COST OF CAPITAL/CAPITAL STRUCTURE

1.0 INTRODUCTION

This Exhibit summarizes the method and cost of financing Hydro One's Transmission and Distribution capital requirements for the rebasing year 2028 and for the duration of the Custom IR period. The historical, bridge, test and most recent OEB-approved debt and equity summary schedules for Transmission and Distribution are provided at Exhibit F-01-03. HOSSM's cost of capital evidence is addressed in Exhibit F-02-01.

For both Transmission and Distribution, the cost of capital is based on a capital structure that consists of two financing cost components: cost of debt and cost of equity. As shown in Exhibit F-01-03, these components make up the total return on capital that forms part of the revenue requirements for the Transmission and Distribution businesses, for each year of this Application.

In determining the cost of capital that is reflected in the proposed revenue requirements for Transmission and Distribution, Hydro One has applied a capital structure of 45% equity and 55% debt (51% long-term and 4% short-term). The proposed capital structure, which represents a change from the previously approved capital structure to reflect increased business and financial risk, is further discussed in Section 3.0 and is supported by expert analysis performed by Concentric Energy Advisors (Concentric), whose findings are reflected in *Hydro One Networks Inc. - Cost of Capital Study* (the "Concentric Report") provided as Attachment 1 to this exhibit, and by Utility Credit Consultancy LLC ("Utility Credit Consultancy") whose findings are included in *Credit-Focused Capital Markets Analysis* ("Credit Report") at Attachment 2 to this exhibit.

Hydro One anticipates updating the Transmission and Distribution revenue requirements for the 2028 to 2032 test years when the OEB releases its 2028 cost of capital parameters, reflecting: (a) the OEB-approved 2028 rate of return on equity and deemed short term debt rate; and (b) updated long-term debt rates for each year of the Custom IR period based on Hydro One's actual 2026 and 2027 debt issuances to-date and updated forecast

of debt issuances to 2032 with coupon rates based on the October 2027 Long-term Forecast ("Consensus Forecasts") from Consensus Economics Inc.,[1] as described in further detail in Exhibit F-01-02. Hydro One proposes that the cost of capital parameters established based on the OEB's 2028 return on equity and deemed short term debt rate, together with Hydro One's updated forecasted weighted average cost of debt for the Transmission and Distribution businesses for each of the 2028 to 2032 test years, as applied to the proposed capital structure, be used to determine the final revenue requirements for each of the 2028 to 2032 test years.

2.0 OVERALL FINANCING STRATEGY

Hydro One Inc.'s financing strategy for both Transmission and Distribution takes into consideration the objectives of cost effectiveness, liquidity, minimizing refinancing risk, and ensuring the overall outstanding duration of its capital is aligned with the long service lives of the Company's assets. Hydro One is focused on raising capital efficiently across all available markets, products, and geographies to achieve optimal execution and pricing benefits for customers. By continually evaluating funding opportunities, the goal is to minimize financing costs and, ultimately, the cost of capital borne by customers. As described in Exhibit F-01-02, Hydro One Inc.'s debt financing needs over the 2028 to 2032 period are expected to be sourced through the Canadian and US bond markets. The standard maturity terms of five, ten and thirty years are generally the most liquid, or largest from an investor demand perspective, and represent the main financing tenors that Hydro One Inc. plans to utilize to execute its debt financing strategy.

Hydro One Limited (HOL), the parent company to Hydro One Inc. and the entity with common shares listed on Toronto Stock Exchange under the ticker "H", expects to raise equity or equity-like funding over the 2028 to 2032 period, for equity contributions into Hydro One Inc. and Hydro One Networks Inc., through equity and/or hybrid debt issuances.[2] Any such issuances by HOL would be subject to the terms of the governance

[1] Consensus Economics Inc. is a leading provider of consensus forecasts, which are created by combining economic forecasts from multiple economic forecasters into a single median forecast.
[2] A hybrid debt issuance is a financing instrument that combines characteristics of both debt and equity securities.

agreement dated November 5, 2015 between HOL and Her Majesty the Queen in right of Ontario, as applicable.

3.0 CAPITAL STRUCTURE FOR TRANSMISSION AND DISTRIBUTION

In previous rate proceedings, Hydro One's Transmission and Distribution capital structures for rate-making purposes were based on the OEB's deemed capital structure of 60% debt and 40% common equity of utility rate base, with 60% debt comprised of 4% short-term debt and 56% long-term debt. This capital structure was approved by the OEB most recently as part of its decision for Hydro One's 2023-2027 Custom IR Application in EB-2021-0110. This capital structure is consistent with the deemed capital structure that was reaffirmed in the OEB's *Decision and Order, Generic Proceeding – Cost of Capital and Other Matters*, dated March 27, 2025 (EB-2024-0063) (the "Generic CoC Decision"). In the Generic CoC Decision, the OEB further noted that utilities may apply for a change in capital structure if they believe there has been an increase in the business or financial risks they face.[3]

Hydro One engaged Concentric to perform a utility risk and capital structure analysis to assist Hydro One in assessing whether the OEB's deemed capital structure continues to appropriately address the level of business and financial risk facing Hydro One during the period from 2028 and through the Custom IR period. Based on its assessment, Concentric concludes that an update to Hydro One's capital structure is warranted. The Concentric Report sets out a detailed analysis and rationale in support of this finding, and their recommended range for an appropriate equity thickness for Hydro One.

In summary, the Concentric Report states:

- A deemed equity ratio in the range of 45% to 50% is appropriate for Hydro One (p. 59 of 114).
- Within this range, Concentric recommends a midpoint value of 47.5%, which would adhere to the Fair Return Standard as it would be comparable to the return available from the application of invested capital to other enterprises of like risk,

[3] Generic CoC Decision, p. 56.

enable the financial integrity of Hydro One to be maintained, and permit continued capital to be attracted to Hydro One on reasonable terms and conditions, giving consideration to the increased level of capital funding that will be required over the 2028 through 2032 period (p. 82 of 114).

- The recommended increase to equity thickness mentioned above for Hydro One is in line with the equity ratios of US peers, ranging from 45% to 60%, with measures of central tendencies around 50% to 53%. This analysis suggests that Hydro One's current deemed equity ratio of 40% lags its peers and does not satisfy the Fair Return Standard (p. 82 of 114).
- In addition, Concentric's recommended equity ratio of 47.5% for Hydro One balances considerations related to industry-level factors that are impacting the cost of capital for Hydro One, as well as Hydro One's lower-than-peers' weighted equity return (p. 85 of 114).
- Regulated utilities in both Canada and the U.S. participate in an integrated North American market for capital. While authorized equity ratios have historically diverged between the two countries, Concentric's analysis suggests that this divergence is not justified by differentials in risk (p. 58 of 114).
- Equity investors and credit analysts consider the utility industry as a North American industry, with Canadian companies competing for capital with similar risk companies in both Canada and the US (p. 55 of 114).
- Hydro One competes with US utilities for equity capital through its stock listing on the Toronto Stock Exchange (p. 5 of 114) and for debt capital through its US bond issuance program (p. 45 of 114).
- Hydro One's top equity investors also invest in US utilities (p. 44 of 114).

Based on Concentric's recommendation that an appropriate range for Hydro One's equity thickness is 45% to 50%, Hydro One proposes to increase its equity thickness to 45% starting in 2028, for Transmission and Distribution, to accommodate the increase in business and financial risk, considering the substantial infrastructure buildout and elevated capital spending program in the upcoming rate period. The 45% equity thickness proposal is on the lower end of the recommended range identified by Concentric. Hydro

One believes this proposal reflects an appropriate balance between supporting credit metrics and recognizing customer affordability considerations.[4] Hydro One proposes that the remaining 55% debt component of its capital structure consists of 4% short-term debt and 51% long-term debt. The short-term debt component of 4% is proposed as it aligns with the current deemed capital structure.

As illustrated in Concentric's proforma analysis on credit metrics (p. 38 of 114), Concentric estimates that an increase in equity thickness will help maintain Hydro One's credit ratings to ensure debt financing costs remain as low as possible for the benefit of customers. In the absence of an increase to the equity thickness, Hydro One's credit metrics are anticipated to deteriorate over the 2028 to 2032 period below 'A' rated thresholds, as a result of the significant capital buildout required in the Province, leading to credit rating downgrades as illustrated in both S&P and Moody's downgrade thresholds reports (included in Exhibit F-01-05) and Concentric's proforma analysis on credit metrics (pp. 102-104 of 114). This highlights the importance of a credit supportive regulatory environment in the upcoming rate period to reflect a shift in Hydro One's risk profile since EB-2021-0110 and warrants a re-assessment of the use of the deemed equity ratio for Hydro One (p. 41 of 114). Hydro One recognizes that the proposed capital structure is assessed for the 2028 to 2032 period in this Application and will be evaluated for future periods in subsequent applications.

4.0 SUMMARY OF CREDIT RATINGS, DEBT AND EQUITY CAPITAL MARKETS

Hydro One engaged Utility Credit Consultancy to provide an expert report on the role of credit ratings in debt and equity markets. Utility Credit Consultancy's Credit Report, provided as Attachment 2 to this exhibit, includes a review of credit ratings and capital markets, explanation of ratings scales and process, the importance of utility credit ratings to investors, regulators and customers, and the analytical framework used for determining utility credit ratings.

[4] See Credit Report for further discussion, p. 20

In summary, the Credit Report states:

- Credit ratings directly affect a utility's cost of debt and also inform equity investors' assessment of risk. The higher the rating, the lower the cost of debt, which ultimately benefits customers through lower utility rates (pp. 9-10).
- Utility credit analysis gives substantial weight to business risk, particularly regulatory risk. Predictable, timely and complete cost recovery, including recovery of the cost of debt and equity, together with consistent and transparent regulatory decisions, supports stable cash flows and utility credit quality (pp. 12-16).
- Authorized ROE and capital structure are key indicators of regulatory support because they affect a utility's opportunity to earn its cost of capital, generate operating cash flow and maintain financial strength. The authorized return also signals to debt and equity investors the regulator's treatment of capital providers (pp. 14-16).
- Although the North American utility industry outlook has stabilized, utilities continue to face significant credit pressures from elevated capital requirements, demand growth, aging infrastructure, reliability and resiliency needs, climate risks and affordability concerns. Maintaining supportive regulatory frameworks, stable and predictable cash flows and access to capital markets will be important to preserving credit quality (pp. 18-21).
- Hydro One has strong investment-grade ratings, supported by its operating record, constructive regulatory environment and management's commitment to credit quality. However, Moody's identifies the sufficiency of rates and returns, including the current 40% authorized equity layer, as a relative weakness in its assessment (pp. 22-26).
- Hydro One's ratings have limited financial cushion. S&P FFO-to-debt forecast of approximately 12% (2026-2028), compared with an 11% downgrade threshold, ranks Hydro One near the bottom of the 'A' rating category and relies on a one-notch positive comparable-rating adjustment to support the current rating. Moody's scorecard-indicated outcome is one notch below its assigned rating, with the current uplift attributable to expected support from the Province of Ontario (pp. 24-29).

- Credit ratings are forward looking and rating agencies don't wait for financial deterioration to set in to initiate a downgrade (p. 26)
- Avoiding a downgrade is particularly important because ratings are generally easier to lose than to regain (pp. 28-30).
- Utility Credit Consultancy concludes that adopting Hydro One's requested capital structure would bolster credit quality, otherwise the company is susceptible to a future credit rating downgrade. The company's current credit ratings offer ample and efficient access to the capital needed to maintain Hydro One's operations and meet the needs of its customers and the province of Ontario and a downgrade would impede crucial efforts by Hydro One and the province to promote economic growth through greater market penetration of electricity and improved grid reliability (p. 30).

5.0 RETURN ON COMMON EQUITY FOR TRANSMISSION AND DISTRIBUTION

Hydro One's proposed Transmission and Distribution revenue requirements each reflect a return on equity (ROE) of 9.11% as a placeholder for 2028 to 2032 based on the Cost of Capital Parameters released by the OEB on October 31, 2025, for rates effective January 1, 2026. It is calculated using the OEB's formulaic approach, as set out in Schedule C of the Generic CoC Decision.

As set out above, Hydro One will update the equity component of the cost of capital for the 2028 to 2032 test years using the 2028 ROE to be calculated and released by the OEB in the fall of 2027.

As required by section 2.9.2 of the Chapter 2 Filing Requirements for Electricity Transmission Applications, Table 1 compares Hydro One's achieved and OEB-approved ROE for its Transmission and Distribution businesses from 2020 to 2025.

Table 1 - Achieved and OEB Approved ROE

		2020	2021	2022	2023	2024	2025
Transmission	Achieved	9.29%	9.30%	9.92%	10.80%	10.96%	12.72%
Transmission	Approved	8.52%	8.52%	8.52%	9.36%	9.36%	9.36%
Distribution	Achieved	10.56%	10.99%	10.10%	10.88%	9.79%	11.38%
Distribution	Approved	9.00%	9.00%	9.00%	9.36%	9.36%	9.36%

5.1 FACTORS CONTRIBUTING TO ACHIEVED ROE

The difference between achieved and OEB-approved ROE did not arise from a single factor. It reflected a combination of revenue variances, the timing of in-service additions, productivity improvements, and prudent management of operational and financial requirements within the approved rate framework. For Transmission, achieved ROE was affected primarily by higher demand associated with external factors, including weather related variability. In certain years, the timing of in-service additions and gains from property sales also contributed to the variance. For Distribution, achieved ROE was affected primarily by higher energy consumption and customer connections than reflected in the approved forecast. In certain years, lower removal costs and a gain on the sale of surplus property also contributed to the variance. In particular:

- Revenue was affected by demand and weather conditions that differed from forecasts in the last rate application
- Population and connection growth, driven in large part by a national immigration policy initiated during the COVID-19 pandemic, contributed to higher consumption and customer-related revenues
- Hydro One realized productivity improvements and enterprise cost savings that helped offset cost pressures
- The timing and pacing of capital and OM&A work affected annual expenditures and earnings
- Certain non-recurring items, including property sale gains, affected individual years

These factors must be considered within the Custom IR framework, which requires Hydro One to manage evolving operational, cost, and forecasting risks over a multi-year period within approved funding and revenue parameters. The opportunity to retain a portion of productivity and performance benefits is accompanied by the obligation to absorb risks and cost pressures that do not qualify for separate recovery.

