12.8	11.8	TBD	▲
	Customer Satisfaction	Overall % Customer Satisfaction in Corporate	85%	76%	81%	77%	85%	-

Operational Effectiveness Performance Outcome

			Historical Years					
Performance Outcomes	**Performance Categories**	**Measures**	**2011**	**2012**	**2013**	**2014**	**2015**	**Trend**
Operational Effectiveness **Continuous improvement in productivity and cost performance is achieved; and transmitters deliver on system reliability and quality objectives.**	**Safety**	Recordable Incident Rate (# of recordable injuries/illnesses per 200,000 hours worked)	3.7	2.3	2.5	1.8	1.7	▲
	System Reliability	T-SAIFI (Ave. # Power Interruptions per per Delivery Point)	1.19	1.26	1.26	1.08	1.09	▲
		T-SAIDI (Ave. # Minutes of Power Interruptions per Delivery Point)	127.90	71.50	66.00	36.61	44.30	▲
		System Unavailability (%)	0.50%	0.48%	0.37%	0.48%	0.66%	▼
		Unsupplied Energy (minutes)	21.64	14.04	20.86	12.24	11.79	▲
	Asset Management	In-Service Additions(% of OEB approved plan)	95%	90%	94%	99%	104%	▲
		CapEx as % of Budget	78%	81%	73%	90%	106%	▲
	Cost Control	Total OM&A and Capital per Gross Fixed Asset Value (%)	9.8	8.6	7.6	8.4	9.0	▲
		Sustainment Capital per Gross Fixed Asset Value (%)	2.6	2.8	3.3	4.2	4.6	1
		OM&A per Gross Fixed Asset Value (%)	3.4	3.0	2.7	2.7	2.9	▲

1. In 2014 strategic decision made to increase sustainment capital.

Public Policy Responsiveness Performance Outcome

Performance Outcomes	Performance Categories	Measures	Historical Years 2011	2012	2013	2014	2015	Trend
Public Policy Responsiveness **Transmitters deliver on obligations mandated by government (e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).**	**Connection of Renewable Generation**	% on time completion of renewables connection impact assessments	100%	100%	100%	100%	100%	-
	Regulatory Compliance	NERC/NPCC Reliability Standards Compliance						
		- Number of High Impact Violations	N/A	N/A	N/A	19	2	
		- Number of Medium/Low Impact Violations	N/A	N/A	N/A	6	11	
	Regional Infrastructure	Regional Infrastructure Planning progress - % Deliverables met	N/A	N/A	N/A	100%	100%	-

Financial Performance Outcome

				Historical Years					
Performance Outcomes	**Performance Categories**	**Measures**		**2011**	**2012**	**2013**	**2014**	**2015**	**Trend**
Financial Performance **Financial viability is maintained; and savings from operational effectiveness are sustainable.**	**Financial Ratios**	Liquidity: Current Ratio (Current Assets/Current Liabilities)		0.24	0.29	0.80	0.69	TBD	▲
		Leverage: Total Debt (includes short-term & long-term debt) to Equity Ratio		1.22	1.22	1.17	1.22	TBD	-
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	9.66%	9.42%	9.16%	9.36%	TBD	
			Achieved	10.90%	12.40%	13.20%	13.10%	TBD	

QUESTIONS OF CLARIFICATION AND DISCUSSION

1. What aspects of the Draft Scorecard work well?
2. What aspects of the Draft Scorecard would you like to see Hydro One consider improving? How?

Transmission Cost of Service

Stakeholder Session
Wednesday, April 27, 2016
DoubleTree Hotel by Hilton – The Victoria Room
108 Chestnut Street
1:30 – 5:00 pm

OVERVIEW

On April 27, 2016 Hydro One Networks Inc. hosted a stakeholder session with intervenors and OEB staff to share and discuss: 1) the customer engagement completed by Hydro One to inform development of its investment plan to support its Transmission Revenue Requirement Application for 2017-2018; and 2) Hydro One's draft, proposed Transmission Regulatory Scorecard. Seventeen stakeholders, representing fourteen different organizations attended the meeting as well as the eight representatives from Hydro One Networks Inc. and two representatives from Ipsos Reid, consultants to Hydro One. The participant list and meeting agenda are attached.

The stakeholder session included welcoming remarks from Oded Hubert (Vice President, Regulatory Affairs, Hydro One), covering the following key points:

1. Hydro One will be filing its revenue requirement application on May 31, 2016;
2. Hydro One has a new corporate environment, including a new independent board of directors and new executive team;
3. Hydro One has undertaken a very extensive customer consultation over the past few months as part of the process to form its application for rates; and
4. Hydro One received the new filing requirements for transmitters from the Ontario Energy Board on February 11, 2016.

There were also three presentations related to the key agenda items, each followed by an opportunity to ask questions of clarification and provide feedback including:

- *Transmission Stakeholder Engagement – Investing for the Future, Customer Presentation Overview* delivered by Graham Henderson (Director, Account Management, Hydro One) and Scott McLachlan (Director, Planning Optimization, Hydro One);
- *Development of Transmission Investment Plan – Customer Engagement Feedback* delivered by Sandra Guiry, Senior Vice President, Ipsos Reid); and
- *Transmission Regulatory Scorecard (Proposed)* delivered by Jeffrey (Director, Business Performance, Hydro One) and Carm Altomare (Manager, Performance Management, Hydro One).

Closing remarks were also delivered by Oded Hubert.

This summary was written by Matthew Wheatley and Nicole Swerhun of Swerhun Facilitation, who provided independent facilitation services for the stakeholder session. It provides a high level summary of the main points shared by participants and is not intended as a verbatim transcript.

This summary was subject to participant review prior to being finalized.

FEEDBACK SUMMARY

Transmission Stakeholder Engagement

Graham Henderson (Director, Account Management, Hydro One) and Scott McLachlan (Director, Planning Optimization, Hydro One) delivered an overview presentation of the materials shared with stakeholders during the Transmission Customer Engagement process completed by Hydro One to inform development of its investment plan to support its Transmission Revenue Requirement Application for 2017-2018. This was followed by a presentation of the results of the transmission customer engagement process, delivered by Sandra Guiry (Senior Vice President, Ipsos Reid). The following question was posed to participants:

> **Based on the presentations, do you have feedback you would like Hydro One to consider as they prepare their transmission application for their 2017-2018 revenue requirement?**

Feedback from the discussion is reflected in the points below. More detailed comments are included underneath in a list of bullet points.

1. **It was suggested that Hydro One consider ways the investment scenarios could include transmission investments that would facilitate access to lower cost sources of supply** (e.g. distributed generation, improved transmission connections with Quebec).

2. **Several participants focused on the importance of ensuring that Hydro One's application clearly demonstrates how the investment plan is expected to influence the interruptions experienced. Clear metrics will be required to do this.**

   Additional suggestions and feedback shared by participants for Hydro One's consideration included:

   - Demonstrate how Hydro One's investment plans will influence reliability and interruption rates experienced in different regions within Ontario, e.g. northern Ontario versus southern Ontario.
   - Hydro One's application should clearly quantify the change in reliability (and/or risk) expected for each level of investment being considered. It would be helpful if this can be broken down by the different assets. Also explain the models being used to measure reliability risk versus reliability performance. Actual reliability performance experienced should inform the model being used to measure reliability.
   - The application should include a discussion of trade-offs between CAPEX and OM&A.

3. **It was suggested that Hydro One's application explain how the differing opinions received in the northern and southern parts of the province during the transmission customer engagement process have informed the investment plans proposed.** It was also suggested that Hydro One explain whether the criteria used to prioritize investments took into account unique factors experienced in different regions within the province.

4. **There was some discussion among some participants about the need to recognize that the LDCs consulted by Hydro One are not necessarily effective at communicating**

the voices of the electricity end users. Specific related points raised by participants included:

- Outside of the transmission customers, the vast majority of total customers (could be as many as 95% of the people who pay for electricity) would not have been consulted as part of this transmission customer engagement process.
- Hydro One's application should explain that their system is no longer a barrier to distributed generation.
- It may be helpful to get feedback from electricity marketers as part of the customer engagement.

Hydro One indicated that they took guidance from the OEB when identifying who to consult, and relied on LDCs to represent their customers concerns.

Comments and Questions about the Engagement Process

Participants also asked a number of questions about the transmission customer engagement process and identified information they would like to see. The questions and comments are included below and reflect participants comments related to the additional information from Hydro One that would be helpful. Please note, responses provided to questions are included in *italics.*

- Do capacity forecasts inform sustainment work and the replacement of assets? *Yes.*
- I understand you were asking customers what combination of investments they would prefer. I wonder how they would have enough information about this to provide meaningful feedback? *We didn't ask them to choose an investment scenario. What we were doing was indicating the assets we have, the conditions we have, and the associated risk in terms of reliability. Based on this information, we were trying to understand their needs and preferences.*
- Your presentation is a lot about where the asset risk is. Thinking about your ability to get proper analytical data, and what you've presented in the past to the Board, what are you doing about it this time to ensure the proper data has been obtained? *Even prior to the release of the Auditor General's report, we had a team working to remediate a lot of the challenges we had related to data. This team continues, and will work into the future to get high quality data that planners are using to inform the investment scenarios.*
- How do your interruptions and your investment plan correlate to each other? *There are a number of different types of equipment that have seen equipment failures. In the last 5 years, lines have been the predominant contributor to equipment failures. We've had historic replacements, but not enough to meet the need we've seen recently.*
- Does the application intend to draw metrics or benchmarks between investments and interruptions experienced in the future? For example, if you identified the outages in an area and you make investments in those areas, do you anticipate the metrics will demonstrate the effectiveness of those investments? *We heard something very similar from the customers. Customers are willing to pay or witness a change in the investment program if there is a corresponding change in reliability.*
- Do you intend to demonstrate those over time as part of your proposal? *I think we have to look at putting those metrics in place.*

- What sort of feedback did you get on power quality? *The comments were mostly from industrial customers and focused on whether we are going to proactively monitor power quality incidents. Power quality events are being increasingly viewed by customers as just as impactful as an interruption.*
- What can you offer customers to increase power quality? *The challenge is that power quality issues can originate from a network or a customer facility. A big part of what we've been working on is ensuring we have a common definition of power quality, and then being clear on how we measure it and how we identify a power quality event.*
- How many LDCs are there and how many did Hydro One interview? *Hydro One reached out to all of the transmission connected customers, including all transmission connected LDCs, and 26 participated.*
- I don't think there is any electricity consumer in Ontario that would agree that their LDC speaks for them.
- Based on the feedback received will Hydro One be applying for scenario two? *To make a correlation between scenario 2 and what we will be filing is not appropriate because the scenarios were meant to be illustrative only. Therefore, the scenario being filed is not directly correlated to any of the three scenarios. The scenarios themselves did have some capital investments reprioritized and changes to the OM&A, which are not reflected in all the charts but will be included in the application.*
- Did you break down the feedback by segment? *Yes, the last section of the report breaks down the feedback by geography and segment.*
- How did Hydro One select which individuals within each organization to speak with? *We maintain a formal contact and a business contact with each organization. The formal contact is usually someone who is a COO or Vice President and the business contact is usually someone reporting to that person. Both were invited and we stressed that we were looking for input form a person who could speak on behalf of the customer's organization.*
- Who from Hydro One attended the consultation meetings? *In almost all cases it was Scott McLachlan and Graham Henderson as well as the account executive that deals with the specific customer. Occasionally there would be an additional person if there was a specific issue of interest or concern for a particular customer.*
- Was there a lot of overlap between customers that participated in Waves 1, 2 and 3 of the transmission customer engagement process? *Generally no, there were only 2 customers that participated in both waves 2 and 3 and a few in waves 1 and 3.*
- Are you planning to include the questions asked in the customer consultation survey in your application? *Yes.*
- Did you tell customers in the survey that scenario 3 would lead to approximately a 10% reduction in reliability risk? *Yes, that is correct.*
- How in-depth was the online questionnaire: was it mostly open-ended or closed-ended questions; did it take 10 minutes or an hour? *There were more open-ended questions but we did include some closed-ended questions as well. It took participants about 15-20 minutes to complete, not an hour.*
- Is Hydro One planning to continue consultation sessions annually? *We are planning to continue the customer consultation process regarding Hydro One's investment plan, but we haven't yet determined the appropriate venue or methodology.*

- It would helpful to see a live version of the online survey on Hydro One's website, not just a printed copy in the application.
- You mentioned differing opinions between customers in the north and in the south. How was that translated back into how the investment plans were developed? Did you get into the detail about reliability and interruption rates in the different regions? And were investment plans adjusted to reflect that input? *The general comment we got from customers was that if you were above Barrie, you didn't really care about Toronto. And if you were in Toronto, you didn't really care about Thunder Bay. We are accountable for the whole Ontario network, so we were presenting the overall assessment of everything in Ontario. Every customer was interested in the investments being considered in their area, and we're looking in detail at every session and the feedback given. At the same time, we were not prepared to commit to investments in any particular area because this is about looking at the data province-wide, the performance versus the risk. Northern Ontario customers are on single circuits and therefore suffer longer interruptions. In southern Ontario we had customers that said they want interruptions eliminated.*

Proposed Transmission Regulatory Scorecard

Jeffrey Smith (Director, Business Performance, Hydro One) and Carm Altomare (Manager, Performance Management, Hydro One) presented Hydro One's Proposed Transmission Regulatory Scorecard for participant feedback. The following questions were posed to participants:

What aspects of the Draft Scorecard work well?

What aspects of the Draft Scorecard would you like to see Hydro One consider improving? How?

Feedback from the discussion is reflected in the points below. More detailed comments are included underneath in a list of bullet points.

<u>What works well</u>

1. I like the NERC/NPCC reliability standards compliance metrics. However I don't know enough to confirm that these are correct. I would ask that when you do the filing you provide an explanation of why these particular metrics were chose and why they're correct.

<u>Aspects to consider improving</u>

Note that comments *in italics* are from the Hydro One team.

1. Several participants stressed the importance of adding metric(s) that connect the performance of the system to the investments made. This could happen, for example:

   - With a metric that tracks equipment failures (because that drives investment). The key point is to ensure people can see how the investments are leading to improved service.
   - With a metric related to the percentage of assets at the end of their service life, as well as those in poor versus very poor condition.

2. Add MAIFI that tracks momentary interruptions. *Momentary interruptions (interruptions less than one minute in duration) are included in the frequency of delivery point interruptions (T-SAIFI) however in the updated scorecard the frequency measure will be split into two*

measures T-SAIFI-M (momentary frequency and T-SAIFI-S (sustained frequency) to provide clarity.