5.2 CUSTOMER SHARING AND USE OF EARNINGS

Customers receive a direct benefit from Hydro One's ROE performance through the approved Earnings Sharing Mechanism (ESM). Under that mechanism, Hydro One retains the first 100 basis points of earnings above the approved ROE and shares with customers 50% of earnings above that threshold. In its annual update for 2026 rates and revenue requirements, Hydro One disposed of $69.6M through the Transmission ESM[5] and $66.8M through the Distribution ESM[6], inclusive of projected interest to December 31, 2025, reflecting amounts from the 2021 to 2024 period. In this Application, Hydro One proposes to dispose of an additional $109.6M through the Transmission ESM and $60.9M through the Distribution ESM inclusive of projected interest to December 31, 2027, reflecting 2025 amounts to be shared with customers.[7]

Hydro One managed favourable revenue variances within the approved Custom IR framework. The amounts retained by Hydro One contributed to overall cash flow and supported its capital and OM&A requirements during the 2023 to 2027 rate period. As described in SPF Section 1.8, TSP Section 2.9, DSP Section 3.9, Exhibit E-02-01 and Exhibit E-03-01, Hydro One experienced significant and unanticipated cost and demand pressures that required it to prioritize urgent and mandatory work. To manage these pressures, Hydro One reprioritized work, deferred or re-paced certain activities where appropriate, and implemented additional productivity and cost control measures, including a company-wide cost optimization program, as discussed in SPF Section 1.4.

[5] EB-2025-0159, Decision and Order, October 7, 2025, p. 7
[6] EB-2025-0030, Partial Decision and Order, December 17, 2025, p. 28
[7] See Exhibit G-01-07, Attachments 1 and 2

Notwithstanding these actions, the magnitude of the underlying cost and demand pressures experienced during the rate period resulted in Hydro One being forecast to spend above the OEB-approved five-year envelope for Transmission capital, Distribution capital and Transmission OM&A, while managing Distribution OM&A at a level just above its approved envelope. Favourable revenue variances helped Hydro One fund the incremental capital and OM&A required to address safety, reliability, compliance, and customer needs without receiving additional rate funding during the Custom IR period.

To the extent that funds remained available after meeting these requirements, they reduced Hydro One's borrowing needs relative to what they otherwise would have been. This supported Hydro One's credit metrics, reduced interest expense and future financing requirements, and increased the earnings shared with customers through the ESM. Hydro One did not use favourable revenue variances to fund special dividends.

Table 2 below quantifies customer sharing and cash-flow uses of Hydro One's favourable revenue variances over the last few years.

Table 2 - Customer sharing and cash flow uses of earnings

Use of funds	2023-2025 Transmission	2023-2025 Distribution
Earnings shared with customers through ESM (excluding interest)	$152.8M	$78.9M
OM&A above approved amounts	$93.8M	$92.4M
Capital above approved amounts	$265.3M	$286.3M
Reduction in borrowing requirements (estimation)	$403.9M	$241.6M

6.0 DEEMED SHORT-TERM DEBT FOR TRANSMISSION AND DISTRIBUTION

Under the proposed capital structure, as noted above, Hydro One is requesting that the amount of short-term debt that should be factored into rate-setting be fixed at 4% of rate base, consistent with the current short-term debt component. The OEB's deemed short-term debt rate of 2.72% is being used by Hydro One Transmission and Distribution as a placeholder for 2028 to 2032. This rate is based on the September 2025 3-month Utility Bond Yield (BVCAUA3M BVLI Index) from the Cost of Capital Parameters released by the OEB on October 31, 2025, for rates effective January 1, 2026.

Hydro One will update the deemed short-term debt rate for each of the 2028 to 2032 test years based on the 2028 deemed short-term debt rate to be calculated and published by the OEB in the fall of 2027.

7.0 LONG-TERM DEBT FOR TRANSMISSION AND DISTRIBUTION

Under the proposed capital structure, as noted above, Hydro One is requesting that the deemed amount of long-term debt to be factored into rate-setting be fixed at 51% of rate base. The long-term debt rate for Transmission in each test year from 2028 to 2032 is calculated as a placeholder, and described in Exhibit F-01-02, Table 2, and Exhibit F-01-04. The long-term debt rate for Distribution in each test year between 2028 to 2032 is calculated as a placeholder, and described in Exhibit F-01-02, Table 2, and Exhibit F-01-04. In each case, for both Transmission and Distribution, the long-term debt rate is calculated as the weighted average rate on embedded debt, new debt, and forecast debt planned to be issued in each year between 2028 to 2032, as discussed in Exhibit F-01-02. The difference in the long-term debt rates for Transmission and Distribution is due to the different annual borrowing requirements for each business, as described in Exhibit F-01-02. Details of Hydro One's Transmission and Distribution long-term debt rate calculations for the 2028 to 2032 test years, as well as historical years, are provided in Exhibit F-01-04.

As discussed in this Exhibit, shortly after the OEB issues its cost of capital parameters for 2028 (expected in late fall 2027), Hydro One will update the long-term debt rates for Transmission and Distribution for each of the 2028 to 2032 test years based on (i) Hydro One's actual 2026 and 2027 debt issuances to date, and (ii) its updated forecast of debt issuances in 2028 to 2032, utilizing updated coupon rates based on the Consensus Forecasts. Hydro One is seeking an update to the long-term debt rates for Transmission and Distribution for each of the 2028 to 2032 test years due to the large volume of debt forecast to be issued in the rate application period in support of the significant capital buildout required in the Province over this period.

As Hydro One Transmission and Distribution each have market-determined cost of debt, the weighted average long-term debt rate is also applied to any notional debt that is required to match the actual amount of long-term debt issued to the deemed amount of long-term debt, consistent with past practice in EB-2021-0110.

The actual capital structure for Transmission and Distribution may differ from the deemed capital structure due to the timing of long-term debt issuances, which is driven by market issuance windows attributable to, among other things, opportunistic access, market receptivity and issuer blackout periods.

Hydro One Networks Inc.

Cost of Capital Study

SEPTEMBER 2026

CONCENTRIC ENERGY ADVISORS

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Section 1:
INTRODUCTION

A. Scope of Analysis and Purpose of Report

Concentric Energy Advisors, Inc. ("Concentric") was retained to prepare this independent report addressing whether Hydro One Networks Inc.'s ("Hydro One" or "the Company") current cost of capital, including its 40% deemed equity ratio, remains appropriate for purposes of setting payment amounts in Hydro One's next rates application. Consistent with the Ontario Energy Board's ("OEB's") findings in EB-2024-0063, which permit applicants and intervenors to file evidence in individual rate hearings to support different cost of capital parameters based on specific circumstances, Concentric's analysis focuses on Hydro One's deemed capital structure.[1] Because capital structure and the return on equity ("ROE") are interrelated, Concentric also provides ROE analysis for a peer group of risk-comparable North American utilities to provide context for assessing whether Hydro One's overall rate of return satisfies the Fair Return Standard ("FRS").

1. Overview of Hydro One and its Regulatory Framework

Hydro One is an electric transmission and distribution ("T&D") company operating in Ontario, Canada. Hydro One is a subsidiary of Hydro One Inc. ("HOI"), which is a subsidiary of Hydro One Limited ("HOL"). HOL was incorporated on August 31, 2015, under the Ontario Business Corporations Act.[2] HOL is listed on the Toronto Stock Exchange. On October 31, 2015, HOL acquired HOI, which was previously owned by the Province of Ontario. As of March 31, 2026, the Province of Ontario held 47.1% of Hydro One Limited's common shares, the rest being privately owned.[3] Hydro One is the largest electric T&D company in Ontario, with over 1.5 million customers.[4] In addition, Hydro One finances and develops Affiliate Transmission Partnerships ("ATPs") that are transferred to partnerships with First Nations after being completed, energized, and placed into service. HOL's other businesses consist principally of its telecommunications business and certain corporate activities.[5]

1 EB-2024-0063, Decision and Order, March 27, 2025, at 35 and 89.
2 United States Securities and Exchange Commission, Form EX-99.1, Hydro One Limited Condensed Interim Consolidated Statements of Operations and Comprehensive Income (unaudited), For the three and nine months ended September 30, 2024 and 2023.
3 Hydro One Ltd. First Quarter Results, May13, 2026.
4 Hydro One Inc. 2025 Year End Management's Discussion and Analysis ("MD&A"), at 2.
5 Hydro One Limited. 2025 Annual Report, at 5-6. HOL's telecommunications business is carried out by Acronym Solutions Inc., an unregulated wholly-owned subsidiary of HOL that provides

Hydro One's transmission business accounts for 91% of Ontario's transmission capacity, comprised of around 30,000 circuit-kilometers of transmission lines carrying approximately 145 million MWh of electricity in 2025.[6] Hydro One distributed approximately 33.3 thousand GWh of electricity to customers across 126 thousand circuit-kilometers in 2025.[7] T&D revenues are largely driven by OEB approved and regulated rates; however, transmission revenues are charged based on the monthly peak electricity demand across Hydro One's high-voltage network, and distribution revenues also include the recovery of purchased power costs.[8] In 2025, revenue generated from transmission activities was $2,436 million CAD and revenue generated from distribution activities was $6,557 million CAD.[9]

Hydro One's rates were most recently set in 2022 in proceeding EB-2021-0110, which established both transmission and distribution rates for the 2023-2027 period using a Custom Incentive Rate ("Custom IR") framework. Both the transmission and distribution revenue requirements for the first year of the period (2023) were determined using a cost of service, forward test year approach, and each of the remaining years (2024-2027) have been determined using the Custom Revenue Cap Index ("Custom RCI") approach.[10]

Hydro One does not have credit ratings separate from its parent company, HOI. HOI has credit ratings from Morningstar DBRS ("DBRS," A (high), October 2025[11]), S&P Global Ratings ("S&P," A, August 2025[12]), and Moody's Ratings ("Moody's," A3, November 2025[13]).

These corporate, operating, regulatory, and credit characteristics provide the context for assessing Hydro One on a stand-alone regulated utility basis.

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telecommunications support for the Company's T&D business and offers telecommunications services in a competitive commercial market. HOL's other corporate activities include Aux Energy Inc., a wholly-owned subsidiary of HOL that provides energy solutions to commercial and industrial clients, and Ontario Charging Network LP, a wholly-owned subsidiary that owns and operates electric vehicle fast charging stations across Ontario under the Ivy Charging Network Brand. Together, HOL's other businesses comprised 1% of total company revenues and 2% of total company assets at year-end 2025.

6 *Ibid.*

7 *Ibid.*

8 *Id.*, at 3.

9 *Id.*, at 5.

10 Hydro One EB-2021-0110, Settlement Proposal. ("EB-2021-0110 – Custom IR Application (2023-2027) for Hydro One Networks Inc. Transmission and Distribution ("Hydro One") – Settlement Proposal"), at 14.

11 Morningstar/DBRS, Credit Rating Report Hydro One Inc., November 13, 2025.

12 S&P Global Ratings, Tear Sheet: Hydro One's Second Quarter Earnings Are in Line with S&P Global Ratings' Expectations, August 18, 2025.

13 Moody's Credit Ratings, Hydro One Inc., November 7, 2025.

2. Concentric's Approach

In preparing this report, Concentric:

1. Performed a company-focused assessment of Hydro One's current and forward-looking business and financial risk profile, including changes since EB-2021-0110 and the implications of Hydro One's capital requirements, credit metrics, and regulatory environment;
2. Performed a market/industry assessment of industry trends and reasonably comparable utility companies, including analysis of authorized and actual equity ratios, North American T&D operating companies, and market-based ROE evidence; and
3. Developed a recommended deemed capital structure for Hydro One based on the financial integrity, capital attraction, and comparability requirements of the Fair Return Standard.

B. Overview of Concentric

Concentric is a management consulting and economic advisory firm, focused on the North American energy industry. Based in Marlborough, Massachusetts, and with offices in Washington, D.C., and Calgary, Alberta, Concentric provides financial, economic, regulatory, and strategic advisory services to energy and utility clients across North America. Concentric's work includes utility ratemaking and regulatory advisory services, cost of capital studies, energy market assessments, demand forecasting, resource planning, transaction support, valuation, and litigation support. Concentric has advised energy industry participants on T&D investment, ownership, asset development, mergers and acquisitions, risk assessment, cost recovery, and cost of capital. Concentric has provided expert testimony on the cost of capital issues in more than 100 regulatory proceedings in Canada and the U.S. over the past five years.

C. Introduction of Witness

Daniel S. Dane, President at Concentric, authored this report with assistance from other Concentric staff. Mr. Dane is a senior expert who provides testimony before Canadian provincial and U.S. state agencies on matters pertaining to economics and finance in the energy industry. He regularly advises utilities, generating companies, public agencies and institutional investors on business issues pertaining to the utilities industry. This work includes determining the cost of capital for ratemaking purposes and providing expert testimony and studies on matters pertaining to incentive regulation, rate policy, valuation, and capital costs. He has advised both buyers and sellers in numerous transactions involving utility companies and energy infrastructure and worked with companies to

develop strategies for acquiring these assets. He has testified or provided expert evidence before state and provincial regulators across Canada and the U.S., including the OEB. He has provided this work on behalf of utilities, regulatory commissions, and regulatory staff. Mr. Dane also coauthored "A Comparative Analysis of Return on Equity of Natural Gas Utilities" with Concentric colleagues on behalf of the OEB. Mr. Dane appeared as a witness on cost of capital matters on behalf of OPG in EB-2016-0152, EB-2020-0290, and EB-2025-0297, on behalf of Enbridge Gas, Inc. in EB-2022-0200, and on behalf of a coalition of Ontario utilities in EB-2024-0063.

Mr. Dane has an MBA from Boston College in Chestnut Hill, Massachusetts and a BA in Economics from Colgate University in Hamilton, New York. Mr. Dane is a certified public accountant, licensed in the Commonwealth of Massachusetts.

Mr. Dane's qualifications are detailed more fully in Appendix C.

D. Witness Duty

I acknowledge that it is my duty to provide evidence in relation to this proceeding as follows:

a. to provide opinion evidence that is fair, objective and non-partisan;
b. to provide opinion evidence that is related only to matters that are within my area of expertise; and
c. to provide such additional assistance as the OEB may reasonably require, to determine a matter in issue.

I acknowledge that the duty referred to above prevails over any obligation which I may owe to any party by whom or on whose behalf I am engaged.

E. Report Organization

The remainder of this report is organized as follows:

Section 2 provides an executive summary of Concentric's findings and recommendations.

Section 3 summarizes the Fair Return Standard ("FRS") and the principles of a fair return.

Section 4 provides Concentric's company-focused assessment of Hydro One's current and forward-looking business and financial risks, including demand growth, capital requirements, operational risk, regulatory risk, credit metrics, and investor perspectives.

Section 5 provides renewed perspectives on the use of Canadian and U.S. proxy companies in cost of capital analyses, including evidence regarding cross-border investment, North American market integration, country risk, and regulatory precedent.

Section 6 provides Concentric's market/industry assessment under the Fair Return Standard, including proxy group development, authorized and actual equity ratio evidence, business risk comparability, T&D operating company data, and supporting ROE analyses.

Section 7 summarizes our key conclusions and recommendations.

Section 2:
EXECUTIVE SUMMARY

A. Purpose of Report

The purpose of this report is to provide Concentric's findings and recommendations regarding an appropriate cost of capital for Hydro One in its next rate application, which will cover the five-year period from 2028 to 2032 (i.e., the "IR Term").[14] Concentric's recommendation focuses principally on whether Hydro One's current 40% deemed equity ratio remains sufficient to satisfy the Fair Return Standard in light of the Company's forward-looking business and financial risk profile, capital requirements, credit metric pressure, and market evidence for reasonably comparable utilities.

Concentric's analysis and conclusions are focused on whether the current cost of capital for Hydro One, inclusive of the capital structure, adheres to the FRS. The FRS, as recently reaffirmed by the OEB in EB-2024-0063,[15] requires that the authorized cost of capital should provide the Company with the opportunity to earn a fair and reasonable return that is:

- Adequate to allow the Company to attract the capital that is necessary to provide safe and reliable service on a reasonable basis (the "capital attraction" standard);
- Sufficient to enable the Company's ability to maintain its financial integrity (the "financial integrity" standard); and
- At a level that is comparable to returns required on investments of similar risk (the "comparability" standard).

These standards must be met individually and collectively to satisfy the FRS, and no one ranks as more important than another. Important to an evaluation of the cost of capital are also the concepts of risk and opportunity cost. As stated in Fundamentals of Corporate Finance:

> *We will henceforth use the terms required return, appropriate discount rate, and cost of capital more or less interchangeably because, as the discussion in this section suggests, they all mean essentially the same thing. The key fact to grasp is that the cost of capital associated with an investment depends on the risk of that investment. This is one of the*

[14] Brief summaries of Hydro One's previous rates applications and the 2024 generic cost of capital proceeding are provided in Appendix A.

[15] EB-2024-0063, Decision and Order, March 27, 2025, at 4 and 34.

most important lessons in corporate finance, so it bears repeating: The cost of capital depends primarily on the use of the funds, not the source.[16]

As such, the FRS considers both company-specific factors, focused on the risk profile of a Company, and its ability to maintain its financial integrity and attract capital, and market/industry factors, focused on investor perspectives and whether the authorized cost of capital provides a return that is commensurate with returns on other similarly-risked investments. Accordingly, an FRS analysis requires consideration of both Hydro One's stand-alone business and financial risk profile and the returns and capital structures available for investments of comparable risk.

In EB-2024-0063, the OEB updated its cost of capital framework, revising the formula used to establish the ROE and updating other cost of capital parameters such as the deemed long-and short-term debt rates. In its decision in that matter, the OEB found that it would "continue the practice of addressing material differences [in OEB regulated utilities] through the capital structure."[17] This report, therefore, focuses on Hydro One's deemed capital structure and whether it, along with the other components of Hydro's cost of capital, meets the FRS. Because capital structure and ROE are interrelated, Concentric also considered market-based ROE evidence to assess whether Hydro One's overall authorized return provides a reasonable opportunity to satisfy the FRS.

B. Company-Focused Assessment: Business and Financial Risk

A company-focused assessment is key to understanding whether Hydro One's current deemed equity ratio remains appropriate in light of the Company's current and forward-looking business and financial risk profile. To evaluate those risks, Concentric performed an independent review of: (1) trends in electricity demand that are driving the need for Hydro One's capital investments; (2) Hydro One's substantial infrastructure buildout and elevated capital spending program; (3) the Company's operational risks; (4) the regulatory environment in Ontario and its effect on Hydro One's risk profile; and (5) the key factors affecting Hydro One's financial risk.

[16] Stephen A. Ross, Randolph W. Westerfield, and Bradford D. Jordan, *Fundamentals of Corporate Finance*, 5th ed. (New York: Irwin McGraw-Hill, 2000), at 419.

[17] EB-2024-0063, Decision and Order, March 27, 2025, at 35.

Hydro One's business and financial risk profile supports reassessment of its deemed equity ratio due to a convergence of factors that are described in detail in this report. These factors include significant growth in electricity demand, a historically large capital expenditure program, operational challenges associated with system capacity and execution, and tightening credit metrics under the currently authorized equity ratio. Whether viewed in terms of changes since EB-2021-0110 or in relation to current market evidence for reasonably comparable utilities, Hydro One's existing 40% deemed equity ratio warrants reassessment.

Growth in electricity demand is having and will continue to have significant impacts on Hydro One's business, including in the form of heightened levels of capital expenditure needed to keep pace with expected growth.

C. Renewed Perspectives on the Establishment of Peer Groups for Canadian Cost of Capital Determinations

In today's markets, competition for capital is global in nature. Canadian utilities compete for capital not only among other Canadian entities, but also among U.S. entities and other companies worldwide. Recent debt issuances in Canadian markets by large U.S. technology companies to fund data center developments, including Amazon (C$14 billion) and Alphabet (C$8.5 billion) in 2026, highlight the increased competition for capital that Hydro One faces from new and varied sources. As such, while the goal of proxy group analysis is to derive a group of companies with the same or similar investment risk, similarity is not limited by geographic boundaries, particularly when companies operating in different jurisdictions, provinces, or countries exhibit similar risk profiles and offer feasible investment alternatives for investors.

To address the OEB's recent findings regarding concerns about reliance on U.S. utility data for purposes of establishing the cost of capital for Ontario utilities, Concentric examined evidence regarding the applicability of a North American approach to establishing peer groups for Hydro One. Specifically, we reviewed: (1) direct evidence that investors make cross-border investments in regulated utilities; (2) information related to Hydro One's operational interconnectivity with the U.S.; (3) Canadian and U.S. macroeconomic indicators; and (4) decisions by Canadian regulators regarding the use of U.S. proxies in Canadian cost of capital decisions. In

Concentric concludes that it is necessary to construct a North American peer group to reasonably and accurately reflect investors' views on investment alternatives to Hydro One and satisfy the comparability standard of the FRS.

Concentric's view, the relevance of U.S. comparator evidence depends on investment-risk comparability, not on geography alone. Where the selected companies are reasonably comparable from an investment-risk perspective, U.S. comparators provide relevant market evidence. Excluding that evidence solely because the companies operate in the U.S. would give insufficient weight to the integrated nature of North American capital markets and the substantial capital flows between Canada and the U.S.

D. Market/Industry Assessment: Industry Trends and Peer Group Analysis

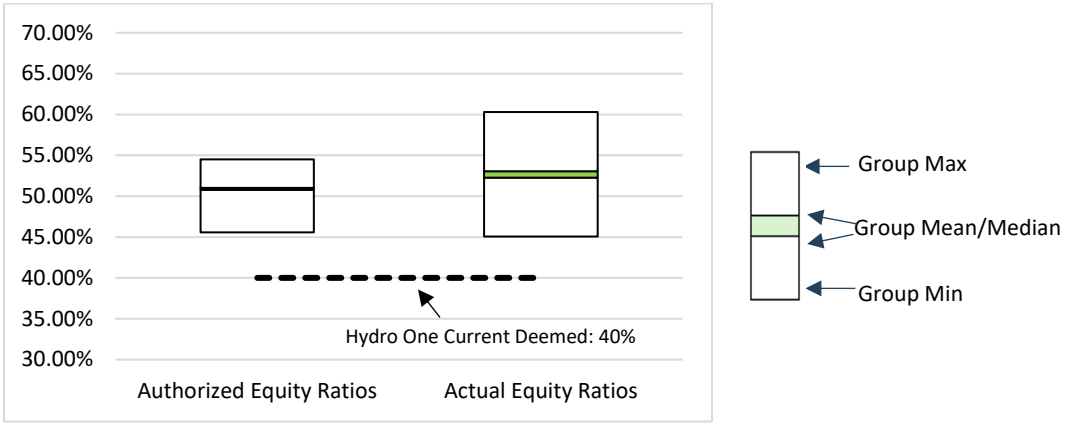
A market/industry assessment from a cost of capital perspective focuses on the comparability component of the FRS. Concentric's market/industry assessment considers trends in the electricity industry related to energy security and reliability, electrification and increasing electricity demand that are impacting electric utilities across North America. These trends are resulting in elevated capital investment requirements and increased competition for capital among regulated utilities. Because Hydro One has been and will continue to be competing for capital as the North American energy industry navigates these sector-wide trends, its authorized cost of capital must be assessed against returns and capital structures available for investments of comparable risk.

To help determine whether Hydro One's current deemed equity ratio adheres to the Fair Return Standard, Concentric developed a "Main Proxy Group" of companies reasonably comparable to Hydro One and conducted a series of equity ratio analyses for that group and several supplemental groups. Concentric also analyzed a broad set of North American T&D companies to provide further context for Hydro One's cost of capital. These analyses provide multiple reference points for assessing whether Hydro One's 40% deemed equity ratio provides a reasonable basis for satisfying the financial integrity, capital attraction, and comparability requirements of the FRS.

For the upcoming rate setting period, Concentric finds that a reasonable range for Hydro One's equity ratio is from 45.0% to 50.0%, and, within that range, we recommend an equity ratio of 47.5% for Hydro One.

Figure 1, below, provides summary statistics for the Main Proxy Group, and shows the positioning of Hydro One's current deemed equity ratio relative to those statistics.

Figure 1: Summary Statistics for Main Proxy Group



As shown in Figure 1, the authorized equity ratios range from approximately 45% to 55%, and the actual equity ratios range from approximately 45% to 60%. Altogether, the equity ratios range from 45% to 60%, with measures of central tendency (mean and median) ranging from 50% to 53%.

In addition, due to the interrelated nature of capital structure and the cost of capital, Concentric also performed ROE analyses to provide evidence on whether Hydro One's capital structure, along with the Ontario generic ROE, provides a fair return. Based on Concentric's analysis using market data through December 2025, the reasonable range of ROEs for Hydro One is from 9.51% to 10.86%, with an average result of 10.20%, which exceeds the current 2026 Ontario Formula ROE result of 9.11%[18], which used data through September 2025, and Hydro One's current IR Plan allowed ROE of 9.36%.[19]

The OEB's current approach for deemed equity ratio of 40%[20] is more than 10% below the mean and median results, and the OEB's generic ROE of 9.11% is also below current benchmarks for utility ROEs. Those combined results support Concentric's conclusion that Hydro One's deemed equity ratio should be reassessed to ensure that the authorized return satisfies the financial integrity, capital attraction, and comparability requirements of the FRS.

Concentric's recommendation for Hydro One's equity ratio balances considerations related to Hydro One's risk profile and increasing competition for capital with the OEB's findings in EB-2024-0063, as discussed herein. In Concentric's view, an equity ratio range of 45% to 50%, with a point estimate of 47.5%, reflects a moderated application of the proxy company evidence while providing greater support for Hydro One's financial integrity, capital attraction, and comparability during the IR Term.

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18 Ontario Energy Board, Cost of Capital Parameters. Available at: https://oeb.ca/regulatory-rules-and-documents/rules-codes-and-requirements/cost-capital-parameter-updates.
19 Hydro One Limited Investor Overview Post First Quarter 2026, at 17 and 25.
20 Hydro One Inc. 2025 Year End Management's Discussion and Analysis, at 14.

Section 3:

PRINCIPLES FOR A FAIR RETURN

A. Overview of Legal Requirements

The principles surrounding the concept of a "fair return" for a regulated company were established by the Supreme Court of Canada in the *Northwestern Utilities v. City of Edmonton* (1929) ("Northwestern") case, where the Supreme Court found:

> *By a fair return is meant that the company will be allowed as large a return on the capital invested in its enterprise (which will be net to the company) as it would receive if it were investing the same amount in other securities possessing an attractiveness, stability and certainty equal to that of the company's enterprise.*[21]

More recently, the Supreme Court of Canada in *Ontario (Energy Board) v. Ontario Power Generation Inc.* confirmed *Northwestern*, stating:

> *This means that the utility must, over the long run, be given the opportunity to recover, through the rates it is permitted to charge, its operating and capital costs ("capital costs" in this sense refers to all costs associated with the utility's invested capital). This case is concerned primarily with operating costs. If recovery of operating costs is not permitted, the utility will not earn its cost of capital, which represents the amount investors require by way of a return on their investment in order to justify an investment in the utility. The required return is one that is equivalent to what they could earn from an investment of comparable risk. Over the long run, unless a regulated utility is allowed to earn its cost of capital, further investment will be discouraged and it will be unable to expand its operations or even maintain existing ones. This will harm not only its shareholders, but also its customers.*[22]

The law regarding a fair return for utility cost of capital in the United States has evolved similarly. The U.S. Supreme Court set out guidance in the bellwether cases of *Bluefield Water Works* and *Hope Natural Gas Co.* as to the legal criteria for setting a fair return. In *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia,*[23] the Court recognized that a rate of return may become unreasonable due to changing market conditions:

> *The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical*

21 Northwestern, at 193.
22 Ontario (Energy Board) v. Ontario Power Generation Inc. 2015 SCC 44, at para 16.
23 *Bluefield Waterworks & Improvement Co., v. Public Service Commission of West Virginia*, 262 U.S. 679, 693 (1923).

> *management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.*[24]

The U.S. Supreme Court further elaborated on this requirement in its decision in *Federal Power Commission v. Hope Natural Gas Company.*[25] The Court emphasized the role of risk in this analysis and described the relevant criteria as follows:

> *From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock.... By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.*[26]

With the passage of time, the Fair Return Standard has been interpreted many times in both Canada and the U.S. For example, the National Energy Board ("NEB," now the "CER") summarized its interpretation of the "Fair Return Standard" in its RH-2-2004 Phase II Decision and reiterated that interpretation in its *Trans Québec & Maritimes Pipelines Inc.* RH-1-2008 Decision.