3. Add a metric that tracks power quality.

4. Add a metric that identifies/reports on capacity constraints. For example, the metric could measure the limitations that exist that prevent Ontario from using more power from Quebec. This metric could relate to all interties from Quebec and the United States.

5. Add a metric that measures constraints (if any) to distributed generation. *This is challenging for the scorecard. Hydro One has done a lot of work to limit/eliminate these.*

6. Add a metric that tracks the implications on plans for the Pickering Station if Clarington is not in service and other improvements are not made. *This will be challenge for the scorecard, but information that we definitely track using other mechanisms.*

7. Add metrics that connect to internal corporate performance/payment incentives, and connect them to system performance. This should help drive efficiencies.

8. Add a metric related to Hydro One compensation rates, particularly given public criticism.

9. Add a metric that captures improvements in efficiency and operating costs. *There are three measures proposed in scorecard that can be used for capturing improvements in efficiency and operating costs. These are total costs per Gross Fixed Assets (GFA), sustained capital per GFA and OM&A per GFA.*

   In order to compare costs and performance data across utilities, the data is normalized according to assets such as substations and lines. In transmission our experience in keeping with that of CEA has proven that using assets to normalize is most effective compared to using customers, km of lines or employees. In the case of customers there a few direct customers connected to the transmission system, considering km of line 2/3 of our costs are incurred in stations, and using employees is not particularly affective since all utilities contract some work.

   Gross Fixed Assets, instead of Net (or depreciated) Fixed Assets, are utilized to normalize costs to avoid the problem with a decreasing asset base if depreciation is subtracted. In addition, we want to avoid addressing the different and varying accounting treatments of depreciation by different utilities.

10. Modify the metric related to enabling distributed renewable generation connections so that it reports on the status of renewable generation, not just on the status of the report completed related to renewable generation.

11. Consider metrics that are unique to transmission, rather than limiting the metrics only to distribution. *The transmission and distribution scorecards are similar because they reflect one corporate scorecard process and format. However, all the metrics in the transmission scorecard reflect the transmission business*.

    The OEB guidelines [on the scorecard] did not limit the number of performance outcomes to only four (Customer Focus, Operational Effectiveness, Public Policy Responsiveness and Financial Performance) however when designing and stakeholdering the draft scorecard it was obvious that the four performance outcomes were appropriate.

12. In the application it would be helpful to identify which metrics can be benchmarked with other utilities (whether that be in Canada, the US or other places). *Description of each measure will be updated to indicate whether measure is benchmarkable or not*.

13. Provide further explanation to the customer satisfaction metric. *The customer satisfaction measure description will be updated to provide more explanation.*

14. Suggest including the following metrics in the application: interruptions notified to customers; line losses (average and peak hour); certification of asset management methodology or some measure of best asset management practice adoption; etc.

15. Suggest including transmission losses squarely in the performance scorecard, not just to report on it.

Other Comments and Questions about the Draft Scorecard

- We've had a couple years of experience with the distribution scorecard and I personally find it to be of no use. I understand that the Board says you have to do this, and I understand why you're doing it. Within that framework, scorecards and metrics are most useful when there are rewards and penalties that come with them. I'm interested to see your application include metrics that are both on the regulatory scorecard and that those same ones are in your internal corporate scorecards that impact incentives. That's what we're trying to align.
- Fully explain in the application the benefits that are internal to Hydro One as a result of all the metrics being used. We want to understand how the scorecard actually drives changes. *We are hoping to use the scorecard to drive improvement. All of these measures cascade down into different measures.*
- For transparency and granularity of the scorecard, how do you report on situations where your average score is very high but a few customers are meaningfully below the average? *There are metrics that are able to identify individual delivery points that are outliers.*
- Who are you benchmarking against? *We are benchmarking with the CEA utilities, which we've been doing for several years.*
- The least beneficial part of a scorecard is the thing that tracks how much budget was spent. Spending money is easy, but it doesn't tell you anything.
- The OMA per gross fixed asset value, is that done on a netbook value? *No, it's done on gross fixed assets. This is a metric we learned through the benchmarking experience we obtained through CEA. We satisfied ourselves that GFA is a good normalizer for cost and found that there is a good regression between costs and assets.*
- We heard today that customers care about reliability and cost. You have some measures for reliability but what is missing is a bill increase metric. Each year the cost of transmission goes up, and it would be good to show that on the scorecard so that customers, regulators and intervenors can see how much the cost of transmission has gone up over the years.
- I believe transmission/distribution losses are about 7% and when you multiply 7% by Ontario's electricity generation cost, that is a huge number. You should report your average losses and also peak hour losses because these are much higher and we need to be focusing on these as well.
- There needs to be some metric that allows people to see how you compare across utilities.
- How do you measure improvements in efficiencies and operating costs? There must be something you can tie the OMA to in your business that makes sense. What would that be

and why wouldn't you do this as part of your scorecard? *In the scorecard we have the OMA per GFA which allows you to measure productivity. From here you would go down and see what your OMA per GFA is in relation to each asset, which allows you to measure productivity for each asset.*

WRAP UP & NEXT STEPS

Oded Hubert wrapped up the meeting by thanking participants for coming and for the quality feedback provided. Nicole Swerhun confirmed that the draft meeting summary would be distributed to participants for their review before being finalized.

PARTICIPANT LIST

The following is a list of participants that attended the meeting and the organizations they represent.

Stakeholders

1. David Barr, Ontario Power Generation
2. Frederic Belanger, HQ Energy Marketing Inc.
3. Tom Brett, Building Owners and Managers' Association
4. Maia Chase, IESO
5. Anila Dumont, Toronto Hydro Electric System Limited
6. Mark Garner, Vulnerable Energy Consumers Coalition
7. Jack Gibbons, Ontario Clean Air Alliance
8. Julie Girvan, Consumers Council of Canada
9. Shelley Grice, Association of Major Power Consumers of Ontario
10. Matthew Higgins, Toronto Hydro Electric System Limited
11. Bayu Kidane, Power Workers Union
12. Matthieu Piante, HQ Energy Marketing Inc.
13. Vicki Power, Society of Energy Professionals
14. Mark Rubenstein, School Energy Coalition
15. Harold Thiessen, Ontario Energy Board
16. Stephen Vetsis, Ontario Energy Board
17. Julien Wu, Brookfield Renewable Energy Group.

Hydro One Networks Inc.

1. Carm Altomare – Manager, Performance Management
2. Erin Henderson – Sr. Regulatory Coordinator, Regulatory Affairs
3. Graham Henderson – Director, Account Management
4. Oded Hubert – Vice President, Regulatory Affairs
5. S. Lisa Lee - Senior Regulatory Advisor
6. Ian Malpass,- Director, Major Applications
7. Scott McLachlan – Director, Planning Optimization
8. Jeffrey Smith – Director, Business Performance

Ipsos Reid

1. Sandra Guiry – Senior Vice President
2. Lily Kim – Senior Account Manager

Swerhun Facilitation

1. Nicole Swerhun, Facilitator
2. Matthew Wheatley, Note taker

MEETING AGENDA

1:30	**Welcome** Oded Hubert
1:35	**Introductions and Agenda Review** Nicole Swerhun, *Swerhun Facilitation*
1:40	**Customer Presentation Overview** Graham Henderson, Director, Account Management, *Hydro One* Scott McLachlan, Director, Planning Optimization, *Hydro One*
2:00	**Questions of Clarification** Nicole Swerhun, *Swerhun Facilitation*
2:10	**Customer Engagement Feedback** Sandra Guiry, Senior Vice President, *Ipsos Reid*
2:30	**Questions of Clarification & Discussion** Nicole Swerhun, *Swerhun Facilitation*
3:15	**Break**
3:30	**Proposed Transmission Scorecard** Jeffrey Smith, Director, Business Performance Management, *Hydro One* Cam Altomare, Manager, Performance Management, *Hydro One*
3:50	**Questions of Clarification & Discussion** Nicole Swerhun, *Swerhun Facilitation*
5:00	**Closing Remarks & Next Steps** Oded Hubert

TAB 9

Table 8: Proposed Transmission Scorecard

RRFE Principle	Category	Metric	*Definition*
Customer Focus	**Service Quality**	Satisfaction with Outage Planning Procedures	*% satisfied in OGCC survey*
		Customer Delivery Point Performance Standards Outliers (as % of total delivery points)	*% of total delivery points designated as outliers*
	Customer Satisfaction	Overall % satisfied in corporate survey	*Transmission customers (Industrial, Generators, LDC) only*
Operational Effectiveness	**Safety**	# of recordable incidents per 200,000 hours	*Average # of incidents per 200K hours*
	System Reliability	Average. # of sustained interruptions per delivery point	*T-SAIFI-S*
		Average # of momentary interruptions per delivery point	*T-SAIFI-M*
		Average minutes that power to a delivery point is interrupted	*T-SAIDI*
		System unavailability (%)	*% of system not available for use*
		Unsupplied energy (minutes)	*Unsupplied MW-minutes/Peak MW*
	Asset Management	In-service additions as % of OEB-approved plan	*$ ISA as percentage of Planned $ Amounts*
		Capital expenditures as % of Budget	*$ Capital expenditures as % of Budgeted $ Capital expenditures*
	Cost Control	Total OM&A and Capital expenditures/Gross fixed asset value	*OM&A and Capital expenditures/ Gross fixed assets*
		Sustainment capital /Gross fixed asset value	*Sustainment Capital expenditures/ Gross fixed assets*
		OM&A/Gross fixed asset value	*OM&A/ Gross fixed assets*
Policy Response	**Renewables**	% of new connection impact assessments completed on time	*Total assessments completed within expected time/Total connections requested*

	Regulatory Compliance	NERC & NPCC Standards Compliance – High impact issues	*# of high impact compliance violations as defined by NERC/NPCC*
		NERC & NPCC Standards Compliance – Medium/low impact issues	*# of medium/low impact compliance violations as defined by NERC/NPCC*
	Regional Infrastructure	Regional Infrastructure Planning progress - % Deliverables met	*Total deliverables met/Total deliverables expected*
Financial Performance	**Leverage**	Debt to Equity Ratio	*Debt (including Short &Long Term)/ Equity*
	Liquidity	Current Ratio (Current Assets/Current Liabilities)	*Current Assets/Current Liabilities*
	Profitability	Return on Equity (deemed)	*Included in rates*
		Return on Equity (achieved)	*Actual return on equity*

1

TAB 10

Transmission Regulatory Scorecard (Proposed)

Jeffrey Smith **Carm Altomare**

Regulatory Affairs

April 27, 2016

Proposed Tx Scorecard

Performance Outcomes	Performance Categories	Measures	Historical Years 2011	2012	2013	2014	2015	Trend
Customer Focus **Services are provided in a manner that responds to identified customer preferences.**	**Service Quality**	Satisfaction with Outage Planning Procedures (% Satisfied)	N/A	78%	N/A	86%	92%	▲
		Customer Delivery Point (DP) Performance Standard Outliers as % of Total DPs	13.8	10.8	12.8	11.8	TBD	▲
	Customer Satisfaction	Overall % Customer Satisfaction in Corporate Survey	85%	76%	81%	77%	85%	-
Operational Effectiveness **Continuous improvement in productivity and cost performance is achieved; and transmitters deliver on system reliability and quality objectives.**	**Safety**	Recordable Incident Rate (# of recordable injuries/illnesses per 200,000 hours worked)	3.7	2.3	2.5	1.8	1.7	▲
	System Reliability	T-SAIFI (Ave. # Power Interruptions per per Delivery Point)	1.19	1.26	1.26	1.08	1.09	▲
		T-SAIDI (Ave. # Minutes of Power Interruptions per Delivery Point)	127.90	71.50	66.00	36.61	44.30	▲
		System Unavailability (%)	0.50%	0.48%	0.37%	0.48%	0.66%	▲
		Unsupplied Energy (minutes)	21.64	14.04	20.86	12.24	11.79	▲
	Asset Management	In-Service Additions(% of OEB approved plan)	95%	90%	94%	99%	104%	▲
		CapEx as % of Budget	78%	81%	73%	90%	106%	▲
	Cost Control	Total OM&A and Capital per Gross Fixed Asset Value (%)	9.8	8.6	7.6	8.4	9.0	▲
		Sustainment Capital per Gross Fixed Asset Value (%)	2.6	2.8	3.3	4.2	4.6	1
		OM&A per Gross Fixed Asset Value (%)	3.4	3.0	2.7	2.7	2.9	▲
Public Policy Responsiveness **Transmitters deliver on obligations mandated by government (e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).**	**Connection of Renewable Generation**	% on time completion of renewables connection impact assessments	100%	100%	100%	100%	100%	-
	Regulatory Compliance	NERC/NPCC Reliability Standards Compliance						
		- Number of High Impact Violations	N/A	N/A	N/A	19	2	
		- Number of Medium/Low Impact Violations	N/A	N/A	N/A	6	11	
	Regional Infrastructure	Regional Infrastructure Planning progress - % Deliverables met	N/A	N/A	N/A	100%	100%	-
Financial Performance **Financial viability is maintained; and savings from operational effectiveness are sustainable.**	**Financial Ratios**	Liquidity: Current Ratio (Current Assets/Current Liabilities)	0.24	0.29	0.80	0.69	TBD	▲
		Leverage: Total Debt (includes short-term & long-term debt) to Equity Ratio	1.22	1.22	1.17	1.22	TBD	-
		Profitability: Regulatory Return on Equity — Deemed (included in rates)	9.66%	9.42%	9.16%	9.36%	TBD	
		Profitability: Regulatory Return on Equity — Achieved	10.90%	12.40%	13.20%	13.10%	TBD	

1. In 2014 strategic decision made to increase sustainment capital.

Legend:
▲ Performance Improving
▼ Performance deteriorating
- No change

TAB 11

COST EFFICIENCIES, PRODUCTIVITY AND KEY PERFORMANCE INDICATORS

1. INTRODUCTION

This exhibit discusses the cost efficiencies, productivity improvements and key performance indicators ("KPIs") that Hydro One is implementing to ensure that corporate goals and objectives are aligned with the principles of the OEB's Renewed Regulatory Framework for Electricity ("RRFE"). Hydro One aspires to become a best-in-class, customer centric commercial utility, with a culture of continuous improvement and excellence in execution.