> *The Board is of the view that the Fair Return Standard can be articulated by having reference to three particular requirements. Specifically, a fair or reasonable return on capital should: be comparable to the return available from the application of the invested capital to other enterprises of like risk (the comparable investment standard); enable the financial integrity of the regulated enterprise to be maintained (the financial integrity standard); and permit incremental capital to be attracted to the enterprise on reasonable terms and conditions (the capital attraction standard).*
>
> *In the Board's view, the determination of a fair return in accordance with these enunciated standards will, when combined with other aspects for the Mainline's revenue requirement, result in tolls that are just and reasonable.*[27]

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24 *Id.*, at 679.
25 *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).
26 *Id.*, at 591.
27 National Energy Board RH-2-2004 Reasons for Decision, TransCanada PipeLines Ltd, Phase II, April 2005, at 17.

All three standards must be met, and none ranks in priority to the others. To that point, the OEB articulated the legal requirements for satisfying the Fair Return Standard in Canada in its 2009 Report as follows:

> *The Board affirms its view that the Fair Return Standard frames the discretion of a regulator, by setting out the three requirements that must be satisfied by the cost of capital determinations of the tribunal. Meeting the standard is not optional; it is a legal requirement. Notwithstanding this obligation, the Board notes that the Fair Return Standard is sufficiently broad that the regulator that applies it must still use informed judgment and apply its discretion in the determination of a rate regulated entity's cost of capital.*[28]

***

> *… all three standards or requirements (comparable investment, financial integrity, and capital attraction) must be met and none ranks in priority to the others. The Board agrees with the comments made to the effect that the cost of capital must satisfy all three requirements which can be measured through specific tests and that focusing on meeting the financial integrity and capital attraction tests without giving adequate consideration to the comparability test is not sufficient to meet the [Fair Return Standard].*[29]

Importantly, the Fair Return Standard applies both to the authorized ROE and the deemed capital structure.

The OEB confirmed these principles in EB-2024-0063.[30]

B. Stand-Alone Principle

The stand-alone principle provides that a utility should be regulated as if it were a stand-alone entity, raising capital on the merits of its own business and financial characteristics. In this way, capital is efficiently allocated, with each business segment earning a return based on its own unique risks and business characteristics regardless of affiliations within the holding company structure. For example, the British Columbia Utilities Commission (the "BCUC") reiterated its adherence to this principle in its most recent generic cost of capital decision:

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28 Ontario Energy Board, EB-2009-0084, Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, December 11, 2009, at i.

29 *Id.,* at 19.

30 EB-2024-0063, Decision and Order, March 27, 2025, at 4.

> *In the BCUC's application of the Fair Return Standard, the utility must also be assessed based on the standalone principle. That principle provides that the utility should be regulated as if it were a standalone entity, raising capital on the merits of its own business and financial characteristics, regardless of affiliations within the holding company structure. The BCUC had noted the relevance of the standalone principle in past cost of capital decisions, and we continue to adhere to this principle to determine FEI and FBC's cost of capital in this proceeding.*[31]

The OEB has also endorsed the stand-alone principle in its findings regarding the deemed capital structure for Ontario utilities. For example, the OEB concluded that it would apply the stand-alone principle in establishing the capital structure for Ontario Power Generation, noting that "[t]he stand-alone principle is a long-established regulatory principle,"[32] and that "Provincial ownership will not be a factor to be considered by the Board in establishing capital structure."[33]

In Concentric's view, it is consistent with both financial theory and regulatory practice to determine the cost of capital based on the *use* of funds and not the *source* of funds when determining just and reasonable rates. The OEB found the same in EB-2024-0063, where it stated "the OEB is firmly of the view that the cost of capital should be determined based on the use of funds and the risk profiles of utilities, rather than their ownership type or capital source."[34] This principle is consistent with the application of the stand-alone principle.

C. Relationship Between Capital Structure and ROE

The deemed equity ratio and authorized ROE must be considered together to determine whether the Fair Return Standard has been met. Other factors being equal, firms with lower common equity ratios require higher rates of return to compensate for the additional financial risks faced by their shareholders. Consequently, when a regulator approves a deemed capital structure, that decision impacts the required rate of return on equity. As fixed debt obligations increase, the equity buffer (unencumbered earnings available to shareholders) narrows, and the required equity return increases to compensate investors for the additional risk to earnings. The fair return, therefore, depends on both the equity return and capital structure. The exact tradeoffs between the ROE and equity ratio are difficult to quantify with precision, but widely used leverage models such as the Hamada equation (which is an extension of the Modigliani-Miller theorem on capital structure) are

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31 British Columbia Utilities Commission, Generic Cost of Capital Proceeding (Stage 1) Decision and Order G-236-23, September 5, 2023, at i-ii.

32 EB-2007-0905, Decision with Reasons, November 3, 2008, at 140.

33 *Id*., at 142.

34 EB-2024-0063, Decision and Order, March 27, 2025, at 18.

based on the fundamental premise that there is a link between the cost of equity and the capital structure – as the capital structure becomes more leveraged, the cost of equity increases.

North American regulatory practice generally follows two alternative approaches to setting the capital structure and ROE: 1) the generic approach, and 2) setting ROE and capital structure based on individual proceedings. In Canada, the generic approach is common practice, but this approach is applied differently across provinces. Some jurisdictions use a single authorized ROE applicable to the generic or benchmark utility and reflect differentiation in utility risk through a deemed equity ratio (e.g., historically Ontario[35] and Alberta[36]). Other jurisdictions provide a generic ROE and differentiate the utility risk profile through an adjustment to the utility's ROE, or its deemed capital structure, or both (e.g., British Columbia[37] and Quebec[38]). In the U.S., the utility's actual book capital structure is often an important factor for ratemaking purposes, and regulators most often determine the reasonableness of each utility's capital structure based on that utility's risk profile relative to its proxy group, peer equity ratios, credit metrics, and specific circumstances. Capital structure is most often assessed each time the ROE is established, typically in individual utility rate proceedings.

Investors also consider the business and financial risks of a particular company relative to other similarly situated companies in the same industry. For example, as mentioned previously, the OEB has expressed its view that "the capital attraction standard, indeed the [Fair Return Standard] in totality, will be met if the cost of capital determined by the Board is sufficient to attract capital on a long-term sustainable basis given the opportunity costs of capital."[39] The "opportunity cost of capital" is the return available on investments of similar risk. Further, the OEB has determined that "[t]he comparable investment standard requires empirical analysis to determine the similarities and differences between rate-regulated utilities." However, the assessment of comparability "does not require that those entities be 'the same'."

35 Ontario Energy Board, Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, EB-2009-0084 (December 11, 2009), at 50.

36 Alberta Utilities Commission, 2013 Generic Cost of Capital Decision, Decision 2191-D01-2015 (March 23, 2015) para. 416, at 84.

37 British Columbia Utilities Commission, Generic Cost of Capital Proceeding (Stage 2) Decision, Order G-47-14 (March 25, 2014).

38 The Régie has awarded different capital structures and returns on equity for Gazifére (9.05% on 40% equity, D-2022-119, R-4156-2021 Phase 2, October 26, 2022), Gaz Métro (8.9% on 38.5% equity, Decision D-2022-119, R-4156-2021, Phase 2, October 26, 2022), and Hydro Québec Distribution (8.2% on 35% and Hydro Quebec TransÉnergie at 8.2% on 30%, D-2014-037, R-3854-2013, Phase 1, March 6, 2014).

39 Ontario Energy Board, Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, EB-2009-0084 (December 11, 2009), at 20.

Section 4:

COMPANY-FOCUSED ASSESSMENT: CHANGES IN BUSINESS AND FINANCIAL RISKS

A. Method for Assessing Business and Financial Risk

The cost of capital is a forward-looking concept, and utility investors tend to be long-term providers of capital. For these reasons, it is important to review Hydro One's current business and financial risk profile and to assess how that risk profile has changed and is expected to change going forward. Specifically, the OEB has determined in prior decisions that a utility must demonstrate a material change in its business or financial risk for the OEB to consider whether a change in the utility's deemed equity ratio is warranted. That assessment should not be limited to whether each element of Hydro One's business risk has changed in isolation; it also should consider whether the existing deemed equity ratio remains sufficient in light of the Company's financial profile, capital requirements, credit metrics, and the returns available on investments of comparable risk.

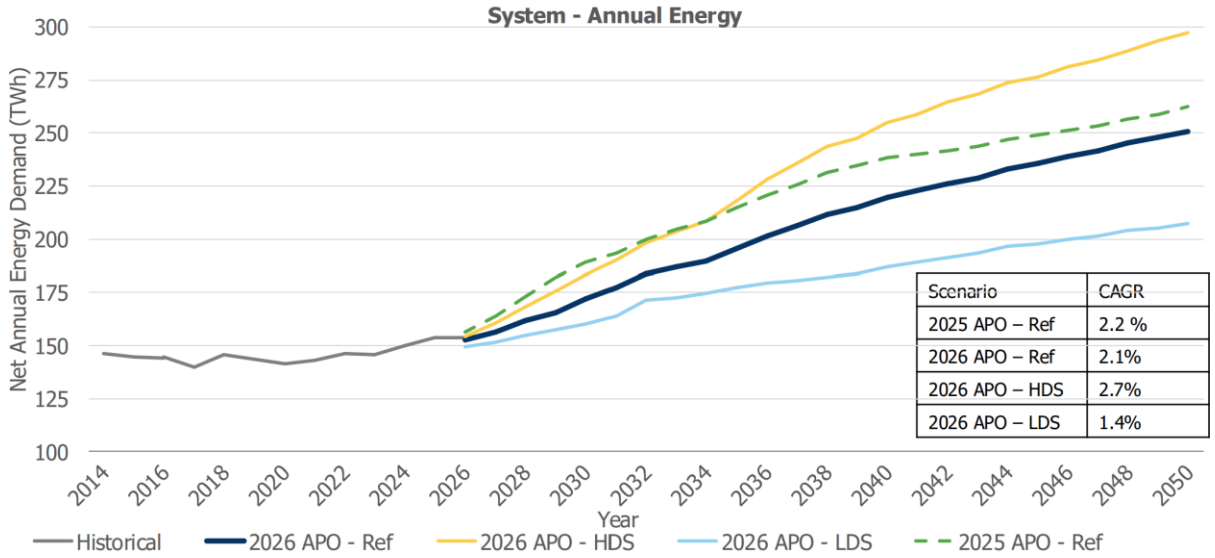
Business risk for a regulated utility results from variability in cash flows and earnings, historically or prospectively, that impact the ability of the utility to recover its costs including a fair return on, and of, its capital in a timely manner. Concentric includes operating risk and regulatory risk under this broad definition of business risk. Financial risk relates to a company's debt leverage and liquidity and is reflected in its credit profile. Both business and financial risk have a direct bearing on a utility's cost of capital.

Concentric performed an independent review of Hydro One's operations and the business environment in which it operates to evaluate the Company's business and financial risks. Concentric evaluates regulated utility risk using a structured framework that considers the principal factors affecting business and financial risk: (1) industry trends, including how the energy landscape and demand are evolving and environmental factors such as how severe weather is affecting the utility's business plan; (2) the magnitude of the utility's projected capital expenditure program and how that compares to other peer group companies; (3) the operational risk profile of the utility, including any factors that are unique to the utility relative to industry peers; (4) the regulatory environment in which the utility provides service; and (5) the utility's financial risk profile, including its capital structure, credit rating, and credit outlook.

B. Increasing Demand for Electricity

Higher capital spending on energy projects in Ontario is being driven by an increased focus on the security and reliability of energy sources and an anticipated increased demand for electricity. The trend in electricity usage is not specific to Ontario or even Canada, as the International Energy Agency, describing the arrival of the "age of electricity," forecasts worldwide electricity usage to grow by 40% by 2035 compared to 2024,[40] a rate of 3.1% per year. In Ontario, the Ontario IESO forecasts that electricity demand in the province is expected to increase by 65% from 2026 to 2050.[41] As shown in Figure 2 below, the IESO has estimated that total net annual energy demand in Ontario is projected to increase from just over 152 TWh in 2026 to 250 TWh by 2050 in its reference scenario (dark blue line), a 64.5% increase or a 2.1% compound annual growth rate.[42] While the energy outlook and system capacity projections are likely to continue to be refined over time, the current overall trajectory of the demand for electricity in Ontario and associated government policy underscore the need for Hydro One to invest significantly in its transmission infrastructure to ensure the assets are available to meet a range of potential future energy demand outcomes.

Figure 2: Ontario Annual Energy Demand Forecast[43]



40 S&P Global, "IEA sees global power demand rise 40% by 2035 as 'age of electricity' arrives," November 12, 2025.

41 IESO, Annual Planning Outlook:Ontario's electricity system needs: 2027–2050, March 2026, at 2 and 17.

42 *Id.*, at 24. Total annual growth rate 2026–2050: 2.1%; Near-Term Annual Growth Rate 2026–2030: 3.0%; Medium-Term Annual Growth Rate 2030–2035: 2.6%.

43 IESO, 2026 Annual Planning Outlook: 2026 Demand Forecasts & 2027 Demand Scenario, November 18, 2025, at 8.

Released in June 2025, Ontario's Integrated Energy Plan ("IEP"), Energy for Generations, stated that "Ontario's plan to meet growing demand is an ambitious one – building new generation, expanding transmission, modernizing the grid and integrating planning to across electricity and fuels. But this transformation isn't just about powering Ontario – it's also positioning Ontario as a global energy superpower."[44] In line with this stated policy direction, particularly the emphasis on expanding transmission, Ontario has begun advancing specific transmission initiatives. National Bank Financial stated, "[a]s such, the government announced the advancement of six new transmission projects, five of which the Ministry is proposing to declare as priority projects within Hydro One's backyard, on top of the nine additional transmission lines to be completed by the end of the next rate period (i.e., 2032)."[45] Given this projected need for transmission infrastructure in Ontario, as identified by third-party industry participants, Hydro One is expected to undertake a significant build out of its transmission system in both the near-term and long-term, in support of the public interest and Hydro One's obligations as Ontario's primary transmitter of electricity.