The ability to measure performance will facilitate progress towards the Company's goals. Two critical elements of the journey towards stronger performance management are: (i) the development of a transmission scorecard; and (ii) the selection of key performance indicators that measure the drivers of the company's performance and track productivity improvements. Hydro One's business objectives are discussed at Exhibit B1, Tab 1, Schedule 2.

2. PROPOSED TRANSMISSION SCORECARD

Hydro One is committed to achieving the outcomes outlined in the RRFE: customer focus, operational effectiveness, public policy responsiveness and financial performance. The ability to measure performance, make year over year comparisons and benchmark against peers provides important information for measuring operational effectiveness and identifying areas for improvement. The establishment of a scorecard is one of the key elements of performance measurement under the OEB's new *Filing Requirements for Electricity Transmission Applications.*

A scorecard enables Hydro One to demonstrate improvement over time and share a comprehensive view of the company's performance with the OEB and with customers. The Transmission scorecard is supported by the Company's systems and internal key performance indicators. The incentives that are embedded in the Company's compensation plans also support continuous improvement and improvements in these critical metrics and are designed to both increase efficiency and deliver value to customers.

At a stakeholder session held on April 27, 2016, Hydro One presented a draft of the proposed transmission scorecard to stakeholders for their comments and input. The feedback received was positive and constructive. Hydro One has taken this feedback into consideration in the proposed scorecard filed at Exhibit B2, Tab 1, Schedule 1, Attachment 1. Once approved by the Board, Hydro One will submit the transmission scorecard on an annual basis to the OEB and post it on the Hydro One external website enabling the Board and stakeholders to monitor company performance against the performance metrics set out in the scorecard.

3. KEY PERFROMANCE INDICATORS (KPIS)

Hydro One's Board of Directors and management team are committed to continuous improvement and to excellence in all parts of its business. The company's management team and Board of Directors also have an ongoing commitment to invest in systems, people and tools to ensure that KPIs and measurements of progress and outcomes are a critical element of how the company manages its transmission business. The scorecard and supporting KPIs and systems are a critical element of maintaining a well-functioning and cost effective transmission system in Ontario.

High-level metrics that align with the RRFE performance outcomes were selected for scorecard inclusion, as were the recommendations from the Transmission Total Cost Benchmarking Study, filed as Exhibit B2, Tab 2 Schedule 1. The study suggests the company should "reassess and adjust performance indicators across all levels of the organisation," and leverage best practices from other utilities in terms of KPI selection. Significant focus was placed on selecting KPIs which appropriately measure productivity in the deployment of capital and execution of operations, maintenance and administrative activities, in order to evaluate cost efficiency progress and the delivery of increasing customer value.

The KPIs will evolve and be refined over time, to ensure that they continue to drive and effectively capture the impact of incremental efficiency improvements. Hydro One is committed to building a stronger performance management culture and is committed to continuous improvement, excellence in all parts of the business. The company has an ongoing commitment to invest in systems, develop the talent of its employees and leverage new tools and processes to ensure that this occurs.

4. PROCESS TO DEVELOP SCORECARD METRICS

Hydro One identified potential metrics drawn from internal and external sources that include: Hydro One's past performance management metrics, benchmarking studies, scorecards and metrics of other utilities in the public domain. The identified metrics were screened to select metrics that are relevant, objective, measurable and actionable. The company benefited significantly from knowledge obtained by working on benchmarking committees, networking with other utilities, and having contributed to several international and national benchmarking studies that provided best practice knowledge on metric selection.

Metrics were selected that promote behaviours that will drive desired outcomes for customers, stakeholders and shareholders. The proposed framework aligns customer and transmitter interests, supports the achievement of important public policy objectives, and places a greater focus on delivering long term value for money.

The scorecard metrics are included in Table 1. A scorecard with historical performance is found in Attachment 1. Attachment 2 contains detailed definitions for each metric.

Table 1: Proposed Transmission Scorecard

RRFE Principle	Category	Metric	*Definition*
Customer Focus	**Service Quality**	Satisfaction with Outage Planning Procedures	*% satisfied in OGCC survey*
		Customer Delivery Point Performance Standards Outliers (as % of total delivery points)	*% of total delivery points designated as outliers*
	Customer Satisfaction	Overall % satisfied in corporate survey	*Transmission customers (Industrial, Generators, LDC) only*
Operational Effectiveness	**Safety**	# of recordable incidents per 200,000 hours	*Average # of incidents per 200K hours*
	System Reliability	Average # of sustained interruptions per delivery point	*T-SAIFI-S*
		Average # of momentary interruptions per delivery point	*T-SAIFI-M*
		Average minutes that power to a delivery point is interrupted	*T-SAIDI*
		System unavailability (%)	*% of system not available for use*
		Unsupplied energy (minutes.)	*Unsupplied MW-minutes/Peak MW*
	Asset Management	In-service additions as % of OEB-approved plan	*$ ISA as percentage of Planned $ Amounts*
		Capital Expenditures as % of Budget	*$ Capital Expenditures as % of Budgeted $ Capital Expenditures*
	Cost Control	OM&A and Capital Expenditures/Gross fixed asset value	*OM&A and Capital Expenditures/ Gross fixed assets*
		Sustainment capital /Gross fixed asset value	*Sustainment Capital Expenditures/ Gross fixed assets*
		OM&A/Gross fixed asset value	*OM&A/ Gross fixed assets*
Policy Response	**Renewables**	% of new connection impact assessments completed on time	*Total assessments completed within expected time/Total connections requested*
	Regulatory Compliance	NERC & NPCC Standards Compliance – High impact issues	*# of high impact compliance violations as defined by NERC/NPCC*

		NERC & NPCC Standards Compliance – Medium/low impact issues	*# of medium/low impact compliance violations as defined by NERC/NPCC*
	Regional Infrastructure	Regional Infrastructure Planning progress - % Deliverables met	*Total deliverables met/Total deliverables expected*
Financial Performance	**Leverage**	Debt to Equity Ratio	*Debt (including Short &Long Term)/Equity*
	Liquidity	Current Ratio	*Current Assets/Current Liabilities*
	Profitability	Return on Equity (deemed)	*Included in rates*
		Return on Equity (achieved)	*Actual return on equity*

5. KPI SELECTION (TIER 2 AND 3 METRICS)

As part of the scorecard development process, Hydro One took the opportunity to re-evaluate the use of KPIs in measuring performance across the organization. In doing so, the company considered the results of the Transmission Total Cost Benchmarking Study, which included a recommendation to develop more robust KPIs to facilitate performance management. Hydro One will continue to develop a performance management system in which KPIs for the lines of business are aligned with the OEB scorecard and business objectives, to actively drive cost reductions and productivity improvement.

The company has the basic metrics in place that are expected from any well-functioning transmission company. Hydro One is in the process of considering a variety of incremental metrics, and supporting systems that will increase the measurability of outcomes and identify the required changes to processes and activities to enhance productivity, reliability, customer service customer satisfaction and other critical deliverables.

In the selection of KPIs, Hydro One identified two sets of lower-level drivers of the top-level metrics that were included in the proposed transmission scorecard. Tier 2 metrics were identified as primary drivers of scorecard metrics and outcomes. Tier 3 metrics are measured at an additional level of granularity and focus on secondary drivers of the top level metrics. The identification of these drivers of scorecard performance, will allow Hydro One to recognize trends and identify and investigate underlying reasons for changes in the scorecard metrics. Mitigation plans will be developed where a scorecard metric is not on track for a successful outcome.

Hydro One consistently evaluates a suite of KPIs across the company and will continue to refine these metrics over time. While many of these metrics are tracked today, others have not been previously measured and will be tracked going forward. Metrics are applied to each area of the business based on the feasibility of measurement, relevance to scorecard outcomes and actionability of the metrics. Table 2 provides examples of Tier 2 and Tier 3 metrics. Hydro One will continue to develop its performance measurement system over time and will refine metric selection based on additional performance information gathered and incentives that best drive customer outcomes to promote a strong performance-based culture throughout the company.

Table 2: Tier 2 and Tier 3 Metrics

Performance Categories	Scorecard Metric	Preliminary Tier 2 Metrics	Preliminary Tier 3 Metrics
Service Quality	**% Satisfaction with Outage Planning Procedures**	% of outages cancelled Planned outages per Delivery Point	
Customer Satisfaction	**Overall % satisfied in customer survey**		Customer satisfaction with Price (%) Customer Satisfaction with Relationship (%) Product Quality / Reliability Satisfaction (%) Customer Service
		OGCC Transmission Customer Satisfaction (%)	
Safety	**Recordable Incidents per 200,000 hours**	Recordable Motor Vehicle Accidents (#/1,000,000 km driven)	
System Reliability	**T-SAIFI**	Interruption frequency for multi-circuit delivery points	Frequency of Momentary Delivery Point Interruptions (MC only) Frequency of Sustained Delivery Point Interruptions (MC only)
		Interruption frequency for single-circuit delivery points	Frequency of Momentary Delivery Point Interruptions (SC only) Frequency of Sustained Delivery Point Interruptions (SC only)
	T-SAIDI	Interruption minutes for multi-circuit delivery points Interruption minutes per single circuit delivery point	
	System Unavailability	Lines Unavailability Stations Unavailability	% of Forced outages caused by equipment type

Asset Management	**In-service Additions as % of OEB-approved plan**	% of budgeted work completed on or ahead of schedule	Km of line refurbished versus plan Number of transformers replaced versus plan Number of breakers replaced versus plan
	Capital Expenditures as % of budget	ECS Capital Expenditures/Project Management FTE Engineering Costs/ECS Capital $ ECS CapEx/Construction FTE	
Performance Categories	Scorecard Metric	Preliminary Tier 2 Metrics	Preliminary Tier 3 Metrics
Cost Control	**Total Capital and OM&A/Gross Fixed Assets**	Supply Chain Value Realization % (Ratio of supply chain savings to procurement operations cost)	Sum of discounts and savings from strategic sourcing ($) Sum of Costs of procurement operations ($)
		Facilities & Real Estate value realization (Ratio of facility savings and revenues to real estate operations cost)	Sum of revenues and savings from real estate initiatives ($) Sum of costs of real estate operations ($)
		Overhead as % of net Capital Expenditures Administrative Costs as % of OM&A & Capital Expenditures	Fleet utilization (%)
	Sustainment Capital/Gross Fixed Assets	Actual costs versus estimated costs for completed capital projects (%)	Transmission Wood Structure Condition Assessment ($/pole) Transmission Wood Structure Replacement ($/structure) Transmission Brush Control Cost per Hectares ($/hectare) Transmission Line Clearing Cost per Km ($/Km) Cost per 115kV Tower Coated ($/tower) Cost per 230kV Tower Coated ($/tower) Cost per Transmission Cable Locate ($/locate, network operating only)
	OM&A/Gross Fixed Asset Values	Lines RCE Stations RCE	Ratio of unplanned work to planned work

6. COMMITMENT TO PRODUCTIVITY IMPROVEMENT

Hydro One has made efforts to improve the efficiency of the organization and the productivity of its work programs in recent years, and has begun to see the results of these efforts in its work programs and budgets. The company has been able to maintain transmission OM&A at steady levels over recent years, despite factors putting upward pressure on OM&A. See Exhibit C1, Tab 2, Schedule 1 for further details on the OM&A expenditure levels. Forces contributing to these upward pressures include:

- Inflation of approximately 2% per year;
- Increased operating and maintenance requirements of a growing asset base; and
- Costs of compliance with new regulatory standards including NERC Cyber Security, PCB regulation, and new vegetation management standards.

Hydro One will continue to face many of these same upward pressures on OM&A in the coming years. However, through efforts to increase efficiency throughout its work programs, OM&A levels in both 2017 and 2018 are forecast to decline.

Hydro One is committed to pursuing initiatives to increase efficiency across both its administrative and operating groups. These include:

- **Improved maintenance planning** facilitated by greater collaboration between the asset management team and the program management team to ensure an efficient work release process;
- **Revised timelines to release work earlier and in multi-year segments** to enable greater flexibility in planning for outages and staff time;

- **Station-centric maintenance and outage grouping** to reduce the number of outages required to complete work, and to lower the costs incurred to mobilize and demobilize resources;
- **Inventory optimization** at Hydro One's warehouse facilities to increase the availability of commonly used parts and equipment;
- **Reducing spend on overtime labour** by increasing controls, reducing trouble calls performed on overtime, and improved scheduling through collaboration with customers; and
- **Implementing process efficiencies at Central Maintenance Services** to optimize employee skill level and utilize key assets.

Further details on OM&A efficiencies are provided at Exhibit C1, Tab 2, Schedule 6.

Furthermore, as part of recent activities commissioned by the Company's new board and management, a number of initiatives have been identified that are expected to drive greater efficiency and productivity in Hydro One's programs, leading to lower projected OM&A costs. The initiatives include:

- Savings identified through a full evaluation of Hydro One's procurement program and investments in new processes and tools;
- Reductions in administrative expenditures through improved processes and optimization of internal staff skills;
- Rationalization of Hydro One's IT spending; and
- Improved field efficiency through additional work planning improvements, including several opportunities to improve scheduling and labour efficiency.

Hydro One is in the process of validating the magnitude of the specific opportunities listed above. However, the company believes that fully executing on the above

opportunities will allow it to meet the OM&A commitments in this application for 2017 and 2018 test years. Hydro One intends to pursue this OM&A plan in the coming years as part of its strategy to become more efficient and effective, while continuing to deliver power to customers safely and reliably.

7. PRODUCTIVITY METRIC SELECTION

Hydro One selected three metrics to measure cost control and provide evidence that the company continues to advance on its continuous productivity goal on a total cost, a total capital and a total OM&A basis. Taken together, these three metrics provide a view of Hydro One's ability to efficiently leverage its capital and OM&A budgets to support its asset base and to improve efficiency over time. Hydro One has seen steady performance in total costs relative to its asset base in recent years and strives to maintain or improve upon this performance.

These metrics were among those highlighted in the Transmission Total Cost Benchmarking Study (Exhibit B2, Tab 2, Schedule 1, Attachment 1) as effective, high-level metrics for measurement of cost efficiency. In the study, the median levels amongst the peer set for these metrics were found to be:

Total Capital Expenditures + OM&A/Gross Fixed Asset Value = 13.9%

Total Capital Expenditures/Gross Fixed Assets = 6.6%

Total O&M /Gross Fixed Asset Value = 4.3%

7.1 Total Capital and OM&A Expenditures

In the benchmarking study, total capital and OM&A expenditures per gross fixed assets was significantly below the median of the peer set, comprised of Canadian and US utility peers as shown in Figure 1 from the benchmarking study.

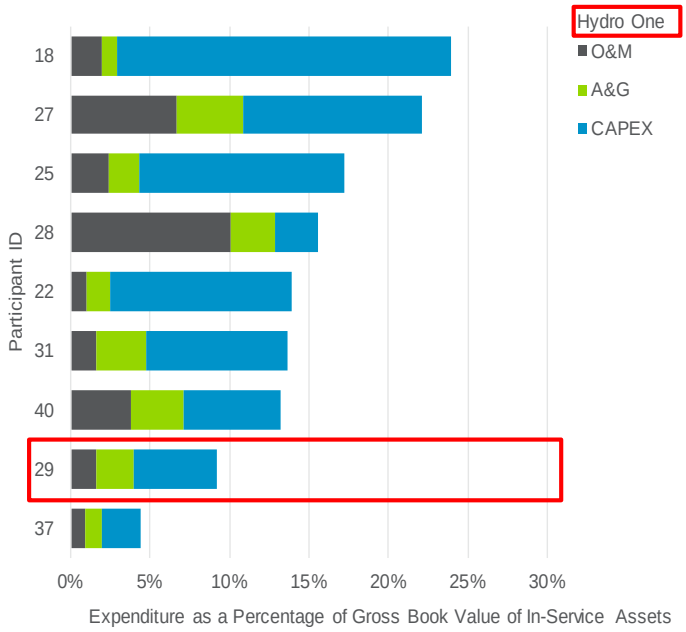


Figure 1: Transmission Lines and Substations OM&A + Capital Expenditures per Gross Fixed Asset

7.2 Total Capital Expenditures

The Transmission Total Cost Benchmarking Study compared Hydro One's capital expenditures to peers for transmission lines and for substations. Hydro One's capital spending was well below the median level for both lines and stations since 2011. Capital investment in these transmission assets increased somewhat in 2014, but the overall trend

is still shows a decrease. Figures 2 and 3 illustrate this point. Navigant Consulting and First Quartile Consulting cited in the study that "Direct CapEx was noticeably lower than the median and has been for several years. Given the relative age of the Hydro One's assets, expectation is that CapEx will need to increase in order to maintain reliability". This is consistent with Hydro One's assessment of its assets as outlined in Exhibit B1, Tab 2, Schedule 4 and Exhibit B1, Tab 2, Schedule 6. The necessary sustainment capital programs are detailed in Exhibit B1, Tab 3, Schedule 2. Hydro One does not expect to see a declining trend in the capital-focused metrics in the next few years.

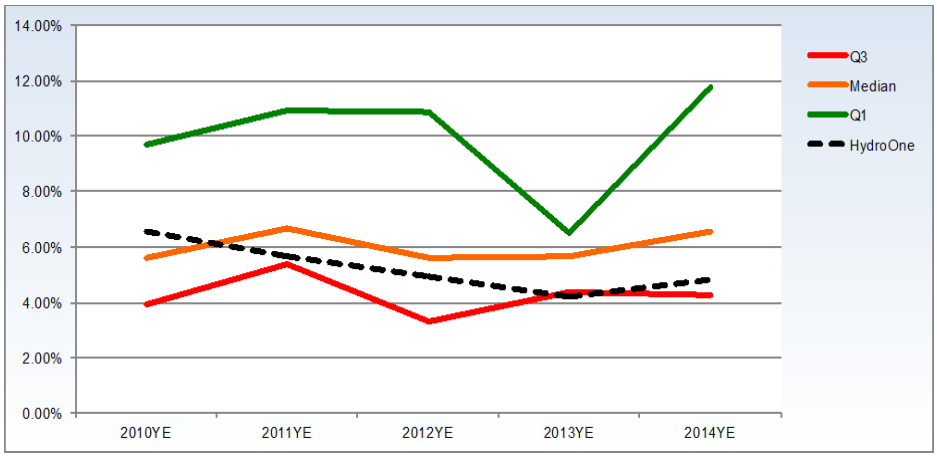


Figure 2: Lines Capital Expenditures per Asset

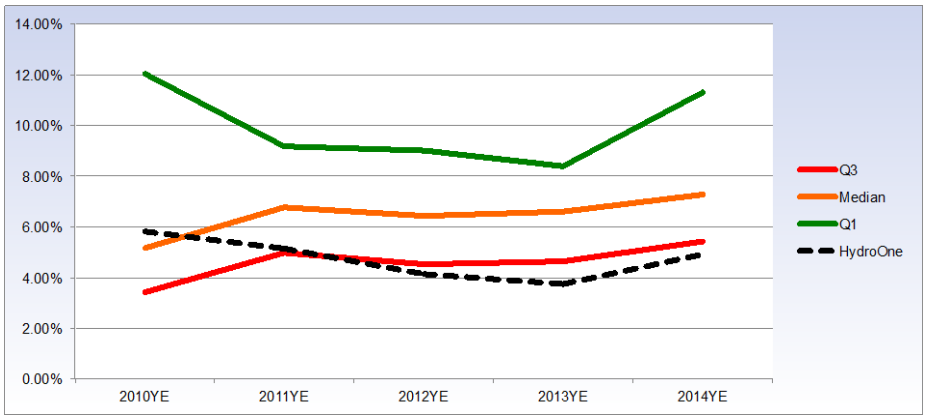


Figure 3: Stations Capital Expenditures per Asset

7.3 Total O&M Expenditures

Hydro One's total O&M expenditures per asset value have also lagged its peers as shown in Figure 4. On an O&M and total cost basis, the company expects to remain below median levels based on its focus on opportunities to become more efficient in the deployment of capital and in managing its O&M budget.

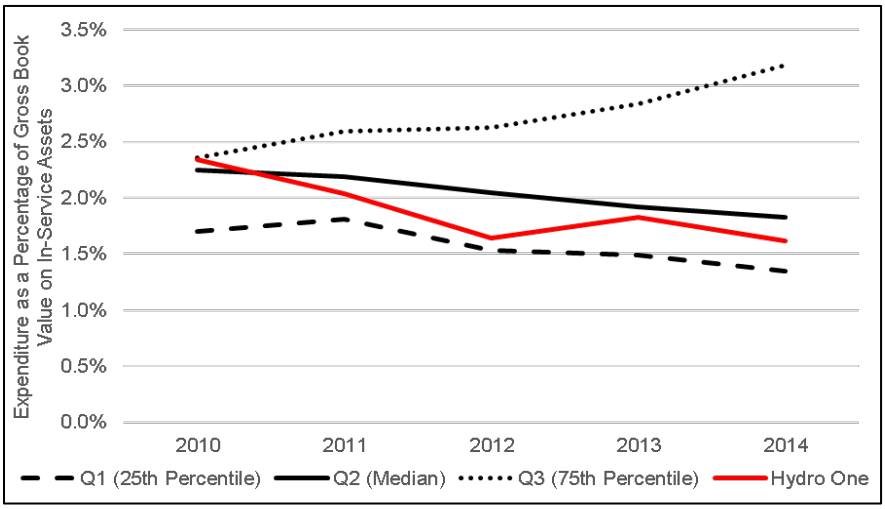


Figure 4: Transmission Lines and Substations Direct O&M per Asset Value

8. UNIT COST METRICS

To facilitate the measurement of productivity in its work programs, Hydro One has identified additional metrics that focus on unit costs, reliability and cost efficiency and work program productivity to supplement analysis of efficiency performance.

Where possible, Hydro One has captured activity-based unit cost metrics. Unit cost metrics work well for high volume activities that have relatively consistent work components. Unit costs, however, have limitations for some of Hydro One's work

programs. Elements of the business such as engineering, stations, and construction, are lower volume and more customised, making unit costs more difficult to apply and of lesser value in managing the business due to the inherent variability. In these situations, to perform the work in the most cost effective and productive manner, the condition of the assets in a transmission station will determine what assets are maintained or replaced, creating significant variation from station to station. In new construction, the asset or station configuration is designed to address the unique local load profile requirements of the station, again making it difficult to compare costs across construction sites. As tracking unit costs in these cases would not provide additional management visibility that would enable improved productivity, Hydro One has applied alternative Tier 2 and Tier 3 metrics, which are detailed in the following section.

In other elements of the business, Hydro One has identified several activities where unit costs are relevant given the volume and nature of the activities. These activities are primarily performed in the Provincial Lines and Forestry elements. In 2015 these activities account for approximately 38% of the Provincial Lines and 94% of the Forestry budgets; unit costs are calculated by dividing the annual expenditure on a given program by the number of units completed in that year.

However, as these metrics are presented at a program level and have not been normalized, some variations in the annual unit costs may be affected by the mix of work undertaken throughout the year. For example, the brush control $/hectare cleared can be affected by the density of the vegetation and $/wood structure replacement can be affected by the type of structure as well as the topography.

Hydro One currently tracks data for forestry, vegetation management and wood structure replacement activities, which provides useful information on year over year trends and efficiency performance. In the future, Hydro One will also begin tracking the cost and

unit data for the relatively newly initiated steel tower coating program in order to track productivity improvement.

Table 3: Unit Cost Metrics

Line of Bus.	Unit Metric	2012	2013	2014	2015
Forestry	$/ brush control costs per hectare cleared	1,392	1,703	1,624	1,566
	$/ line km cleared	1,896	1,805	2,495	2,234
Provincial Lines	$/ wood structure condition assessment	510	410	400	486
	$/ wood structure replacement	40,432	44,158	56,370	49,806
	$/ 115 kV tower coated	*To be measured going forward*			
	$/230kV tower coated				
Network Operating (only)	$/Cable Locate	18	18	16	16

9. RELIABILITY AND COST EFFICIENCY METRICS

Where appropriate data can be measured and tracked for comparison, Hydro One plans to expand its unit cost data going forward. However, for those parts of the business where unit costs are not currently available, Hydro One has selected productivity metrics to facilitate measurement of efficiency and productivity improvements. One of these measures is Reliability and Cost Efficiency (RCE), a metric that links reliability outcomes to maintenance spend. RCE enables measurement of productivity improvements over time for both lines and stations maintenance work.

RCE is a metric that relates outages to maintenance spend, normalized by asset values. The RCE metric measures the effectiveness and efficiency of maintenance programs. Although this is a new measure, Hydro One has found RCE to be a useful metric, as it

demonstrates how efficient the company is at maintaining and replacing critical assets in order to reduce unplanned outages, while adjusting for the size of the asset base. By linking outages to maintenance and gross asset value, RCE demonstrates how maintenance programs drive critical outcomes for customers in the form of greater reliability and reduced reliability risk. The RCE calculation is outlined below:

$$\text{Outages per \$Billion in assets} = \frac{\text{\# of unplanned outages}}{\text{Gross Asset Value (\$)}}$$

$$\text{Assets per \$ spend on maintenance} = \frac{\text{Gross Asset Value (\$)}}{\text{Maintenance spend (\$)}}$$

$$\text{Reliability Cost Efficiency} = \frac{\text{Outages per \$ Billion in assets}}{\text{Assets per \$ spend on maintenance}}$$

A RCE metric using a three year average is also calculated to mitigate the effects of an abnormal number of unplanned outages due to weather related incidents. RCE metrics have been improving over time as maintenance efforts have helped to reduce the frequency of unplanned outages.

Table 4: Historical and Projected RCE Metrics

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Stations	Outages/Assets	117.0	105.7	103.9	85.6	98.0	87.7	80.8	74.8	70.0	63.7
	Assets/Maintenance	42.6	47.2	46.0	58.2	56.9	62.3	66.8	76.6	72.1	81.4
	RCE	**2.7**	**2.2**	**2.3**	**1.5**	**1.7**	**1.4**	**1.2**	**1.0**	**1.0**	**0.8**
	RCE (3 year average)			**2.4**	**2.0**	**1.8**	**1.5**	**1.4**	**1.2**	**1.0**	**0.9**
Lines & Forestry	Outages/Assets	132.4	139.5	132.3	115.8	120.2	78.8	88.8	108.4	101.0	94.7
	Assets/Maintenance	86.0	98.4	94.8	109.4	100.3	92.9	101.7	71.2	75.4	79.0
	RCE	**1.5**	**1.4**	**1.4**	**1.1**	**1.2**	**0.8**	**0.9**	**0.8**	**0.8**	**0.8**
	RCE (3 year average)			**1.5**	**1.3**	**1.2**	**1.0**	**1.0**	**0.8**	**0.8**	**0.8**

RCE trends have been favourable over time, particularly for lines and stations, and Hydro One expects the trend to continue as maintenance programs continue to contribute to improved reliability.

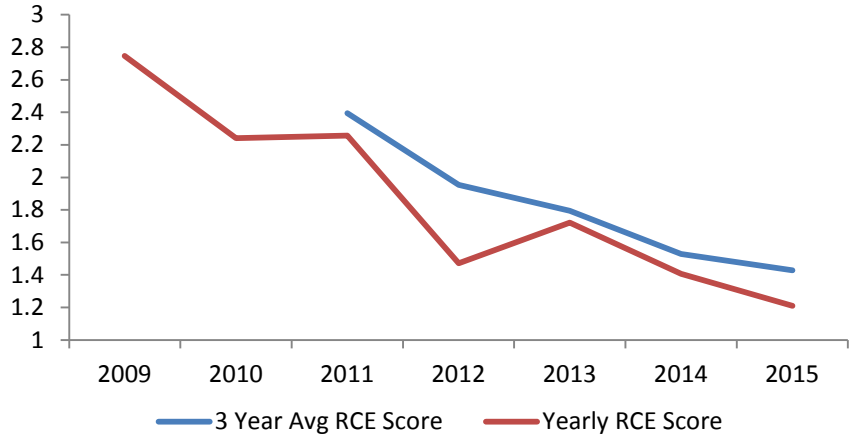


Figure 5: Stations RCE

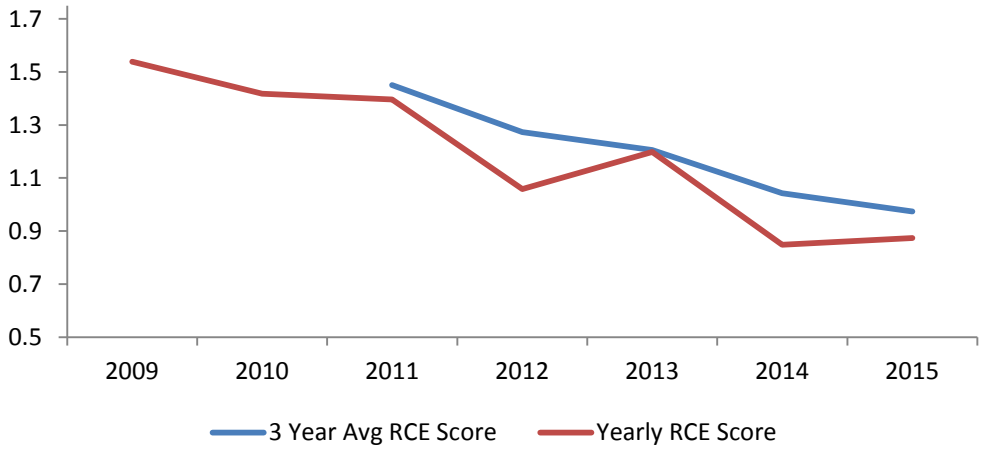


Figure 6: Lines and Forestry RCE Trend

10. OTHER PRODUCTIVITY METRICS

Hydro One has also selected productivity metrics that will provide visibility into the full process of delivering work programs. These metrics cover administration, procurement and work execution.