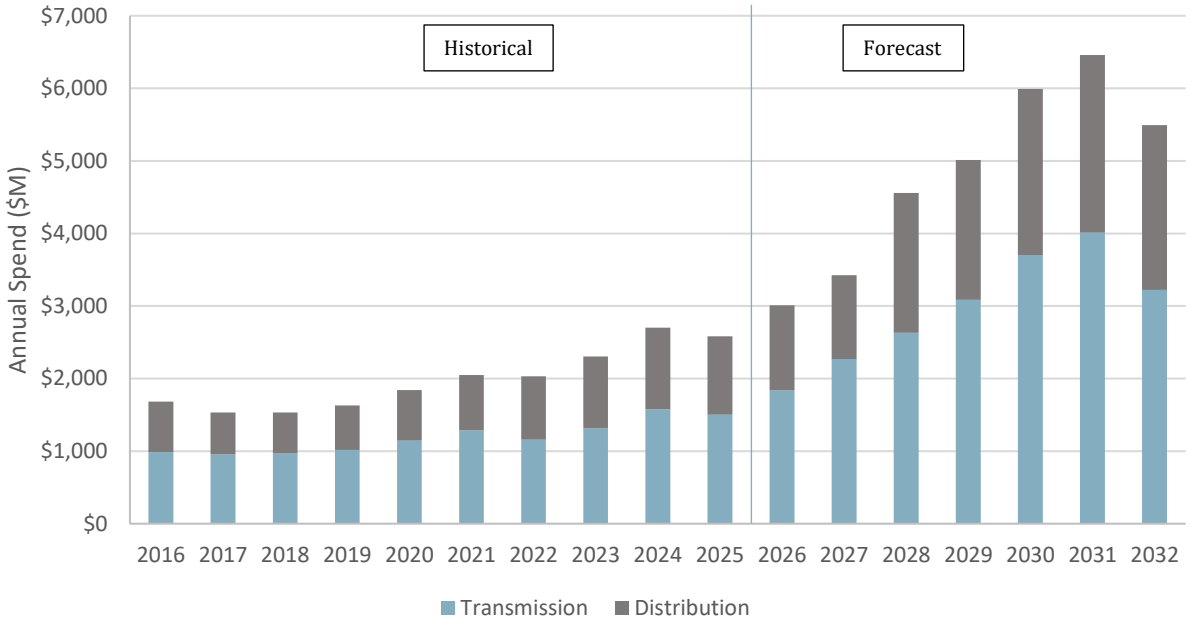
As such, growth in electricity demand is having and will continue to have significant impacts on Hydro One's business, including heightened levels of capital expenditure needed to keep pace with expected growth. These trends underscore the need for regulatory approaches that support the achievement of economic and policy-related objectives while preserving financial integrity and supporting access to capital for industry participants.

C. Infrastructure Buildout and Elevated Capital Spending Program

Driven by electrification, economic growth, and related policy objectives, Hydro One's transmission and distribution businesses will require substantial capital investment in the upcoming rate period. That need is heightened by the deferral of certain projects from the 2023-2027 rate period due to constraints within the Company's authorized capital envelope, which may increase maintenance pressures as assets age beyond their planned service lives. The anticipated growth in ATPs also adds financial risk, as Hydro One bears development and financing risk before transferring those projects to the applicable partnership. As shown in Figure 3 the most significant change in Hydro One's business risk relative to prior periods is the scale of the Company's planned capital expenditure program, together with the execution, financing, and cost-recovery risks associated with that program.

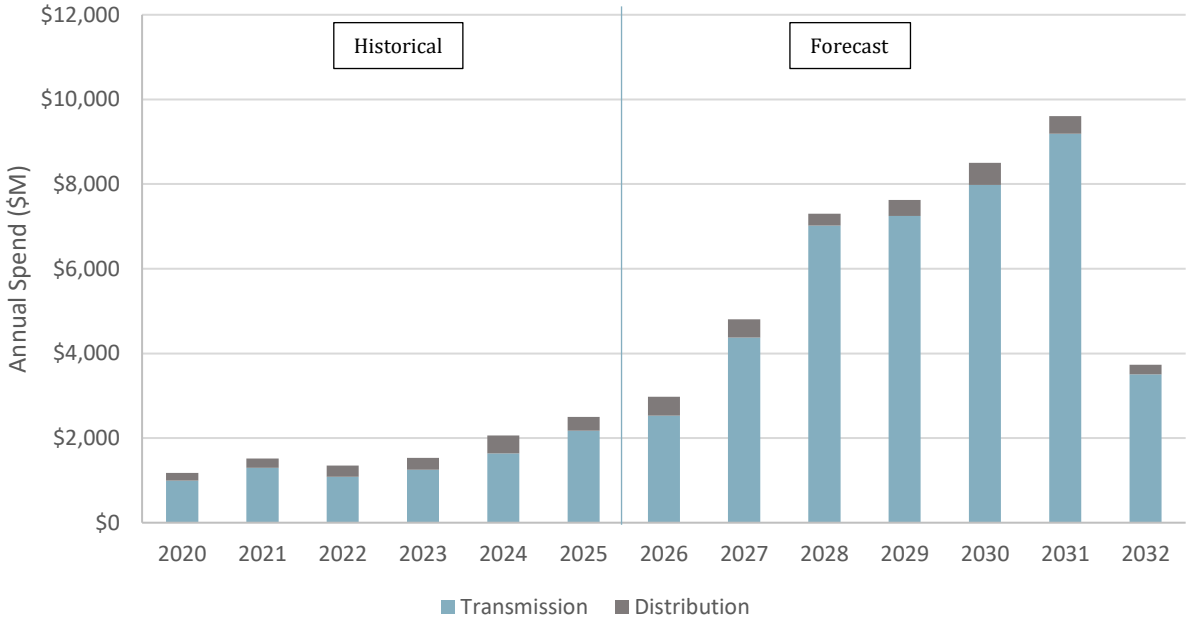
44 Ontario.ca, Energy for Generations, at 139.
45 National Bank Financial, "Backyard backlog continues to grow…", August 2025.

Figure 3: Annual CapEx – Historical and Forecasted



The need for a capital structure that supports financial integrity, access to capital, and execution of Hydro One's capital program has increased since EB-2021-0110, driven by the Company's expansive capital program to meet the growth in electricity demand resulting from economic growth, the energy transition, and electrification. Importantly, this expansive capital program will also increase Hydro One's Construction Work in Progress ("CWIP") balances to unprecedented levels as shown in Figure 4, further pressuring the Company's credit metrics and financial flexibility. Figure 4 includes CWIP related to forecasted ATP projects because, while ATPs will eventually be transferred to separate partnership entities, Hydro One develops them on its balance sheet, impacting its risk profile during construction.

Figure 4: Annual CWIP – Historical and Forecast



D. Operational Risk

Hydro One's operational risk profile is affected by several factors, including supply chain constraints, labor availability, aging infrastructure, capacity limitations, and a significant increase in new connection requests. This section describes those factors.

1. Supply Chain Challenges, Labor Availability, Aging Infrastructure, and Capacity Limitations

Increased electric infrastructure development activity across North America increases risks related to equipment availability, procurement lead times, labor shortages, higher material and equipment costs, and the ability to execute large capital programs on schedule. The Canada Electricity Advisory Council noted some of these challenges in its May 2024 final report, Powering Canada: A Blueprint for Success:

> *Even if governments reduce permitting barriers and enable capital attraction, electricity projects cannot be built without certain kinds of skilled labour, the right materials, and reliable supply chains. The right skills are also vital for the operation and*

> *maintenance of electricity projects and systems. Over 80 percent of electricity employers foresee difficulties in attracting workers in the next six years.*[46]
>
> *The market for transmission transformers has seen a drastic increase in both procurement lead times and prices over the past three years. For example, SaskPower faced a tripling of timelines for expected delivery of Neutral Grounding Transformers in the fall of 2023, as well as a price increase of more than 50 percent over the contract they had negotiated in 2020. The utility encountered even higher costs for more complex units. These delays in the production and supply of critical equipment reduce the capacity of the utility to accommodate load increases associated with the transition, indicating a need for federal manufacturing and project development support.*[47]

Hydro One has experienced these challenges in the current rate period, including the deferral of certain capital work despite near-term system needs. Maintenance pressures are also intensifying as aging assets on both the transmission and distribution systems increasingly exceed planned service lives. In response, Hydro One is working to optimize existing grid infrastructure to the maximum extent possible while advancing many projects already in the development pipeline.

2. New Connection Requests

Hydro One has experienced greater than anticipated new connection requests on the distribution system. The operational challenge reflects both the volume of requests and the scale of certain new loads, including large customers, such as greenhouses, which can require substantial capacity at higher costs than anticipated. Overall growth has been challenging to accommodate, with the distribution system approaching capacity limits in multiple areas.

Operationally, the transmission system is near full capacity, making straightforward connections for new load increasingly difficult. The aging profile of transmission assets is also increasing the risk of failure and the complexity and compounding nature of operational issues. Resiliency policies and more stringent engineering standards, while essential to the safe and reliable operation of the system, also lead to additional costs. Policy objectives related to electrification, distributed energy resources, electric vehicles, heat pumps, and housing development also affect the load forecast and increase the need for system flexibility. Overall consumption growth, including climate-driven changes in energy usage, further raises system needs.

Compounding Hydro One's difficulties in addressing new connection requests, both the transmission and distribution systems are facing substantial investment needs just to maintain existing assets

46 Canada Electricity Advisory Council, Powering Canada: A Blueprint for Success, May 2024, at 46.
47 *Id.*, at 114.

while accommodating growth. In announcing the launch of the Panel for Utility Leadership and Service Excellence ("PULSE") in October 2025, Ontario's Ministry of Energy and Mines stated:

> *Ontario's aging and capacity-constrained distribution system requires a significant infusion of capital, with the Electricity Distributors Association ("EDA") estimating $103–$120 billion over the next two decades to maintain existing assets. This level of investment for stronger and smarter power lines, digital grid management tools and new substations, dwarfs the current spending trajectory of most Local Distribution Companies ("LDCs").*[48]

In parallel, while the development of data centers is producing more load requests, there is also a risk that some data center demand may not materialize, introducing forecasting uncertainty, planning complexity, and potential abandonment cost risk.

E. Regulatory Risk

A utility's regulatory framework is an important consideration for both equity and debt investors. Regulatory risk is a key component of business risk for regulated utilities. For instance, S&P Global, in its rating methodology for regulated utilities, states "[t]he regulatory framework/regime's influence is of critical importance when assessing regulated utilities' credit risk because it defines the environment in which a utility operates and has a significant bearing on a utility's financial performance."[49] Moody's, in its rating methodology for regulated electric and gas utilities, lists "Regulatory Framework" as one of four key factors that are important in Moody's assessment of ratings in the regulated electric and gas utility sector.[50] Moody's states that "[a]n over-arching consideration for regulated utilities is the regulatory environment in which they operate. The nature of regulation can vary significantly from jurisdiction to jurisdiction,"[51] and the agency assigns "Regulatory Framework," together with "Ability to Recover Costs and Earn Returns," a 50% factor weighting in its ratings scorecard.

Utility regulation is generally found by rating agencies and investors to decrease risk, all else equal, compared to competitive ventures. As stated by S&P, "[u]tility regulation, no matter where on the continuum of our assessments, strengthens a utility's business risk profile, and generally underpins

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48 Ontario New Release, "Ontario Launches Expert Panel to Strengthen Local Electricity Distribution" October 27, 2025.
49 S&P Global, "Key Credit Factors for the Regulated Utilities Industry," November 19, 2013, at 6.
50 Moody's Ratings, Rating Methodology: Regulated Electric and Gas Utilities, August 6, 2024, at 2 and 8.
51 *Id*., at 7.

our ratings."[52] S&P further notes that "[w]e therefore designate all these [North American] jurisdictions on a continuum from credit supportive to most credit supportive. These descriptions vary only in degree."[53] In its assessment of North American regulatory jurisdictions, S&P assesses Ontario as "Most credit supportive (strong)." Other "Most Credit Supportive (Strong)" provinces and states include British Columbia, Quebec, Alabama, Florida, Iowa, Kentucky, Michigan, and Wisconsin.[54] Because of their comparatively strong business risk profiles, underpinned by rate-regulated utility revenues, Canadian and U.S. utilities, including Hydro One, are typically afforded higher credit ratings than they would be if they operated in competitive markets, even when utilities have financial profiles that contain relatively high levels of debt.

Factors that contribute to credit supportiveness include mechanisms that increase cost recovery and cash flow certainty. For instance, Hydro One has a number of deferral and variance accounts ("DVAs") as part of its regulatory framework, and in this proceeding proposes to continue most of them unchanged, modify certain accounts, discontinue others, and establish new accounts for both the transmission and distribution businesses. These accounts help manage and mitigate certain risks associated with the Company's business and operating risks and Concentric considers that several of the proposed changes affect risk. For example, the expansion of the Externally Driven Projects variance accounts, if approved, would reduce risk, while the proposed elimination of certain accounts would increase risk by returning those variances to base rates. In addition, amounts recorded in the Company's utility-specific accounts remain subject to a prudence review by the OEB at disposition. Further, Hydro One's earnings sharing mechanisms remain asymmetrical in favor of customers.

The OEB is undertaking transformative changes at a time when the volume of regulatory activity remains elevated, contributing to increased procedural and compliance uncertainty. In January 2026, the OEB launched its Next Generation Rate Framework (EB-2026-0002),[55] which consolidates several major initiatives, including performance incentive mechanisms ("PIMs"), enhanced spending reviews, cost benchmarking, and capital funding policy reforms. Certain proposed PIMs, including System Average Interruption Duration Index ("SAIDI") (reliability duration) and System Average Interruption Frequency Index ("SAIFI") (reliability frequency), were structured as penalty-only

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52 S&P Global, "North America Utility Regulatory Jurisdictions Update: Ontario Remains Unchanged, Notable Developments Elsewhere," March 11, 2024, at 3.

53 *Id*., at 2.