10.1 Administration

Administrative costs as a percentage of total capital and OM&A costs is an indicator of the share of administrative costs compared to total costs for the company. As Hydro One becomes more efficient in its administrative processes and leverages economies of scale to become more productive in managing its administrative functions, the share of costs allocated to administration will decline.

10.2 Procurement

Hydro One has selected the Planning Index and Supply Chain Services Value Realization as two critical metrics to measure procurement efficiency. The Planning Index measures material ordering according to manufacturer contracted lead time and gauges the efficiency of the ordering process. The Supply Chain Services Value Realization metric relates the value generated by the procurement organization (through discounts and strategic sourcing) as a percentage of the costs incurred to run the procurement organization.

Table 5: Historical Performance Productivity Metrics

	Metric	2011	2012	2013	2014	2015
Administrative Costs	Administrative costs as % of Net OM&A & Capital Expenditures	N/A	11.4%	13.3%	11.9%	10.5%
	Overhead as % of Net Capital Expenditures	13%	14%	15%	15%	12%
Supply Chain	Planning Index (material ordering per lead time)	89%	93%	94%	89%	85%
	Supply Chain Services value realization (Value generated/cost)	0.46	0.70	0.78	0.62	0.93

10.3 Work Execution

Given the limitations of unit costs for some of the types of work completed on the Transmission system, Hydro One selected several metrics that demonstrate productivity in stations maintenance and capital delivery to highlight areas of productivity not captured in unit costs or the RCE metric. Hydro One uses these metrics to improve its ability to ensure that targeted work is being completed in an efficient manner, while driving the outcomes that are valued by the company's customers.

10.3.1 Stations

Hydro One selected the ratio of unplanned work to planned work as a complement to the stations RCE metric. This metric provides insight into the effectiveness of maintenance work planning and of unplanned outage prevention. An effective preventive maintenance program would lead to less unplanned work, and reduce the ratio of unplanned to planned work.

10.3.2 Project Delivery and Construction

Hydro One selected several metrics to measure productivity in capital delivery:

- **In Service Additions as a % of OEB approved budget:** Selected to measure whether capital placed in service aligns with estimates developed during the planning process; and
- **Engineering cost per Engineering and Construction Services (ECS) capital dollar:** Selected to measure productivity in the engineering function of capital delivery. Over time, engineering costs would be expected to go down as a percentage of total Capital costs.

Table 6: Performance of Productivity Metrics

	Metric	2011	2012	2013	2014	2015
Work Execution	ISA as % of the OEB approved budget	95%	75%	90%	106%	85%
	% of budgeted work completed on or ahead of schedule	N/A	N/A	50%	85%	67%
	Engineering costs/ ECS Capital $	N/A	9.15%	9.14%	7.96%	8.23%
	Ratio of Stations unplanned work to planned work	36%	35%	38%	42%	41%

11. EXPECTED PERFORMANCE MANAGEMENT SYSTEM EVOLUTION

Hydro One is committed to developing appropriate mechanisms for tracking and creating performance accountability and incorporating these mechanisms throughout Hydro One's management processes. Hydro One will use the information provided by the metrics it has selected to identify trends and enable more consistent comparison against peers and Hydro One's own past performance. The metrics and KPIs that have been proposed allow the company to identify the causes of trends and better pinpoint the drivers of performance. This process is already in place for the scorecard metrics and an expanded performance management system including the tracking of selected KPIs is expected to be completed as part of Hydro One's continuing effort to become a best-in-class utility.

However, as implementation unfolds, Hydro One expects the performance management system to evolve as the Company learns from experience in using metrics and measuring productivity. Some potential drivers that may lead to changes in metric selection include:

- **Metrics not driving intended behaviours:** Evidence that metrics are providing incentives for behaviours that do not contribute to overall performance or do not align with company values;
- **Shifts in areas of focus for improvement:** Changes in areas of focus for the company and its work programs that may require the addition of new metrics to track performance in an area of particular focus;
- **Declining efficacy of metrics:** As performance improves, some metrics may show declining efficacy in measuring performance; this can be particularly relevant for unit metrics as a lower bound may exist for some of these metrics; and
- **Shifts in composition of work programs:** A significant shift in the work Hydro One is accomplishing may render some metrics less relevant. The recent shift to stations-

centric work is an example of a significant shift in work program composition that has prompted an evaluation of metrics used for measuring stations work performance.

12. SUMMARY

Hydro One aspires to become a best-in-class, customer centric commercial utility, with a culture of continuous improvement and excellence in execution. Hydro One's Board of Directors and management team are committed to continuous improvement and to excellence in all parts of its business. The company's management team and Board of Directors have an ongoing commitment to invest in systems, people and tools to ensure that KPI's and measurements of progress and outcomes are a critical element of how the company manages its transmission business. The scorecard and supporting KPIs and systems are a critical element of maintaining a well-functioning and cost effective transmission system in Ontario. The company believes that its vision and business objectives are consistent and align with outcomes expected in the Board's RRFE.

PROPOSED TRANSMISSION SCORECARD

1. INTRODUCTION

This attachment includes Hydro One's proposed transmission scorecard. The requirement for a proposed transmission scorecard is set out in the Ontario Energy Board Filing Requirements for Electricity Transmission Applications, Chapter 2, Revenue Requirement Applications, section 2.6.2., issued February 11, 2016.

Proposed Transmission Regulatory Scorecard - Hydro One Networks Inc.

			Historical Years					
Performance Outcomes	**Performance Categories**	**Measures**	**2011**	**2012**	**2013**	**2014**	**2015**	**Trend**
Customer Focus **Services are provided in a manner that responds to identified customer preferences.**	**Service Quality**	Satisfaction with Outage Planning Procedures (% Satisfied)	Note 1	78	Note 1	86	92	▲
		Customer Delivery Point (DP) Performance Standard Outliers as % of Total DPs	13.8	10.8	12.8	11.8	Note 2	▲
	Customer Satisfaction	Overall Customer Satisfaction in Corporate Survey (% Satisfied)	85	76	81	77	85	-
Operational Effectiveness **Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.**	**Safety**	Recordable Incident Rate (# of recordable injuries/illnesses per 200,000 hours worked)	3.7	2.3	2.5	1.8	1.7	▲
	System Reliability	T-SAIFI-S (Ave. # Sustained Interruptions per Delivery Point)	0.60	0.61	0.57	0.60	0.59	-
		T-SAIFI-M (Ave. # Momentary Interruptions per Delivery Point)	0.60	0.65	0.69	0.48	0.50	▲
		T-SAIDI (Ave. Minutes of Interruptions per Delivery Point)	127.9	71.5	66.0	36.6	44.3	▲
		System Unavailability (%)	0.50	0.48	0.37	0.48	0.66	▼
		Unsupplied Energy (minutes)	21.6	14.0	20.9	12.2	11.8	▲
	Asset Management	In-Service Capital Additions (% of OEB approved plan)	95	75	90	106	85	▲
		CapEx as % of Budget	78	81	73	90	106	▲
	Cost Control	Total OM&A and Capital per Gross Fixed Asset Value (%)	9.8	8.6	7.6	8.4	9.0	▲
		Sustainment Capital per Gross Fixed Asset Value (%)	2.6	2.8	3.3	4.2	4.6	Note 3
		OM&A per Gross Fixed Asset Value (%)	3.4	3.0	2.7	2.7	2.9	▲
Public Policy Responsiveness **Transmitters deliver on obligations mandated by government.** **(e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the Board)**	**Connection of Renewable Generation**	% on time completion of renewables connection impact assessments	100	100	100	100	100	-
	Market Regulatory Compliance	NERC/NPCC Reliability Standards Compliance						
		- Number of High Impact Violations (Note 4)	N/A	N/A	N/A	20	2	
		- Number of Medium/Low Impact Violations (Note 4)	N/A	N/A	N/A	5	10	
	Regional Infrastructure	Regional Infrastructure Planning progress - % Deliverables met	N/A	N/A	N/A	100	100	
Financial Performance **Financial viability is maintained; and savings from operational effectiveness are sustainable.**	**Financial Ratios**	Liquidity: Current Ratio (Current Assets/Current Liabilities)	0.24	0.29	0.80	0.69	0.13	
		Leverage: Total Debt (includes short-term & long-term debt) to Equity Ratio	1.27	1.22	1.10	1.16	1.39	
		Profitability: Regulatory Return on Equity — Deemed (included in rates) (%)	9.66	9.42	8.93	9.36	9.30	
		Profitability: Regulatory Return on Equity — Achieved (%)	10.95	12.41	13.22	13.12	10.93	

Note 1: Customer Satisfaction survey not done in 2011 and 2013.

Note 2: Results will be available in July 2016.

Note 3: In 2014 strategic decision made to increase sustainment capital.

Note 4: Results from 2011 to 2013 are excluded due to a lack of consistant data compared to 2014 and 2015.

Legend:
▲ up
▼ down
- flat

PROPOSED TRANSMISSION SCORECARD - GLOSSARY OF MEASURE DESCRIPTION

Performance Category	Metric	Description
Service Quality	1. Satisfaction with Outage Planning Procedures (% Satisfied)	*1. The OGCC Customer satisfaction survey relates Customer Satisfaction with relevant business processes and transactional customer experience. The question asked is: How would you rate Hydro One's OGCC procedures on outage planning? The measure is not benchmarkable.*
	2. Customer Delivery Point Performance, Standard outliers as % of Total Delivery Points (DPs)	*2. The percentage of customer delivery points deemed as either group or individual outliers. This information is also included in the Transmission Rate Filing. The measure is not benchmarkable.*
Customer Satisfaction	1. Overall Customer Satisfaction, corporate survey (% Satisfied)	*1. This measure reflects the overall satisfaction levels of three major transmission customer segments (Transmission End Users, Local Distribution Companies (LDCs) and Transmission-Connected Customer Generators). Survey objective is to measure key drivers of satisfaction among large Transmission customers and monitor Hydro One's performance on the four key service areas – Price, Customer Service, Product Quality / Reliability and Relationship. The survey measures customers' opinion of the company as a whole (whether they have interacted with Hydro One recently or not). It seeks to uncover perceptions of how well the company is meeting customer expectations and delivering on critical success factors. The survey is conducted online followed by computer-assisted telephone interviewing if customer prefers/is not reached. The measure is not benchmarkable.*
Safety	1. Recordable Rate *(#Recordable Injuries/Illnesses per 200,000 hours worked)*	*1. Work-related injuries/illnesses that result in: restricted work, lost time, loss of consciousness, medical attention beyond first aid, death, or any other significant work-related injury or illness diagnosed by a physician or other health care professional and are confirmed by a Hydro One Occupational Health Nurse. The measure applies to Hydro One Networks Inc. employees only (not contractors). The measure is benchmarkable.*
System Reliability	1. T-SAIFI-S (Sustained Interruption Frequency) *(Average # of times that power to a Customer is interrupted per Delivery Point)*	*1. Average Frequency of Delivery Point Sustained Interruptions is an indicator of the average number of unplanned interruptions that customers experienced and is presented as number of interruptions per delivery point per year. Only includes sustained (1 minute and longer) interruptions. The measure is benchmarkable.*

	2. T-SAIFI-M (Momentary Interruption Frequency) *(Average # of times that power to a Customer is interrupted per Delivery Point)*	*2. Average Frequency of Delivery Point Momentary Interruptions is an indicator of the average number of unplanned interruptions that customers experienced and is presented as number of interruptions per delivery point per year. Only includes momentary (less than 1 minute) interruptions. The measure is benchmarkable.*
	3. T-SAIDI (Duration) *(Average # minutes that power to a Customer is interrupted per Delivery Point)*	*3. Average Duration of Delivery Point Interruptions is an indicator of the average minutes of unplanned interruptions that customers experienced and presented as interruption minutes per delivery point per year. Only sustained (1 minute and longer) interruptions contribute to this measure. The measure is benchmarkable.*
	4. System Unavailability *(% of time system equipment is unavailable)*	*4. Transmission System Unavailability captures the total duration transmission equipment is out of service due to unplanned outages. The measure is benchmarkable.*
	5. Unavailability of Interconnects *(% of time interconnects are unavailable)*	*5. Interconnects Unavailability captures the total duration transmission interconnects are out of service due to unplanned outages. These interconnects include the interties to Quebec, New York, Michigan, Minnesota and Manitoba. The measure is benchmarkable.*
	6. Unsupplied Energy *(minutes)*	*6. Unsupplied Energy is an indicator of total energy not supplied to customers due to delivery point unplanned interruptions. In order to make it comparable among different sizes of utilities, the unsupplied energy is normalized by the system peak. The unit of the measure of normalized unsupplied energy is expressed in "system minutes". The measure is benchmarkable.*
Asset Management	1. In-Service Capital Additions as % of OEB-Approved Plan	*1. The measure is consistent with regulatory requirements of the Transmission Business, measuring the % of Capital In-Serviced relative to plan. The measure is not benchmarkable.*
	2. Capital Expenditures as % of Budget	*2. Progress is measured as the ratio of actual total capital expenditures to the total amount of planned capital expenditures. The measure is benchmarkable.*
Cost Control	1. Total OM&A and CAPEX/Gross Fixed Asset Value (%)	*1. Demonstrates Transmission cost effectiveness by comparing the ratio Total Capital and OM&A to Gross Fixed Asset costs. The measure is benchmarkable.*
	2. Sustainment Capital/Gross Fixed Asset Value (%)	*2. Demonstrates Transmission cost effectiveness by comparing the ratio Sustainment Capital to Gross Fixed Asset costs. The measure is benchmarkable.*
	3. OM&A/Gross Fixed Asset Value (%)	*3. Demonstrates Transmission cost effectiveness by comparing the ratio OM&A to Gross Fixed Asset costs. The measure is benchmarkable.*

Renewable Energy	1. % on-time completion of renewables connection impact assessments	*1. For Transmission-connected generators, Hydro One is obligated to complete a connection impact assessment (CIA) for renewables in 150 days. The measure is not benchmarkable.*
Regulatory Compliance	1. NERC/NPCC Reliability Standards compliance - # of High Impact Violations - # of Medium/Low Impact Violations	*1. Measure tracks Hydro One transmission compliance to NERC/NPCC Reliability Standards by measuring the number of "High Impact Violations" and "Medium/Low Impact Violations" over a calendar year.* *Violations are assessed as "High Impact Violations" when the potential or actual impact of a breach is severe.* *Violations are assessed as "Medium or Low Impact Violations" when the potential or actual impact of a breach is material (for "Medium") or negligible or no impact (for "Low"). These measures are benchmarkable.*
Regional Infrastructure	1. Regional Infrastructure Planning Progress - % Deliverables met	*1. Measures progress in meeting the deliverables including meeting the Transmission System Code prescribed timelines and delivering the required products. The number of deliverables will vary in a given year. Deliverables include Plans, Reports and LDC Status Update Letters. The measure is not benchmarkable.*
Financial Ratios	1. Liquidity: Current Ratio (Current Assets/Current Liabilities) 2. Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio 3. Profitability: Regulatory Return on Equity - *Deemed Return on Equity (included in rates)* 4. Profitability: Regulatory Return on Equity - *Achieved Regulated Return on Equity*	*1. The company measures the ratio of its current assets to its current liabilities. Current assets are defined as cash or other assets to be converted to cash within the year and that can be used to fund daily operations and pay ongoing expenses. Current liabilities are defined as short term debts or financial obligations that become due within the year. The measure is benchmarkable.* *2. The debt-to-equity ratio is a measure of the company's financial leverage and serves to identify the ability to finance assets and fulfill obligations to creditors, while remaining within the OEB-mandated 60 per cent to 40 per cent debt-to-equity structure (a ratio of 1.5). The measure is benchmarkable.* *3. Measures the Board-approved Return on Equity that is embedded in the transmitter's base rates. Return on Equity is the rate of return that the utility is allowed to earn through its transmission rates, as approved by the OEB. The measure is benchmarkable.* *4. Measures the transmitter's achieved Regulated Return on Equity earned in the preceding fiscal year. The reported return is calculated on the same basis that was used in establishing the transmitter's base rates. This shows the utility's actual Return on Equity earned each year. The measure is benchmarkable.*

TAB 12

IDENTIFYING CUSTOMER NEEDS

1. INTRODUCTION

This Exhibit describes the customer engagement activities Hydro One undertakes to determine its customers' needs and preferences, which inform its Transmission System Plan or investment plan and business objectives.

Hydro One's objective is to engage with customers more consistently and proactively, leveraging a better understanding of the customer to better meet their needs and improve overall satisfaction with their service. One critical element of achieving this goal is developing an investment plan that is outcome-focused and designed to meet customers' expectations.

On a regular basis, as part of its everyday operations, Hydro One engages with customers, collecting information on customer needs and preferences. For the purposes of developing the investment plan set out in this Application, Hydro One has undertaken a customer engagement, as is described in section 2.4 of this Exhibit, that is consistent with the OEB's RRFE framework. The company found the feedback from these sessions to be helpful in understanding customer preferences and being better able to identify customer needs.

Customers indicated that the consultations were valuable to them as well, by contributing to their understanding of Hydro One's operations and investment process. Hydro One intends to continue engaging with customers to receive input for future investment plans and to communicate key information about the transmission system and impacts of its investments.

2. HOW HYDRO ONE ASCERTAINS CUSTOMER NEEDS AND PREFERENCES

As described below, regular communications with customers are conducted through Hydro One's customer business relations group, the OGCC's customer operating support group, customer account executives, and planning activities undertaken by its asset managers.

2.1 Routine Communications

Consistent with the Transmission System Code, Hydro One groups customers into three customer segments: large industrial end users, LDCs and transmission-connected generators.

The "Key Accounts Management" group (formerly, "Customer Business Relations") provides a single point of contact for customers for all types of interactions other than real-time operations, operating events and outage planning. The latter activities are managed by the customer operating support group at the OGCC.

Key Accounts Management facilitates direct communications with customers on a variety of matters including: customer connection requests, sustainment plans and projects, system development plans and concerns regarding service level or power quality. One of the new communication initiatives undertaken in 2015 involved the preparation and distribution of reliability reports specific to the delivery points that supply transmission customers. These reliability reports provide a history of delivery point performance, operating events and outcomes related to these delivery points, and sustainment plans that will impact these delivery points. Hydro One is incorporating the customer feedback that it receives to improve upon the format and content of its communications.

Account executives meet with customers on a regular basis to ensure that customer needs are identified and discussed, and that action plans are developed to address these needs. If the action plans initiate planning activities that may result in new or modified connection facilities, then the account executives also ensure that customers understand the connection process and related contractual matters, such as feasibility studies, connection cost estimates, and capital cost recovery agreements.

Hydro One's asset managers will also proactively and directly engage with customers to review and coordinate plans for the company's assets, in order to minimize impact on the customer and optimize opportunities for both parties to execute work on their respective, affected facilities. The outcomes of these discussions become an input to Hydro One's "transmission system outage grouping" process, which attempts to eliminate multiple outages impacting customer facilities by coordinating activities on the same equipment. Asset managers also engage with customers as part of the regional planning process as documented in Exhibit B1, Tab 2, Schedule 3.

The OGCC has direct communications with customers regarding real-time operations and to coordinate planned outages to enable work by Hydro One or the customer, respond to unexpected outages, and coordinate switching. The OGCC organizes customer meetings bi-annually to coordinate outage planning activities, and such meetings are a key activity in Hydro One's "transmission system outage grouping" process. On a weekly basis, the OGCC sends reports customized to individual customers that provide a rolling one year window of the planned outages that affect their delivery point. These reports contain information on outage start and end dates, the equipment involved, purpose, recall time, and schedule profile. The reports also contain a column for customer comments.

2.2 Hydro One Transmission's Customer Forums

Hydro One also regularly organizes a number of customer forums that facilitate group dialogue to address common specific concerns.

2.2.1 Power Quality Working Group

One such customer forum is the Power Quality Customer Working Group that is made up of Hydro One staff and industrial customers. This group meets on a regular basis to determine processes to identify, diagnose and measure power quality issues. Hydro One has also facilitated two power quality symposiums with an internationally recognized power quality expert to discuss power quality challenges.

2.2.2 Customer Advisory Board

The Customer Advisory Board is organized and facilitated by Hydro One to represent all customer segments on matters relating to customer-impactive policies and services. The board advises Hydro One's management on how to improve services to customers and on the potential customer impacts of the company's policy direction and current initiatives. It includes representatives affiliated with the following associations and groups:

- Association of Major Power Consumers in Ontario;
- Electricity Distributors Association;
- Association of Power Producers of Ontario;
- Consumer's Council of Canada;
- Ontario Federation of Agriculture;
- Canadian Manufacturers and Exporters;
- Vulnerable Energy Consumers Coalition;
- Federation of Ontario Cottagers Associations;

- Small, medium and large LDCs; and
- Large industrial end users.

The Customer Advisory Board meets two times a year to review company initiatives, work program progress, key customer concerns, and proposed asset policies that may affect transmission customers. The mandate of the Customer Advisory Board is being reviewed to further sharpen its focus on customer service.

2.2.3 Large Customer Conference

Annually, Hydro One hosts a conference for large transmission customers and Hydro One's large distribution accounts. At the conference, presentations are given regarding Hydro One's various initiatives, the use of new technology and new challenges such as cyber security. Customers are given an overview and update of Hydro One's investment plan and an opportunity to speak with Hydro One staff on any of the topics in the presentations. The conference content and format are tailored to reflect various customer segments.

2.2.4 Sarnia Area Reliability Oversight Committee

The Sarnia Area Reliability Oversight Committee consists of Hydro One staff and industrial and generation-connected customers in the Sarnia area. The group meets twice a year to identify issues regarding reliability in the Sarnia Area and to review the proposed investment plans to ensure that issues will be addressed appropriately. The industry in the Sarnia area is very sensitive to any type of voltage excursion, which can result in health and safety issues such as gas flares.

2.2.5 LDC Working Group, Toronto-Hydro Oversight Committee

Hydro One also facilitates a LDC working group, which serves as a forum to update LDCs on Hydro One Transmission's policies and practices, identify any emerging issues, and solicit input to enhance customer experience. This group meets three to five times annually.

Hydro One facilitates and participates in bi-monthly Toronto-Hydro Oversight Committee meetings, which serve as a forum for issue identification and resolution to ensure safe and efficient operations between the LDC and Hydro One. These meetings also allow the parties to coordinate their efforts relating to capital projects and other matters.

2.2.6 Switchyard Oversight Committees

Hydro One also facilitates and participates in switchyard oversight committees with Bruce Power Inc. and Ontario Power Generation Inc., which oversee matters of mutual interest related to interface equipment, procedures and policies. These committees aim at supporting the safe and efficient operation of the switchyards in compliance with legal requirements and the coordination of efforts relating to capital projects and other matters. They meet approximately three times annually.

2.3 Customer Survey Research

Hydro One Transmission's customer information input is also obtained through formalized customer satisfaction research. This initiative has been ongoing since 1999. All research is conducted by independent expert consumer research firms. The latest initiative was carried out by Northstar Research Partners Inc., which is described in

Exhibit B1, Tab 1, Schedule 3, together with detailed information on Hydro One Transmission's customer satisfaction performance.

2.4 Customer Engagement Work For The Investment Plan

In the spring of 2016, Hydro One undertook a further customer engagement initiative, the purpose of which was to identify the needs and preferences of customers as it related to the formulation of a five year transmission system plan. This initiative was structured to identify customer needs and preferences and allow for the consideration of those customer needs and preferences in preparing the Transmission System Plan that is reflected in this Application.

Hydro One engaged Ipsos Reid, a global market research company, to assist in the design, execution, facilitation, and documentation of the customer engagement initiative. Ipsos Reid also undertook analysis of the feedback received during the consultations. The report by Ipsos Reid documenting the results of the consultation is included as Attachment 1 to this Exhibit.

2.4.1 Methodology

The customer engagement occurred in three parts. These parts were not sequential; they occurred concurrently. First, one-on-one meetings were held with 12 customers. The materials provided to customers in these consultation meetings are provided in Attachment 2 to this Exhibit. Hydro One segmented and identified the customers for these meetings using the approach described below. Second, Ipsos Reid facilitated five group customer consultations in Toronto, London, Ottawa, Thunder Bay and Sudbury. 22 customers participated in these facilitated group customer consultations. Third, an on-

line consultation tool was made available to all customers, and 28 customers participated. A copy of the online consultation materials is provided in Attachment 3 to this Exhibit.

This three-part process was designed to ensure that all customers had an opportunity to participate in the consultation process and have their voices heard in an effective manner.

Hydro One chose which customers to meet with one-on-one based on a number of criteria:

- the customers represented at least five percent of Hydro One Transmission's overall revenue;
- the customers were among the largest within each sub-segment (i.e. LDCs, large industrial end users, and generators);
- the customers gave a range of scores on 2015 Hydro One Transmission's customer satisfaction survey;
- the customers experienced a range of reliability performance; and
- the customers were geographically diverse.

Further information on the consultation goals, objectives and methodology is included in the Ipsos Reid report included as Attachment 1 to this Exhibit.

2.4.2 Information Presented to Customers

In the consultations, Hydro One presented the following information:

- an overview of Hydro One Transmission's system;
- an overview of a risk-based approach to investments;
- the purpose of Hydro One's customer engagement process (i.e., to identify customers' needs and preferences);
- a description of Hydro One Transmission's system reliability performance;

- the causes of power interruption duration and frequency;
- the types of equipment causing interruptions and their relative contributions;
- an explanation of Hydro One's use of asset demographics and asset condition assessment to identify specific assets at risk;
- a description of actions that Hydro One has undertaken to mitigate reliability risk without increasing investment; and
- a presentation of three illustrative investment scenarios to prompt discussion of acceptable levels of risk compared to investments and potential rates consequences.

The presentation that was shared with customers is provided in Attachment 2 to this Exhibit.

The results of the customer engagement were summarized in the Ipsos Reid report in Attachment 1 to this Exhibit. Attachment 1 to Exhibit A, Tab 9, Schedule 1 contains an overview of these consultations that Hydro One presented to stakeholders on April 27, 2016.

The Ipsos Reid report made the following observations:

- Reliability was the most frequently and consistently mentioned "need" that was raised by customers across all the consultation activities.
- For most large industrial customers, frequency of interruptions is a greater concern than duration. Conversely, LDCs were more likely to say that duration of interruptions is a greater concern than frequency of interruptions.
- Planned outages are considered by many to be much more manageable and less of a concern than unplanned interruptions.
- Overall power quality and transmission capacity were also raised as major issues facing customers, particularly those in the north.

- Cost was raised at various times throughout the consultation. The desire for good reliability at a competitive or low cost is universal.

The detailed report indicates variations on these observations among customer types. For example, LDCs communicated concerns regarding duration of outages, whereas large industrial end users expressed concerns regarding outage frequency. LDCs also expressed that their customers were increasingly expecting fewer to no service interruptions. While the desire for low or competitive costs is universal, sensitivity to rate increases varied between groups.

3. SUMMARY OF CUSTOMER NEEDS AND PREFERENCES

Based on all the information collected during its customer engagement activities, Hydro One believes that:

- Customers need predictable, reliable power at the current level of performance or higher, particularly, with respect to frequency of interruptions, especially large industrial end users who otherwise face unacceptable economic, environmental and health and safety risks;
- Customers prefer competitive or low cost of service, but not at the expense of deteriorated service;
- Customers need improved outage planning and notification (specifically, minimization of the number of planned outages and improved communication);
- Customers expect continuing communication of Hydro One Transmission's long-term investment plans; and
- Customers need a greater focus on power quality driven by the increased sensitivity of their equipment.