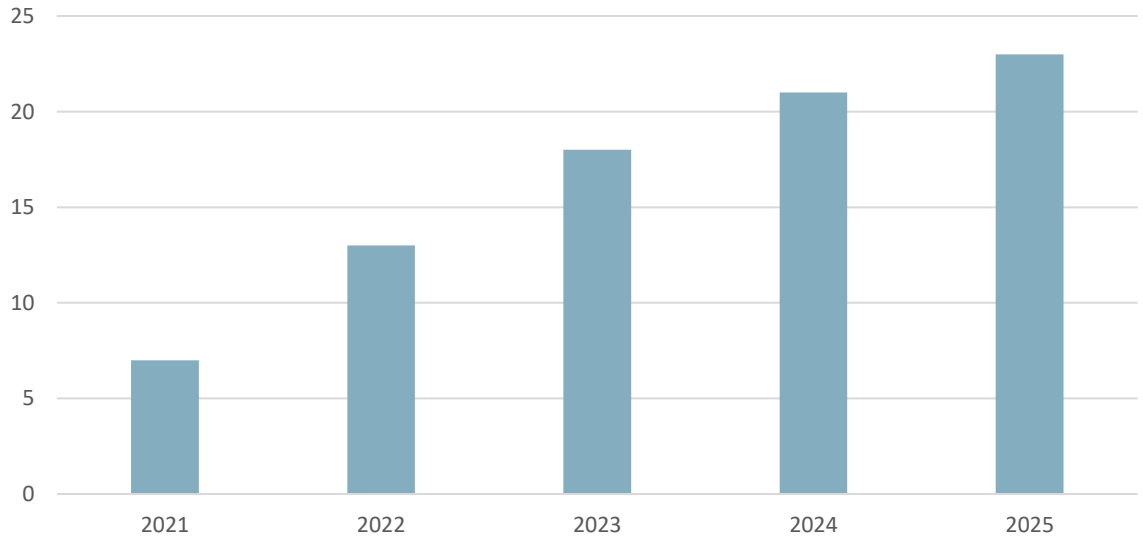
54 *Id*., at 4-5.

55 Ontario Energy Board, Next Generation Rate Framework. Available at: https://www.oeb.ca/consultations-and-projects/policy-initiatives-and-consultations/next-generation-rate-framework.

mechanisms,[56] which, if implemented in that form, would have no potential upside or a reward for outperformance, thereby introducing downside-only exposure for Hydro One. However, the final design of these mechanisms remains under consultation. The OEB is also undertaking enhanced review of utilities' spending patterns and cost structures as part of this broader framework. While these initiatives are intended to benefit customers and improve regulatory efficiency, they may also increase uncertainty and could lead to delays in capital deployment and/or cost recovery for utilities.

Concurrently, Ministerial Letters of Direction have expanded materially, with the number of scope items increasing significantly over the last five years, broadening the compliance burden for utilities, as shown in Figure 5.

Figure 5: Approximate Number of Scope Items in Ministerial Letters of Direction[57]



Other developments affecting Hydro One's regulatory risk both positively and negatively include:

- Hydro One reached a settlement on its rates application in EB-2021-0110 as approved by the OEB. The ability to achieve rate settlements is generally considered positive from an investor's perspective.
- In January 2023, the OEB issued a report in EB-2021-0118 titled "Framework for Energy Innovation: Setting a Path Forward for DER Integration," that established OEB expectations, a benefit cost analysis framework, and the ability for electric distribution utilities to seek a

[56] OEB, Discussion Paper: Performance Incentive Mechanisms, Advancing Performance-based Rate Regulation, EB-2024-0129, at 21 and 23.

[57] The number of scope items per year was estimated by counting the number of distinct prompts directing the OEB to perform specific tasks (e.g., create, provide, manage, eliminate, identify, develop, improve).

new deferral account and incentives related to distributed energy resource integration.[58] This initiative represents neutral or somewhat higher risk for distribution utilities because it reflected an expectation that utilities begin to seek 3rd party solutions for traditional poles and wires, which means having to seek counterparties, taking on operational/contractual risks, and new solutions could result in capacity or reliability issues; offsetting this is a modest cost recovery risk reduction via the ability to seek deferral accounting for certain costs.

- In June 2023, the OEB allowed embedded or partially embedded distributors to update their Low Voltage Service Rates on an annual basis as part of each distributor's incentive-rate setting application.[59] This led to a modest reduction in risk because the update may reduce the variance between the low voltage costs charged by a host distributor to an embedded distributor and low voltage revenues collected through low voltage service rates that the embedded distributor charges its customers.

- Per a September 2023 OEB letter, Uniform Transmission Rates ("UTRs") are now issued earlier in the year allowing for more up to date Retail Transmission Service Rate ("RTSR") to be included in annual rate adjustments applications.[60] Previously, UTRs were issued on a final basis in December or January. Typically, distributors with rate years beginning January 1 would not be able to use new UTRs in the RTSR calculations until the following year. Now the OEB issues preliminary UTRs, which allows for the UTR data to be integrated into the rate applications. This resulted in a modest reduction in risk for distribution utilities, as the OEB decision is expected to decrease amounts accumulated in retail transmission variance accounts.

- In March 2025, the OEB granted the option to file a request for funding for non-wires solutions outside of rebasing to distributors using any rate-setting methodology. This allows jurisdictional utilities to seek additional funding opportunities for non-wires solutions.[61] This was risk neutral, as the application process allows the OEB to assess the proposed non-wires solutions and funding requests as they relate to the system needs outlined in

58 See, "Framework for Energy Innovation: Setting a Path Forward for DER Integration," OEB Report, January 2023.
59 See, Updated Filing Requirements for Electricity Distribution Rate Applications, Chapter 3 (June 15, 2023).
60 See, OEB Letter, 2024 Preliminary Uniform Transmission Rates and Hydro One Sub Transmission Rates (September 28, 2023).
61 See, Non-Wires Solutions Guidelines for Electricity Distributors (March 28, 2025).

distribution system plans; the OEB can better understand forecasted impacts of non-wires solutions on the distributor's revenue requirement and load forecast.

- In March 2025, the OEB's decision in the generic cost of capital proceeding reduced Ontario utilities' authorized base ROE by 25 basis points.[62]
- In August 2025, Hydro One submitted a Z-Factor application which sought recovery of the incremental revenue requirement associated with $223 million of storm-related costs, including capital and asset removal costs, incurred for a severe storm that began on March 28, 2025. In April 2026, the OEB issued its Decision and Order for the Z-Factor application, denying the recovery of $69 million in incremental revenue requirement.[63]

In summary, Ontario remains a credit-supportive regulatory jurisdiction, but Hydro One is entering the upcoming rate period with increased regulatory complexity and cost-recovery uncertainty. The Company continues to benefit from regulated revenues, deferral and variance accounts, and a generally supportive OEB framework; however, evolving performance expectations, expanded policy direction, and the scale of Hydro One's capital program increase the importance of timely cost recovery and a capital structure that supports financial integrity and access to capital.

F. Financial Risk

Financial risk is an important component of a company's overall risk profile, and it relates to the way in which a company is capitalized. Financial risk, which is focused on solvency and liquidity, is often measured through analyses of relative capital structures as well as credit metrics. Further, a utility's credit rating provides a widely accepted opinion from a third-party credit rating agency of the utility's overall creditworthiness.

For our company-focused assessment, Concentric's consideration of Hydro One's financial risk focused on the review of assessments by the credit rating agencies and an analysis of *pro forma* credit metrics. In our market/industry assessment in Section 6, Concentric also considered Hydro One's capital structure compared to peer companies as an indication of relative financial risk.

Hydro One operates pursuant to rate regulation, which is a featured factor referenced in credit rating agencies' risk assessments of the Company. Financially sound utilities generally have access to capital by virtue of their regulated business model.

62 EB-2024-0063, Decision and Order, March 27, 2025, at 45-46.
63 Hydro One Inc. 2026 Q1Management's Discussion and Analysis, at 7.

Beginning in 2028, Hydro One's key credit metrics are anticipated to face increasing pressure under the status quo (i.e., at the current deemed equity ratio of 40%), requiring a focus on staying above downgrade thresholds to preserve access to capital at a reasonable cost. Significant CapEx is planned, driven by the energy transition, load growth, and broad-based electrification. Hydro One's capital expenditures exceed its depreciation expense, meaning Hydro One will require additional external capital (debt and equity investments) to fund infrastructure requirements.

Concentric notes that, while credit ratings and borrowing costs provide useful information in an evaluation of the cost of capital, they do not provide a complete picture of equity investor perspectives. That consideration is consistent with the OEB's findings in 2009, where it stated:

> *The Board is of the view that utility bond metrics do not speak to the issue of whether a ROE determination meets the requirements of the FRS. The Board acknowledges that equity investors have, as the residual, net claimants of an enterprise, different requirements, and that bond ratings and bond credit metrics serve the explicit needs of bond investors and not necessarily those of equity investors.*[64]

As such, while credit ratings and metrics provide evidence regarding financial risk and the financial integrity of a subject utility, they do not, in and of themselves, determine whether a given cost of capital meets the FRS.

This subsection reviews the business and financial risk factors identified by the credit rating and equity investment analysts, including the circumstances that could place downward pressure on the credit ratings applicable to Hydro One's parent, HOI.

The credit rating agency and equity analyst materials provide independent market perspectives on the same factors central to Concentric's assessment: Hydro One's stable regulated cash flows, elevated capital program, low authorized equity layer, credit metric pressure, and need for timely regulatory support.

1. Credit Ratings Agency Perspectives

As noted earlier in this report, Hydro One is not separately rated from its parent company, HOI, by the credit ratings agencies. HOI has credit ratings from DBRS (A (high)), S&P (A), and Moody's (A3)). In their credit reports, the ratings agencies discuss the drivers of their ratings, focusing on business risk and financial risk factors and providing circumstances that could lead to ratings upgrades or downgrades. In addition, Moody's note that "the moderate probability of extraordinary support from

64 EB-2009-0084, Report of the Board, December 11, 2009, at 20.

the Province of Ontario"[65] results in a one notch credit ratings "uplift" relative to HOI's stand-alone credit profile.

In terms of business risk factors, the credit rating agencies describe credit strengths of HOI's low-risk, monopoly T&D utility operations with an extensive footprint in Ontario, a supportive regulatory environment, and no supply obligations. The ratings agencies also discuss credit challenges related to HOI's volume risk driven by weather and economic conditions and the potential for cash flow volatility under incentive regulation.

Regarding financial risks, the credit ratings focus on HOI's credit metrics and the threshold levels identified by the rating agencies as relevant to downward rating pressure. Moody's also discusses the credit metric challenge for HOI "driven by low authorized equity capital."[66]

The following are more detailed findings by the major credit rating agencies with regard to HOI's credit strengths and challenges:

a. Moody's

Moody's identifies credit strengths for HOI related to a "supportive regulatory environment," "stable, predictable cash flow," and "moderate probability of extraordinary support from the Province."[67] Moody's identifies credit challenges for HOI as "weak financial metrics driven by low authorized equity capital" and "incentive rate regulation marginally increasing risk."[68] In terms of the regulatory environment, Moody's states that "[HOI] has a monopoly position and inherently low business risk as a transmission and distribution (T&D) business compared to the elevated price, volume, operational and environmental risks typically associated with generation activities. [It] does not have any supply obligations."[69] Moody's also noted that HOI has "some modest exposure to volume risk that is typically driven by weather variability and the underlying performance of the economies in its service territories," and that the Company "is moving towards full decoupling of its residential customers."[70] Moody's comments on HOI's large capital program, noting the importance of the capital factor rate adjustment in supporting the program. Moody's also identifies that the Company is taking on larger projects, stating that "[t]he capital investment program generally consists of a series of smaller projects and the company is not exposed to material execution risk that is often

65 Moody's Ratings, Hydro One Inc. Update to credit analysis, 7 November 2025, at 1.
66 *Ibid*.
67 *Ibid*.
68 *I*bid.
69 *Id.*, at 3.
70 *Ibid.*

associated with larger, more complex projects. However, the company is proceeding with a series of transmission line and station expansions which will likely consist of a series of projects with a larger capital spend than typical projects undertaken by the company."[71]

b. DBRS

On October 31, 2025, DBRS confirmed HOI's issuer rating and senior unsecured debenture credit rating at A (high) and its commercial paper credit rating at R-1 (low). DBRS explains that its credit rating confirmations "reflect HOI's relatively stable operating and financial performance over the last 12 months while considering the moderate pressure on the Company's key credit metrics in the near term from the Company's elevated capital expenditures (capex) required to support its rate base growth, as well as to enable energy transition and grid optimization initiatives."[72] DBRS states that "HOI's earnings profile supports the current credit ratings and is expected to remain steady during the forecast period, supported by a reasonable regulatory environment, an extensive franchise area, and a diverse customer base."[73] In DBRS' view, the regulatory framework in Ontario is "transparent and supportive for regulated transmission and distribution operators,"[74] although it notes that there is higher than normal risk associated with political interference due to the significant role the government plays in the electricity sector in the Province.[75] While noting that HOI maintains a reasonably healthy balance sheet and that all key credit metrics are reasonable for the current rating category, DBRS observes that the "Company has planned large capital investments over the next several years, which could exert pressure on the credit metrics."[76] DBRS explains that it may take a positive credit rating action if there is a material improvement in DBRS's assessment of HOI's business risk, combined with an improvement in its key credit metrics to levels that support a higher credit rating category. Conversely, DBRS may take a negative credit rating action if there were adverse regulatory actions or if key metrics weaken to a level that no longer supports the current credit ratings (i.e., if the debt-to-capital ratio is above 60.0% or the cash flow-to-debt ratio is below 11.0% for a sustained period).[77]

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71 *Id*., at 5.
72 Morningstar/DBRS, Credit Rating Report Hydro One Inc., November 13, 2025, at 1.
73 *Id*., at 2.
74 *Id*., at 3.
75 *Id*., at 16.
76 *Id*., at 4.
77 *Id*., at 1.

c. S&P

S&P also comments on HOI's elevated capital expenditure program compared to historical levels, noting that "[w]hile the Company's capex visibility beyond 2027 remains unclear, we expect it will significantly increase its capex under its five year plan."[78] According to S&P, HOI's FFO to debt ratio is expected to remain in the 11-13% range through 2027. S&P observes that the Company's projected capex "reflects the recently published Ontario Integrated Energy Plan, which highlighted the need for a significant expansion of transmission and distribution infrastructure in the province."[79] As a result of HOI's increased capital needs, S&P expects that the company's parent, HOL, will issue equity during the JRAP period that it will use to fund HOI's increased capex needs and maintain its credit quality.[80]

d. Financial Risk Assessment

The credit rating agencies' assessments reflect both Hydro One's stable, regulated utility cash flows and the pressure on its financial metrics associated with a low authorized equity ratio and elevated capital expenditure requirements. While DBRS stated that "HOI maintains a reasonably healthy balance sheet, and all key credit metrics [are] reasonable for the current credit rating category,"[81] Moody's described Hydro One's financial profile as "stable, [with] predictable cash flow but weaker financial metrics."[82] Moody's stated that "the company continues to perform broadly in line with the levels established by the regulator and forecast CFO pre-WC to debt in the 11-13% range. Financial metrics exceeded this range over the period 2021-2023 primarily based on tax recoveries although we do not expect any outperformance above this range to be sustained given the narrow window associated with tax recoveries[83] that has come to an end." [84]

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78 S&P Global Ratings, Tear Sheet: Hydro One's Second Quarter Earnings Are in Line with S&P Global Ratings' Expectations, August 18, 2025, at 1.