4. HOW THE TRANSMISSION SYSTEM PLAN REFLECTS CUSTOMER NEEDS AND PREFERENCES

Hydro One's Transmission System Plan reflects its general assessment of customer needs and preferences. The investment plan takes customer engagement information into account as follows:

- The plan mitigates the risk to current service levels posed by asset deterioration;
- The plan supports Hydro One's ability to continue to provide first quartile reliability in a safe manner; and
- The plan optimizes the life of assets to avoid unnecessary capital expenditures.

The investment plan reflected in this Application seeks to meet customers' needs regarding service levels, in a manner that controls costs to address their desire for low or competitive costs. Hydro One recognises that customers are sensitive to the total delivered price of power. Investments in the transmission system result in increased cost to customers. As such, Hydro One's focus will be on executing cost controls and driving productivity across the organization in order to mitigate rate impacts from required work programs. Hydro One's ability to influence customers' total bills, and customer perceptions of the price of power, is limited by the fact that the transmission tariffs represent less than 10% of an average transmission-connected customer's total bill.[1] Ongoing communications with customers to provide information regarding these facts will be another area of focus for Hydro One during the test years in this Application.

Exhibit B1, Tab 3 describes how the proposed investments address Hydro One Transmission's customers' needs.

[1] Transmission tariffs constitute 8.3% as percentage of total cost for transmission-connected customers, on average.

TAB 13

Anwaatin Inc. (Anwaatin) INTERROGATORY #003

Reference:

Exhibit B1, Tab 1, Schedule 3, pages 22-29 of 29
Exhibit B1, Tab 1, Schedule 3, Attachment 1

Interrogatory:

Regional and customer-specific data on reliability and related price is relevant to establishing the value of the services that Hydro One provides relative to the price/bills that customers pay.

a) Given the importance Hydro One has attached to reliability measures in this application (including frequency of momentary interruptions, frequency of sustained interruptions, overall frequency of interruptions, duration of sustained interruptions, delivery point unreliability, delivery point unreliability and customer delivery point performance outliers, and customer delivery point performance standards (CDPP)), Hydro One's focus on customers, and that Hydro One conducts a detailed annual assessment of the performance measures described above, please provide detailed data and calculations for (i) all Hydro One service territory, (ii) northern and remote communities, and (iii) First Nation communities, including Aroland First Nation, Moose Factory and Moosonee, Rocky Bay First Nation, and Red Rock Indian Band, Geraldton and Beardmore in the planning regions of Northwest Ontario and North/East of Sudbury, on the following:

(i) the frequency of momentary interruptions;
(ii) the frequency of sustained interruptions;
(iii) overall frequency of interruptions, including both momentary and sustained interruptions;
(iv) the duration of sustained interruptions;
(v) delivery point unreliability;
(vi) delivery point unreliability outliers; and
(vii) CDPP outliers.

b) Please provide Hydro One's CDPP standards.

c) Please provide a description of how Hydro One measures customer focus and any and all related data and results pertaining to customer focus.

Response:

a) For Hydro One Service Territory performance, please refer to Figures in Exhibit B1, Tab 1, Schedule 3, for following measures:

Figure	Page	Question	Measure
Figure 8a	23	(i)	the frequency of momentary interruptions
Figure 8b	23	(ii)	the frequency of sustained interruptions
Figure 9	24	(iii)	overall frequency of interruptions, including both momentary and sustained interruptions
Figure 10	24	(iv)	the duration of sustained interruptions
Figure 11	25	(v)	delivery point unreliability
Figure 14	28	(vii)	CDPP outliers

For (vi), delivery point unreliability outliers, please refer (vii) for details.

2. The performance data in the filing doesn't include remote communities since it is not integrated with the bulk electric system and we don't have readily available performance data for the system supplying remote communities.

Following tables are provided for Northern transmission system performance:

i) Frequency of Momentary Interruptions

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
# of momentary interruptions	285	313	370	219	304	253	270	368	217	272
# of DPs in Northern Region	150.5	150.0	150.6	149.2	147.5	146.4	146.7	148.6	149.2	148.6
T-SAIFI-m*	1.89	2.09	2.46	1.47	2.06	1.73	1.84	2.48	1.45	1.83

**T-SAIFI-m= Total number of momentary interruptions / total number of DP monitored*

ii) Frequency of Sustained Interruptions:

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
# of sustained interruptions	375	330	276	233	174	222	267	198	180	244
# of DPs in Northern Region	150.5	150.0	150.6	149.2	147.5	146.4	146.7	148.6	149.2	148.6
T-SAIFI-s*	2.49	2.20	1.83	1.56	1.18	1.52	1.82	1.33	1.21	1.64

**T-SAIFI-s= Total number of sustained interruptions / total number of DP monitored*

iii) Overall Frequency of Interruptions:

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
# of overall interruptions	660	643	646	452	478	475	537	566	397	516
# of DPs in Northern Region	150.5	150.0	150.6	149.2	147.5	146.4	146.7	148.6	149.2	148.6
T-SAIFI-all*	4.38	4.29	4.29	3.03	3.24	3.24	3.66	3.81	2.66	3.47

**T-SAIFI-all= Total number of momentary and sustained interruptions / total number of DP monitored*

iv) Duration of Sustained Interruptions:

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Duration of sustained interruptions (minutes)	23108	22555	29650	14167	37063	86609	52229	29136	17466	26512
# of DPs in Northern Region	150.5	150.0	150.6	149.2	147.5	146.4	146.7	148.6	149.2	148.6
T-SAIDI*	153.5	150.4	196.9	95.0	251.2	591.6	356.0	196.1	117.1	178.4

**T-SAIDI= Total duration of sustained interruptions / total number of DP monitored*

v) Delivery Point Unreliability Index:

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Unsupplied Energy (MW× minutes)	142549	127241	126905	62776	125811	297938	215415	194942	111602	125489
System Peak Load (MW)	2179.6	2079.2	1952.0	1971.8	2025.7	2054.7	1995.3	2010.5	1856.1	1822.7
DPUI*	65.4	61.2	65.0	31.8	62.1	145.0	108.0	97.0	60.1	68.8

**DPUI =Total unsupplied energy / system peak load*

vi) Delivery point Unreliability Outliers: please refer to (vii) for details

vii) CDPP Outliers:

	2010	2011	2012	2013	2014	2015
Total # of DPs in Northern Region	148	149	149	150	152	149
# of Outliers in Northern Region	64	56	53	53	65	not available

3. First Nation Communities, as provided in this IR, plus Nipigon provided in Anwaatin IR #5 are supplied by following Hydro One transmission delivery points:

- Beardmore DS #2
- Long Lac TS
- Moosonee DS
- Nipigon DS
- Red Rock DS

Moosonee and Moose Factory Community is also supplied by Kashechewan CTS and Fort Albany CTS which are not in Hydro One's transmission service territory and they are excluded from the performance study.

Following tables are provided for the transmission system supplying First Nation Communities:

i) Frequency of Momentary Interruptions

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
# of momentary interruptions	8	13	6	2	8	12	5	9	3	7
# of DPs Supplying First Nation Communities	5	5	5	5	5	5	5	5	5	5
T-SAIFI-m*	1.60	2.60	1.20	0.40	1.60	2.40	1.00	1.80	0.60	1.40

**T-SAIFI-m = Total number of momentary interruptions / total number of DP monitored*

ii) Frequency of Sustained Interruptions:

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
# of sustained interruptions	9	20	6	10	12	9	7	13	6	5
# of DPs supplying First Nation Communities	5	5	5	5	5	5	5	5	5	5
T-SAIFI-s*	1.80	4.00	1.20	2.00	2.40	1.80	1.40	2.60	1.20	1.00

**T-SAIFI-s = Total number of sustained interruptions / total number of DP monitored*

iii) Overall Frequency of Interruptions:

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
# of overall interruptions	17	33	12	12	20	21	12	22	9	12
# of DPs supplying First Nation Communities	5	5	5	5	5	5	5	5	5	5
T-SAIFI-all*	3.40	6.60	2.40	2.40	4.00	4.20	2.40	4.40	1.80	2.40

**T-SAIFI-all = Total number of momentary and sustained interruptions / total number of DP monitored*

iv) Duration of Sustained Interruptions:

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Duration of sustained interruptions (minutes)	427	1303	1144	570	4251	1855	759	3449	2784	2614
# of DPs supplying First Nation Communities	5	5	5	5	5	5	5	5	5	5
T-SAIDI*	85.4	260.6	228.8	114.0	850.2	371.0	151.8	689.8	556.8	522.8

**T-SAIDI = Total duration of sustained interruptions / total number of DP monitored*

v) Delivery Point Unreliability Index:

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Unsupplied Energy (MW×minutes)	1452	6951	962	4164	19869	15267	3171	13996	15206	14828
System Peak Load (MW)	41.5	39.5	38.6	35.3	29.5	31.0	29.7	32.5	32.0	32.0
DPUI*	35.0	175.9	24.9	118.1	673.8	492.6	106.7	430.2	474.8	463.9

**DPUI =Total unsupplied energy / system peak load*

vi) Delivery point Unreliability Outliers: please refer (vii) for details

Anwaatin Inc. (Anwaatin) INTERROGATORY #005

Reference:

Exhibit B 1, Tab 1, Schedule 3, page 25 of 29
Exhibit B1, Tab 1, Schedule 3, Attachment 1
Office of the Auditor General of Ontario, 2015 Annual Report, Chapter 3: Reports on Value-for-money Audits, section 3.06 "Hydro One-Management of Electricity Transmission and Distribution Assets", pages 248-261 (Attachment 2)

Interrogatory:

Ontario's Auditor General (AG) found that Hydro One was not replacing assets it had determined were in very poor condition and at very high risk of failing and that it used these assets in successive rate applications to the Ontario Energy Board to justify and receive rate increases.

The AG further found that significant transmission assets beyond their expected service life were still in use and that Hydro One's distribution system was consistently one of the least reliable among large Canadian electricity distributors between 2010 and 2014 (pages 249; 260-261). The AG also found that 47% of Hydro One's transmission outages between 2010 and 2014 occurred in northern Ontario, even though fewer than 20% of Hydro One's delivery points are located there (page page 254). The AG further noted that:

"In Northern Ontario, 86% of the delivery points are single circuit supplied. As it is costly to build additional towers and lines, Hydro One does not attempt to convert rural single-circuit delivery points that serve fewer, or smaller, customers to multi-circuit delivery points because it does not consider it cost effective to do so, even if it would improve system reliability for these customers." (Page 254)

In EB-2013-0416, the Board also concluded that Hydro One's distribution investment planning does not yet appear to be properly aligned with the actual condition of its assets; that its vegetation management does not show sufficient efficiencies or productivity improvements; and that its productivity commitments do not show the company to have a strong enough orientation toward continuous improvement.

a) Please provide the following information for customers in the territory of Aroland First Nation, Moose Factory and Moosonee, Rocky Bay First Nation, Red Rock Indian Band, Geraldton, Nipigon and Beardmore areas:

i. transmission system reliability trends plotted on a graph showing each of the last 1 0 years;

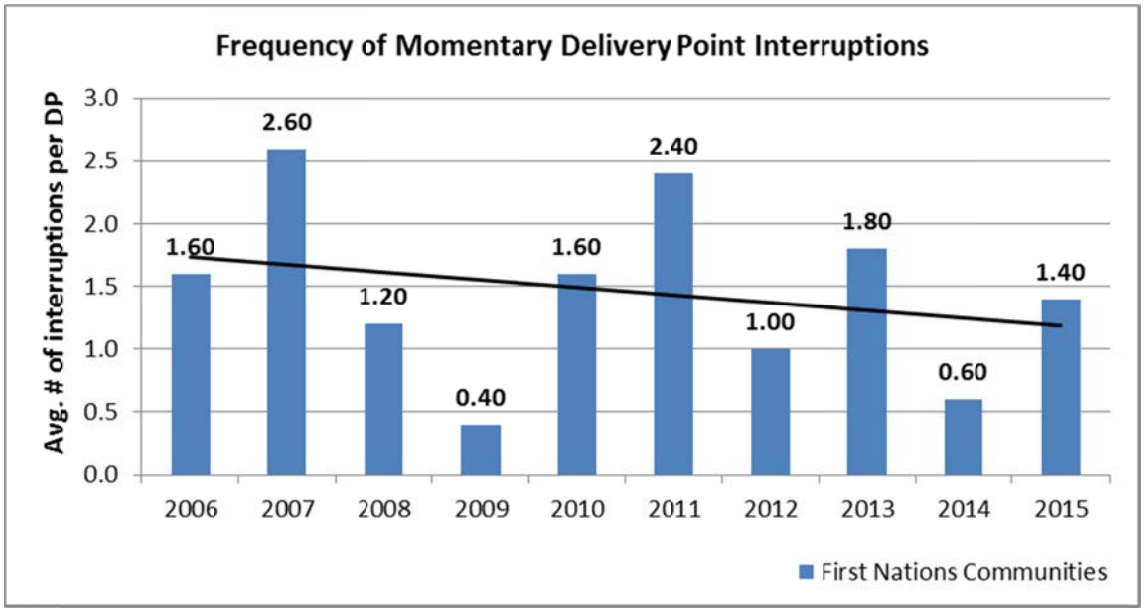
ii. the annual backlog, if any, of preventative maintenance for transmission lines, including vegetation management, plotted on a graph, showing each of the last 10 years;

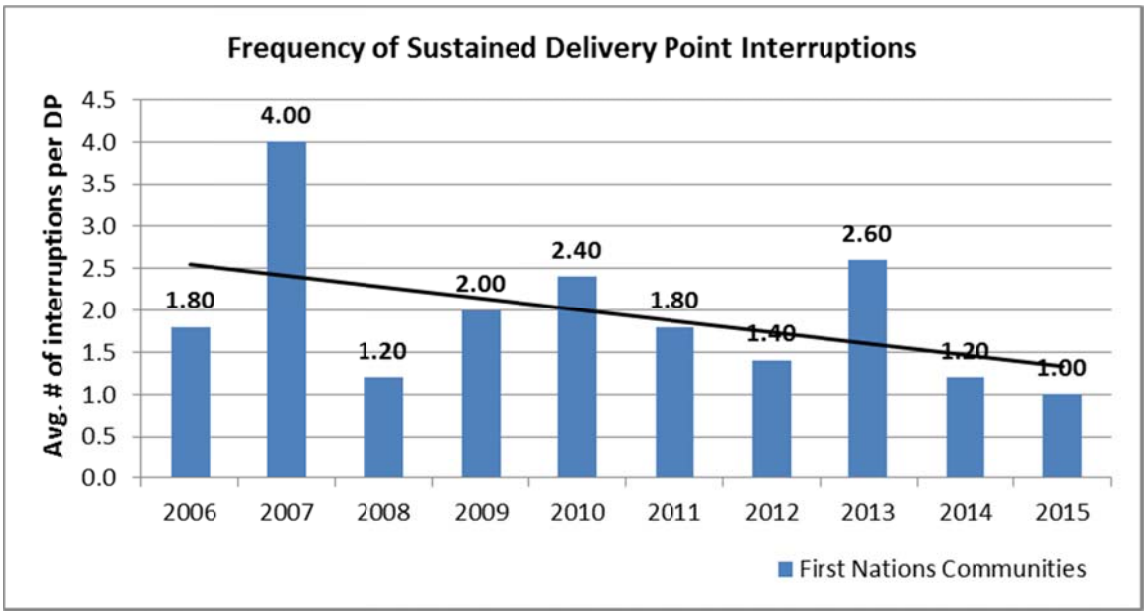
iii. please provide a list of any high risk assets in sub-optimal condition; and

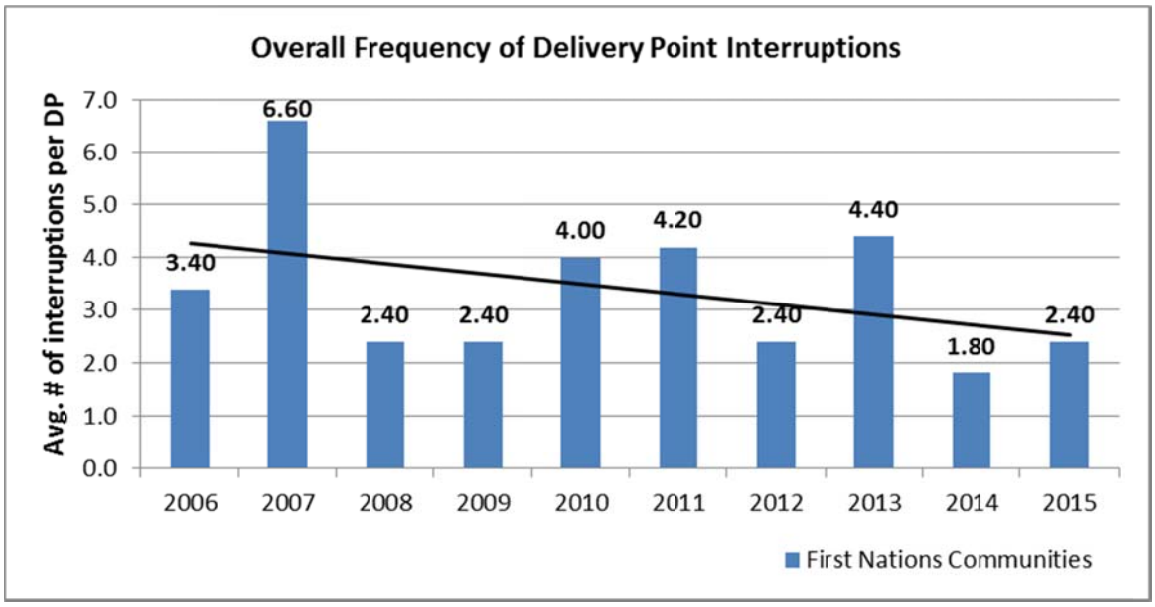
iv. a table showing a list of all of Hydro One's transmission assets, their age, their originally-anticipated replacement date and their actual or anticipated replacement date.

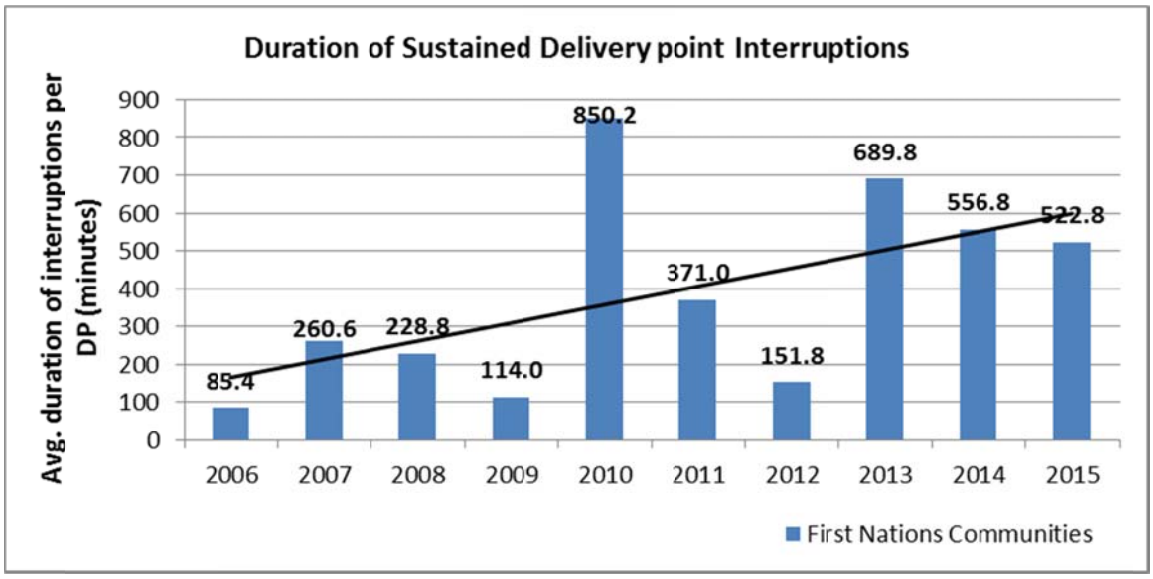
Response:

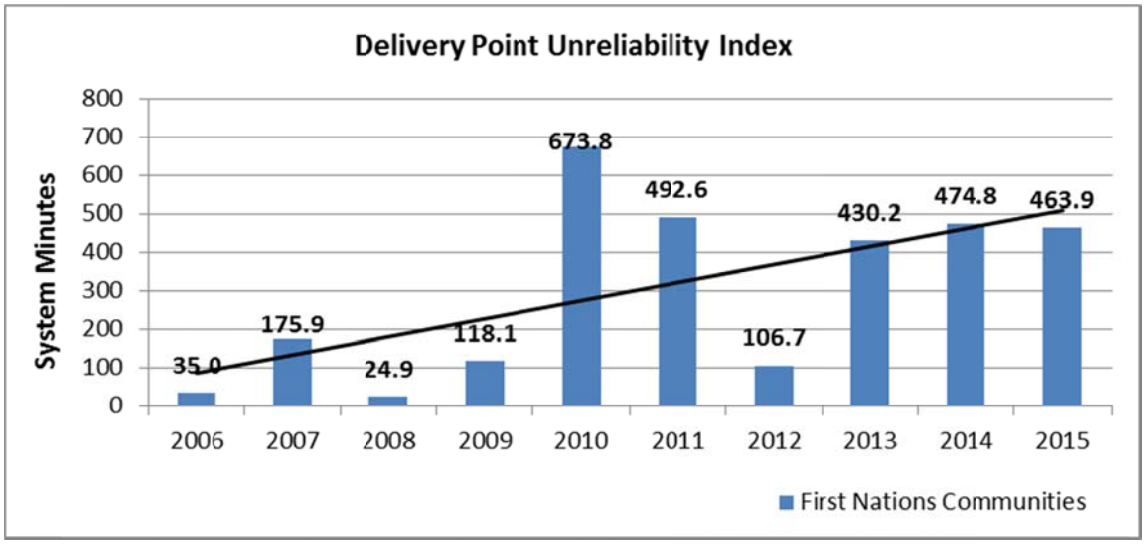
i. Following graphs provide transmission reliability performance and trends for five delivery points serving the identified territories.




Frequency of Sustained Delivery Point Interruptions
Avg. # of interruptions per DP
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1.80
4.00
1.20
2.00
2.40
1.80
1.40
2.60
1.20
1.00
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
First Nations Communities


Overall Frequency of Delivery Point Interruptions
Avg. # of interruptions per DP
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
3.40
6.60
2.40
2.40
4.00
4.20
2.40
4.40
1.80
2.40
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
First Nations Communities


Duration of Sustained Delivery point Interruptions
Avg. duration of interruptions per DP (minutes)
900
800
700
600
500
400
300
200
100
0
85.4
260.6
228.8
114.0
850.2
371.0
151.8
689.8
556.8
522.8
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
First Nations Communities


Delivery Point Unreliability Index
System Minutes
800
700
600
500
400
300
200
100
0
35.0
175.9
24.9
118.1
673.8
492.6
106.7
430.2
474.8
463.9
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
First Nations Communities

ii. The following table shows the status of all transmission lines preventative maintenance in the subject territories.

Maintenance Activity	Sub-Category	Status	Comments
Vegetation Management	All categories	Up-to-date	
Overhead Lines Maintenance	Helicopter Patrol	Up-to-date	
	Foot Patrol	Up-to-date	
	Thermovision	Up-to-date except for M9K & M3K	M9K & M3K are scheduled for thermovision in 2017
	Detailed Helicopter Inspection	Up-to-date	
Overhead Lines Condition Assessment	Conductor	28.3% require assessment	The system wide conductor assessment need is 31%
	Wood pole	1.4% require assessment	The system wide pole assessment need is 6%

iii. There are no high risk transmission class transformers that supply customers in the territory of Aroland First Nation, Moose Factory and Moosonee, Rocky Bay First Nation,Red Rock Indian Band, Geraldton, Nipigon and Beardmore.

Approximately 70 km of line is near end-of-life and is being targeted for refurbishment in the next 5 years.

iv. The below table shows a list of all of Hydro One's transmission assets, their age, their originally-anticipated replacement date and their actual or anticipated replacement date.

Hydro One's Transmission Asset	Age (Year)	Original/Anticipated Replacement Date	Actual / Plan Replacement Date
Longlac TS			
Power Transformer -T2	5	2010	2011
Power Transformer - T3	5	2010	2011
Breaker -116M1	5	2010	2011
Breaker -116M2	5	2010	2011
Breaker - SC1Z	5	2010	2011
Breaker - SC2Z	5	2010	2011
M2 feeder protection	5	Beyond 2018	Beyond 2018
Moosonee SS			
M9K A protection	9	Beyond 2018	Beyond 2018
M9K B protection	9	Beyond 2018	Beyond 2018
OtterRapid SS			
Breaker -L6L7	9	2005	2007
Breaker -L6L8	6	2005	2010
Alexander SS			
A4L A protection	24	2017/2018	
A4L B protection	15	2017/2018	
A6P A protection	15	2017/2018	
A6P B protection	14	2017/2018	
HL6 BF protection	19	2017/2018	
L5L6 BF protection	19	2017/2018	

Hydro One's Transmission Asset	Age (Year)	Original/Anticipated Replacement Date	Actual / Plan Replacement Date
Port Arthur TS			
Power Transformer -T1	42	Beyond 2018	Beyond 2018
Power Transformer - T2	42	Beyond 2018	Beyond 2018
Breaker -2A6P	62	Beyond 2018	Beyond 2018
Breaker -2L3P	70	Beyond 2018	Beyond 2018
Breaker -2L4P	70	Beyond 2018	Beyond 2018
Breaker -2P1P	66	Beyond 2018	Beyond 2018
Breaker -2P1T	68	Beyond 2018	Beyond 2018
Breaker -2P3B	63	Beyond 2018	Beyond 2018
Breaker -2P5M	64	Beyond 2018	Beyond 2018
Breaker -2P7B	64	Beyond 2018	Beyond 2018
Breaker -BY	65	Beyond 2018	Beyond 2018
Breaker -M1-27	67	Beyond 2018	Beyond 2018
Breaker -M2	64	Beyond 2018	Beyond 2018
Breaker -M3	64	Beyond 2018	Beyond 2018
Breaker -M4	68	Beyond 2018	Beyond 2018
Breaker -M5	67	Beyond 2018	Beyond 2018
Breaker -M6	68	Beyond 2018	Beyond 2018
Breaker -T1B	59	Beyond 2018	Beyond 2018
Breaker -T2B	59	Beyond 2018	Beyond 2018
A6P A protection	16	Beyond 2018	Beyond 2018
A6P B protection	18	Beyond 2018	Beyond 2018
2A6P BF protection	47	Beyond 2018	Beyond 2018

Elliot Lake TS			
Power Transformer -T1	59	Beyond 2018	Beyond 2018
Power Transformer - T2	68	Beyond 2018	Beyond 2018
Power Transformer - T3	20	Beyond 2018	Beyond 2018
Breaker -M1	61	Beyond 2018	Beyond 2018
Breaker -M2	66	Beyond 2018	Beyond 2018
Breaker -M3	35	Beyond 2018	Beyond 2018

1

Hydro One's Transmission Asset	Average Age (Year)	Original/Anticipated Replacement Date	Actual / Plan Replacement Date
M9K circuit/conductor	41	2045 (ESL of 70 years)	
M3K circuit/conductor	12	2074 (ESL of 70 years)	
A4L circuit/conductor	74	2012 (ESL of 70 years)	A portion of this line is scheduled for refurbishment in 2017-2022 business plan. Some sections require assessments
T1B circuit/conductor	63	2023 (ESL of 70 years)	Requires assessment
56M1 circuit/conductor	19	2067 (ESL of 70 years)	
57M1 circuit/conductor	19	2067 (ESL of 70 years)	

TAB 14

2.4.1 First Nations and Métis

Hydro One owns and maintains assets on reserve lands and within the traditional territories of First Nations and Métis peoples. Building relationships with First Nations and Métis communities based upon trust, confidence, and accountability is vital to achieving Hydro One's business objectives.

The First Nations and Métis Relations function is accountable for:

- supporting and sustaining long-term relationship-building and negotiations with First Nations and Métis communities impacted by the growth of Hydro One core work programs;
- developing and maintaining key relationships with government officials as well as representatives of key businesses including but not limited to other energy companies;
- supporting procurement opportunities for qualified First Nations and Métis businesses;
- providing engagement services on projects and/or initiatives that potentially affect the First Nations and Métis peoples and communities;
- providing leadership and advice within the company in the building of knowledge and awareness of First Nations and Métis historic and contemporary issues; and
- together with the People and Culture organization, developing initiatives to enhance the level of aboriginal employment at Hydro One.

First Nations and Métis Relations forecast costs are $4.5 million in 2017 and in 2018. The amounts allocated to Hydro One Transmission are $2.6 million annually for 2017 and 2018.