79 *Ibid*.

80 *Ibid*.

81 Morningstar/DBRS, Credit Rating Report Hydro One Inc., November 13, 2025, at 3.

82 Moody's Ratings, Hydro One Inc. Update to credit analysis, November 7, 2025, at 4.

83 Regarding tax recoveries, Moody's noted that: "[o]n 16 July 2020, the company received a favorable decision from the Ontario Divisional Court resolving an ongoing dispute relating to sharing a tax asset with customers that stemmed from the company's IPO in 2015. This led to an income tax recovery during 2020 of CAD783 million compared to an income tax expense of CAD51 million during 2019. On April 8, 2021, a subsequent OEB decision allowed the company to recover the tax benefits shared with customers since 2017, resulting in recoveries of approximately CAD257 million (CAD165 million transmission and CAD95 million distribution) over a 2 year period. This recovery led to increased cashflow of CAD65 million, CAD135 million and CAD65 million during the years 2021, 2022 and 2023, respectively. Rates were adjusted on a prospective basis to eliminate sharing with customers, and this led to an increase in cash flow of CAD50 million per annum starting in 2022 that gradually declines over time." See Moody's Ratings, Hydro One Inc. Update to credit analysis, November 7, 2025.

84 Moody's Ratings, Hydro One Inc. Update to credit analysis, November 7, 2025, at 4.

As discussed above in the section on regulatory risk, the credit rating agencies view rate regulation as credit supportive and incorporate their views on Hydro One's regulatory environment into their ratings analyses. Another major factor that impacts Hydro One's credit metrics and ratings is the Company's elevated capital expenditure program. For example, DBRS noted that:

> *[Hydro One] has planned large capital investments over the next several years, which could exert pressure on the credit metrics. Total capital investments were approximately $3.0 billion for 2024 (approximately $1.8 billion for transmission and approximately $1.2 billion for distribution), with planned capex of $8.6 billion over the next three years. A major part of HOI's capital program is for the essential replacement of aging infrastructure to maintain the reliability of aging transmission and distribution assets.*[85]

Moody's highlighted that this $8.6 billion figure "under-represent(s) the size of the capital program since they do not include the 7 transmission line projects or costs associated with the March 2025 ice storm."[86] Moody's also commented on the benefits provided by the Capital Factor Rate Adjustment as follows:

> *[B]oth business segments benefit from a capital factor rate adjustment that provides cash flow support to the capital program between rate cases. In the absence of the capital factor, financial metrics would be much weaker as capital expenditures are more than double annual depreciation.*[87]

The rating agencies also discuss near-term credit pressure for Hydro One due to its elevated capital program, with that pressure being somewhat mitigated by regulatory support. For instance, S&P identified several scenarios that could affect Hydro One's credit rating:

> *We could downgrade HOI over the next 24 months if we downgrade HOL. We could downgrade HOL if its consolidated financial measures weaken, including FFO to debt of consistently below 11%. This could occur if the company experiences adverse regulatory decisions. We could also lower our ratings if we determine that HOL's business risk has increased. Although less likely, we could raise our ratings on HOI if we raise our ratings on HOL. We could raise our ratings on HOL over the next 24 months if it improves its*

85 Morningstar/DBRS, Credit Rating Report Hydro One Inc., November 13, 2025, at 2.
86 Moody's Ratings, Hydro One Inc. Update to credit analysis, November, 2025, at 5.
87 *Ibid*.

> *financial measures, including FFO to debt consistently of above 16%, without increasing its business risk.*[88]

Moody's indicated that:

> *We expect cash flow from operations to continue to be predictable, and forecast cash flow from operations before changes in working capital (CFO pre-WC) to debt of 11-13% over the next few years, slightly lower than recent years as the benefits from a favorable tax decision have largely expired. These relatively weaker financial metrics are primarily the result of its low authorized equity layer in the capital structure (currently 40%) that is established by the Ontario Energy Board (OEB), as well as low depreciation rates that are a function of long-life transmission and distribution (T&D) assets.*[89]

It is reasonable to conclude from these statements by the credit ratings agencies that Hydro One's elevated capital expenditure program will require a capital structure that enables the Company to recover its costs, maintain financial integrity, and access capital on reasonable terms. This conclusion reflects the financial risk created when a large forward capital program is supported by a deemed equity ratio that places pressure on credit metrics.

e. Credit Metrics Analysis

While the OEB has previously found that "utility bond metrics do not speak to the issue of whether a ROE determination meets the requirements of the FRS,"[90] understanding the going-forward impact of different ratemaking assumptions on credit metrics can provide evidence regarding the financial integrity component of the FRS. Concentric has performed an analysis of Hydro One's projected credit metrics for the 2028-2032 period based on the credit rating agencies' methodologies and with particular emphasis on the metrics emphasized by the rating agencies as indicated by discussions in their rating reports (i.e., Funds From Operations to Debt, or "FFO/Debt," for S&P and Cashflow from Operations to Debt, or "CFO/Debt," for Moody's). These estimated metrics, as calculated by Concentric on a *pro forma* basis, reflect different measures of cash flow expressed as a percentage of the Company's long-term debt, based on a hypothetical/deemed capital structure, and thus provide a reasonable representation of financial flexibility and credit strength for the purposes of evaluating an appropriate capital structure for rate-setting purposes. The analysis is provided in Exhibit 1.

88 S&P Global Ratings, Tear Sheet: Hydro One's Second Quarter Earnings Are in Line with S&P Global Ratings' Expectations, August 18, 2025, at 2.
89 Moody's Ratings, Hydro One Inc. Update to credit analysis, November 7, 2025, at 1.
90 EB-2009-0084, Report of the Board, December 11, 2009, at 20.

In their rating reports, the credit rating agencies identify ratings sensitivity thresholds for these key metrics that could be relevant to future rating actions. Specifically, the rating agencies provide the following ranges and thresholds for FFO/Debt (S&P) and CFO/Debt (Moody's) for Hydro One:

- S&P: "We continue to expect the company's FFO to debt will remain in the 11%-13% range through 2027. We could downgrade HOL if its consolidated financial measures weaken, including FFO to debt of consistently below 11%."[91]
- Moody's: Rating Outlook: "The stable outlook reflects the company's favorable regulatory framework and our expectation of weak but consistent financial metrics including CFO pre-WC to debt in the 11-13% range. Factors that could lead to downgrade: Key financial metrics decline, including CFO/debt sustained below 11%."[92]
- DBRS: "We may consider a negative credit rating action if there were adverse regulatory actions or key metrics weaken to a level that no longer support the current credit ratings (i.e., if the debt-to-capital ratio is above 60.0%, or the cash flow-to-debt ratio is below 11.0% for a sustained period)."[93]

The figure below provides the *pro forma* FFO/Debt and CFO/Debt metrics over the IR Term at Hydro One's current equity thickness of 40.0% and at the lower and upper ends of Concentric's recommended equity thickness range (i.e., 45.0% and 50.0%). These analyses include capital expenditures related to the Company's ATP projects because those projects, while subsequently transferred to partnership entities, are financed and developed on Hydro One's balance sheet, impacting its financial risk during construction. Red shading indicates the metrics are below the threshold, while green shading indicates the metrics are above the threshold.

91 S&P Global Ratings, Tear Sheet: Hydro One's Second Quarter Earnings Are in Line with S&P Global Ratings' Expectations, August 18, 2025, at 1-2.
92 Moody's Ratings, Credit Opinion Hydro One Inc., November 7, 2025, at 2.
93 Morningstar/DBRS, Credit Rating Report Hydro One Inc., November 13, 2025, at 1.

Figure 6: **Pro Forma Credit Metrics**

	2028	2029	2030	2031	2032
Key Credit Metrics at **40% Equity Thickness**					
FFO/Debt	9.4%	9.5%	9.5%	9.3%	10.9%
CFO/Debt	8.6%	9.5%	9.5%	9.2%	10.8%
Key Credit Metrics at **45% Equity Thickness**					
FFO/Debt	10.6%	10.7%	10.7%	10.4%	12.5%
CFO/Debt	9.8%	10.7%	10.7%	10.4%	12.4%
Key Credit Metrics at **50% Equity Thickness**					
FFO/Debt	11.9%	12.1%	12.1%	11.8%	14.4%
CFO/Debt	11.1%	12.1%	12.1%	11.7%	14.3%

As shown in the figure, at a 40% equity thickness and based on a hypothetical regulated-only, deemed capital structure basis, FFO/Debt and CFO/Debt will consistently fall below the rating agencies' downgrade thresholds. That result indicates that, all else equal, a 40% equity ratio does not provide sufficient stand-alone financial support to maintain Hydro One's key credit metrics within the range associated with its current ratings. At a 45% equity threshold (i.e., the low end of Concentric's recommended range), and all else equal, Hydro One's regulated-only metrics will be somewhat below the downgrade threshold through 2031, and modestly above at the end of the rate period. At 50% equity thickness, and all else equal, those metrics will be approximately at or above the thresholds identified by the rating agencies. These results indicate that, based on that measure, an equity ratio in the range of 45% to 50% will support the stand-alone financial integrity and credit strength of the Company's regulated business, although there is higher financial risk at the lower end of that range.

If Hydro One's credit metrics were to deteriorate materially, the result could be higher borrowing costs, reduced financial flexibility, or additional scrutiny over the reasonableness of financing costs. This introduces an additional layer of downside risk: weaker metrics can increase financing pressure and, in turn, create incremental uncertainty around cost recovery. That interrelationship reinforces the importance of establishing a capital structure that provides adequate credit metric headroom and supports financial integrity during the upcoming capital-intensive rate period.

2. Equity Analysts' Perspectives

Equity analyst commentary provides a market-based perspective on how investors are evaluating Hydro One's forward-looking risk profile. The reports reviewed by Concentric focus on four recurring



themes relevant to Hydro One's deemed capital structure: load-driven growth, the scale and execution of the capital program, external funding needs and stakeholder processes, and the importance of regulatory support in the upcoming JRAP.

Load Growth, Long-Term Expansion and Cost Pressures

- UBS Securities: "Load growth trends have remained tracking above plan."[94]
- Veritas: "Transmission backlog, now comprising 15 lines...supports an increasingly visible post-2027 growth runway."[95]
- RBC: "(T)he Ontario IESO continues to recommend expansions to the bulk transmission system to connect mining projects in the north; agriculture and industrial projects in the south; and enable new and refurbished nuclear energy. As a base case, we believe Hydro One is well-positioned to be awarded many of these future projects (thereby boosting its rate base CAGR beyond JRAP), particularly given its First Nation Equity Partnership Model."[96]
- RBC: also had cost/capex concerns but confidence in the external support for transmission projects, stating that "while there's been no cost update on most of the 10 previously-awarded transmission projects, it wouldn't surprise us if these costs have increased from the company's initial estimates. That said, despite these cost pressures, the government's determination to ensure Hydro One's initiatives do not slip on timing is encouraging."[97]

Funding Requirements and Stakeholder Processes

- BMO Capital Markets: "[HOL] can still self-fund growth through 2027, but reaffirmed that it will likely need equity beyond as growth moves higher."[98]
- CIBC: "H also plans to make USD-denominated debt a key part of its funding plan going forward, although we'd keep in mind that this will only continue to happen as long as the market is supportive."[99]
- Desjardins Securities: "H commented that its customer engagement process has been completed, engaging with an unprecedented 100,000 customers across all types in Ontario

94 UBS Securities, "3Q'25 EPS Above Consensus", following 3Q25 Earnings Release.
95 Veritas, "Q1-F26: Quality Priced In", following 1Q26 Earnings Release.
96 RBC Capital Markets, "Waiting for a clear signal", following 1Q26 Earnings Release.
97 RBC Capital Markets, "To 2027... and BEYOND!", following 2Q25 Earnings Release.
98 BMO Capital Markets, "Q2 — Strong Results Support 6-8% Growth Guidance and Premium Valuation", following 2Q25 Earnings Release.
99 CIBC, Another Quarter, Another Beat", following 3Q25 Earnings Release.

(residential, industrial, etc). The process showed that a strong majority of customers are in support of H's proposals, as customers in Ontario continue to prioritize grid reliability and economic growth. In our view, these positive results from the process should provide investors with some comfort heading into the JRAP28 filing, suggesting customer affordability is less challenged in Ontario."[100]

Importance of Regulatory Support

- CIBC: "H will file its next JRAP (2028-2032) on or before Oct 1, 2026. setting the stage for growth beyond 2027… H should disclose capex in the application, but reiterated it will not provide new EPS guidance until the rate case is decided by the OEB."[101]
- Veritas: "While the OEB declined to raise the equity thickness from 40%, it stated utilities can request an adjusted equity thickness in future rate applications, something H has indicated it will pursue, with clearer sight for approval on its transmission assets." [102]
- Desjardins Securities: "We continue to expect H to ask for measures that will likely be a tailwind ... whether it is a higher equity thickness, earnings on WIP, a combination, or some other measures.[103]
- Jefferies: "The Ontario Energy Board's denial of Hydro One's Z-factor application in April on grounds of already earning in excess of its allowed ROE represents an interesting precedent ahead of the upcoming Joint Rate Application filing expected in 2H26…. Direction of travel for OEB regulation in the context of ratepayer protection is a key watch item"[104]
- Veritas: "Absent an upside catalyst (e.g. equity thickness relief or a structurally higher ROE regime), we believe total returns are skewed to the downside. While we acknowledge that H warrants a premium to peers given its balance sheet, execution track record, and growth visibility—we believe the stock already fully reflects these positives, with limited upside available."[105]

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100 Desjardins Securities, "1Q26 recap - strong quarter; looking forward to the JRAP28 filing in 3Q", following 1Q26 Earnings Release.
101 CIBC, "Earnings Tracking Well; JRAP Filing In The Fall The Next Key Event", following 1Q26 Earnings Release.
102 Veritas, "Q1-F25: Paying a Premium", following 4Q25 Earnings Release.
103 Desjardins Securities, "4Q25 recap—low-risk high-growth story with a potential JRAP28 EPS kicker", following 4Q25 Earnings Release.
104 Jefferies, "Strong Earnings Execution, But JRAP Will Determine Hydro One's True North", following 1Q26 Earnings Release.
105 Veritas, "Q1-F25: Paying a Premium", following 4Q25 Earnings Release.

Many of the same themes appear across the credit rating agency and equity analyst materials. Hydro One benefits from a low-risk regulated utility business and a generally supportive regulatory framework, but its forward-looking financial profile is increasingly shaped by the scale of its capital program, the need for external funding, and the pressure that the current 40% deemed equity ratio places on credit metrics. Those market perspectives support Concentric's conclusion that Hydro One's deemed capital structure should be reassessed to ensure that it continues to satisfy the financial integrity and capital attraction requirements of the Fair Return Standard.

G. Conclusions

Hydro One's current and forward-looking business and financial risk profile, together with pressure on credit metrics under the existing 40% deemed equity ratio, warrants reassessment of Hydro One's deemed equity ratio. Without equity issuances, Hydro One's credit metrics are anticipated to be under strain by 2028, highlighting the importance of regulatory support and access to funding in the upcoming rate plan. This conclusion does not depend solely on demonstrating that each element of Hydro One's business risk has changed materially since EB-2021-0110; it also reflects the need to ensure that Hydro One's capital structure remains sufficient to support financial integrity, capital attraction, and comparability under the Fair Return Standard. In Section 6, Concentric provides its market/industry assessment of industry trends and evidence regarding capitalization ratios of peer utilities.

Section 5:

RENEWED PERSPECTIVES ON THE ESTABLISHMENT OF PEER GROUPS FOR CANADIAN COST OF CAPITAL DETERMINATIONS

In today's financial markets, competition for capital is global in nature. Canadian utilities compete for capital not only among other Canadian entities, but also among U.S. entities and other companies worldwide. Recent debt issuances in Canadian markets by large U.S. technology companies to fund data center developments, including Amazon (C$14 billion) and Alphabet (C$8.5 billion) in 2026, highlight the increased competition for capital that Hydro One faces from new and varied sources. As such, while the goal of proxy group analysis is to derive a group of companies with the same or similar investment risk, similarity is not limited by geographic boundaries, particularly when companies operating in different jurisdictions, provinces, or countries exhibit similar risk profiles. That is consistent with the core financial principle that "[t]he cost of capital depends primarily on the use of the funds, not the source."[106] It is also important when overly-prescriptive screening criteria that exclude non-Canadian entities provide for an insufficiently large group of proxy companies.

In Ontario, the OEB's recent generic cost of capital decision questioned the framework it established in 2009 that placed reliance on U.S. proxy group data to establish the ROE for Ontario's utilities.

> *The OEB acknowledges that its 2009 Report placed considerable weight on U.S.-based utility data in establishing reasonable expectations for returns that enable Ontario-based utilities to access capital. The expert reports filed by both the EDA (Nexus expert) and OEA (Concentric expert) in this proceeding have been responsive to the approach previously adopted by the OEB therein, notably the comparability of U.S. and Canadian utilities. While it may be relevant to consider U.S. utility ROE results, differences in structure and risk limit the ability to find truly comparable companies.*[107]

To address concerns about relying on U.S. utility data, this section provides a summary of evidence supporting the inclusion of and reliance on U.S. data for the purposes of making cost of capital assessments for Canadian utilities. Specifically, this section includes: (1) direct evidence that investors make cross-border investments in regulated utilities; (2) Hydro One's interconnectivity to the U.S.; (3) macroeconomic indicators; and (4) regulatory decisions.

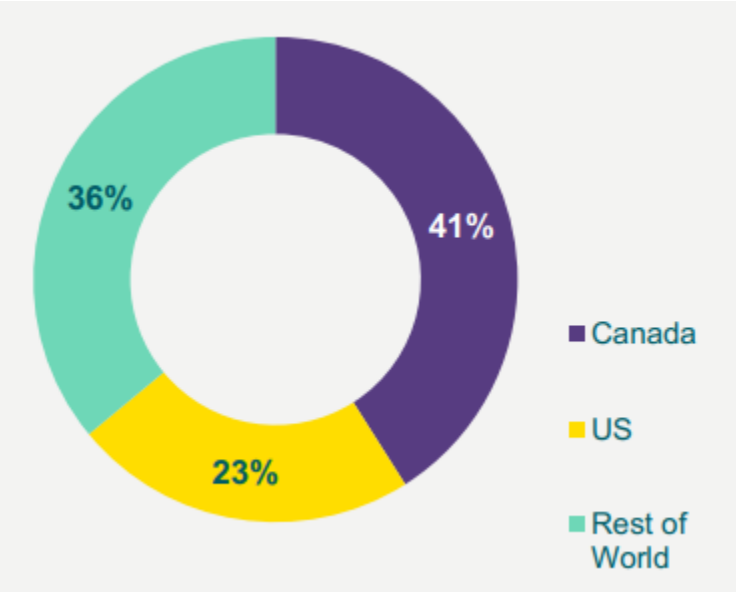
106 Stephen A. Ross, Randolph W. Westerfield, and Bradford D. Jordan, *Fundamentals of Corporate Finance*, 5th ed. (New York: Irwin McGraw-Hill, 2000), at 419.
107 EB-2024-0063, Decision and Order, March 27, 2025, at 37.

It is important to note that, as acknowledged by the OEB, the standard of comparability for the purposes of utility cost of capital determinations is not one of perfect sameness, but rather of reasonable comparability.

A. Direct Evidence of Cross-Border Investments

There are numerous indicators that participants in financial markets consider both Canadian and U.S. alternatives when making investment decisions. For example, a review of the holders of equity in Hydro One Limited, as shown in the figure below, indicates that a majority (i.e., 56%) of holders of Hydro One Limited's equity are located outside of Canada.

Figure 7: Hydro One Geographic Dispersion of Public Float[108]



Further, significant levels of investment are made by Canadian institutional investors in U.S. securities, including utilities. For example, institutional investment managers such as the Ontario Teachers Pension Plan Board ("OTPP") report to the U.S. Securities and Exchange Commission ("U.S. SEC") their holdings in U.S. equities on U.S. SEC Form 13F. OTPP's 1st quarter 2026 Form 13F-HR indicates equity investments in several U.S. utilities, including Black Hills Corp, Centerpoint Energy, Consolidated Edison, DTE Energy, Duke Energy, Evergy Inc., Eversource Energy, FirstEnergy, IDACorp, OGE Energy Corp, Portland General Electric, and WEC Energy.[109]

The investment portfolio of the Ontario Municipal Employees Retirement System ("OMERS") also provides a relevant example of how Canadian investors look beyond Canada for investing

[108] Hydro One Limited Investor Overview Post Second Quarter 2026, at 28.
[109] Ontario Teachers Pension Plan Board US SEC Form 13F-HR, March 31, 2026 (filed May 11, 2026).

opportunities. OMERS, based in Toronto, ON, is one of the largest pension funds in Canada. As of December 31, 2025, OMERS has $145.2 billion in net assets with over 1,000 participating employers. Of the nearly $146 billion in assets, 55% are U.S.-based and 18% are Canadian. In other words, OMERS allocates in excess of three times more capital to U.S. investments than Canadian investments.[110]

An analysis of Hydro One's top 20 equity holders indicates that most of its shareholders also hold equity in the utilities included in Concentric's main proxy group, which includes two Canadian holding companies and 19 U.S. holding companies (for information on the proxy group development, see Section 6 Market/Industry Assessment: Fair Return Standard Analysis). The results of this analysis, as shown in Figure 8 below, support the conclusion that Hydro One is directly competing for equity capital on a North American, if not global scale.

Figure 8: Cross-Shareholder Analysis (April 2026)

Shareholder	Location	U.S. Proxy Companies Held (Out of 19 Total)	Canadian Proxy Companies Held (Out of 2 Total)
The Vanguard Group, Inc.	United States	19	2
Toronto-Dominion Bank	Canada	18	2
BlackRock, Inc.	United States	19	2
Bank of Montreal	Canada	19	2
1832 Asset Management L.P.	Canada	12	2
Nordea Investment Management, AB	Sweden	14	1
Norges Bank Investment Management	Norway	11	1
Geode Capital Management, LLC	United States	19	2
First Trust Advisors LP	United States	19	2
Royal Bank of Canada	Canada	12	2
Leith Wheeler Investment Counsel Ltd.	Canada	3	0
Mackenzie Financial Corporation	Canada	19	2
UBS	Switzerland	19	2
Manulife	Canada	19	2
Robeco (Schwelz) AG	Switzerland	0	0
Canadian Imperial Bank of Commerce	Canada	17	2
Hamilton ETFs	Canada	0	2
Canada Pension Plan Investment Board	Canada	15	2

[110] OMERS Administration Corporation, 2025 Annual Report, at 6 and 15.

Shareholder	Location	U.S. Proxy Companies Held (Out of 19 Total)	Canadian Proxy Companies Held (Out of 2 Total)
Schroder Investment Management Limited	United Kingdom	16	1
Amundi Asset Management	France	16	2

Additionally, most of the largest borrowers in Canada also raise capital in the U.S. debt markets. Hydro One is currently the largest power and utilities infrastructure bond issuer and the fourth-largest corporate bond issuer in Canada, with approximately CAD $19.0 billion in outstanding debt.[111] Only Enbridge Inc., Bell Canada, and TC Energy have higher levels of outstanding corporate bond issuances in Canada.[112] Importantly, of the seven largest corporate bond programs in Canada, Hydro One was the only company with no USD debt securities issued before 2026.[113] However, in August 2025, Hydro One registered with the U.S. SEC to begin issuing debt in the United States,[114] and in May 2026, Hydro One Inc. completed its inaugural U.S. dollar debt offering, issuing US$1.0 billion of five-year senior unsecured notes due in 2031.[115] There are several reasons Canadian borrowers also raise capital in the U.S. debt market, including that a diversity in funding sources can provide stability in times of market turmoil when there may be pricing advantages between alternative debt markets. Hydro One is already competing with U.S. utilities for international equity, but now entering the U.S. debt market, the Company will be even more directly competing with U.S. utilities for investor capital as investors consider participating in Hydro One's USD bond program. Notably, the significant increase in debt issuances by large technology companies in markets worldwide, including the U.S. and Canadian markets, to fund AI and data center investment has pressured debt markets and expanded the universe of investment-grade alternatives available to investors. These companies are large, highly-rated, and are seeking to raise significant amounts of debt in the market. For example, Alphabet issued a record C$8.5 billion bond in May 2026,[116] which was quickly followed by Amazon

111 CIBC, Canadian Debt Capital Markets Update. Data sourced from Bloomberg on July 2, 2026.
112 *Ibid.*
113 *Ibid*.
114 Hydro One Inc., Form F-10, August 18, 2025.
115 Hydro One Inc. announces pricing of inaugural offering of US$1.0 billion of 5-year senior notes, May 20, 2026. Available at: https://hydroone.mediaroom.com/2026-05-20-Hydro-One-Inc-announces-pricing-of-inaugural-offering-of-US-1-0-billion-of-5-year-senior-notes.
116 *Alphabet's Record Canadian Debt Deal Weighs on Bond Spreads*, Bloomberg, May 5, 2026, https://www.bloomberg.com/news/articles/2026-05-05/alphabet-s-record-canadian-debt-deal-weighs-on-bond-spreads.

issuing a new-record C$14 billion bond in June 2026 in Canada.[117] In the first half of 2026 alone, large technology companies including Alphabet, Amazon, Meta, Microsoft, and Oracle, issued over $200 billion of investment-grade debt.[118] The impact of these "mega-issuances" is to widen credit spreads, as investors absorb the debt issuances and demand additional compensation for subsequent similarly-rated issuances. As a result, utilities such as Hydro One may be required to offer more attractive yields to compete for capital, contributing to upward pressure on utility credit spreads and the overall cost of financing.

Several regulated utility companies in Canada including Enbridge Inc., Fortis Inc., and Emera Incorporated have dual listings on both the Toronto Stock Exchange and the New York Stock Exchange, indicating that these companies are actively seeking equity investors in both Canada and the U.S.

It is also worth noting, as discussed in Section 4, higher capital spending on energy projects in Ontario is being driven by an increased focus on the security and reliability of energy sources and an anticipated increased demand for electricity. As such, Hydro One is currently entering into a period of elevated capital expenditures and this need for additional capital will require Hydro One to have access to a large and diverse set of investors, including in the U.S. As described in Section 4, without additional equity issuances beginning in 2028, Hydro One will be at risk of a credit downgrade, potentially increasing borrowing costs, which would ultimately flow through to customers in the form of higher rates.

Utility merger and acquisition ("M&A") activity has been extensive over the past 25 years, creating fewer but larger utility enterprises. One result of this trend is that cross-border ownership of utility companies has increased. To evaluate the degree of financial integration in the utility industry, Concentric examined cross-border utility investment since 2000. Concentric's research focused on transactions where a U.S. utility acquired a Canadian utility or vice versa. Concentric excluded acquisitions of discrete assets, such as generation facilities, renewable assets, and electric and gas transmission assets. Concentric also excluded proposed transactions that were not completed. Since 2000, Concentric identified 30 transactions where a Canadian utility acquired a U.S. utility and three where a U.S. utility acquired a Canadian utility. In this same period, two U.S. companies sold their

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[117] *Amazon Issues Record-Setting Canadian Dollar-Denominated Corporate Bond Deal*, Reuters, June 9, 2026, https://www.reuters.com/business/retail-consumer/amazon-issues-record-setting-canadian-dollar-denominated-corporate-bond-deal-2026-06-09/.

[118] *Big Tech Issued About $220 Billion of Bonds. Alphabet and Meta Show How AI is Warping the Credit Market*, Yahoo! Finance, September 14, 2026, https://finance.yahoo.com/markets/stocks/articles/big-tech-issued-220-billion-212946047.html.

Canadian utility assets (Aquila in 2003 and Kinder Morgan in 2007).

Figure **9** summarizes these M&A transactions.

Figure 9: Cross-Border Utility Acquisitions[119]

Buyer	Target	Deal Value (US$ Millions)	Year
Canadian Buyers Acquiring U.S. Utilities Since 2000			
Brookfield Asset Management Ltd.	National Grid Renewables, LLC	$1,735	2025
Canada Pension Plan Investment Board (with GIP)	ALLETE, Inc.	$6,553	2025
Caisse de dépôt et placement	AES Ohio	$546	2025
PSP Investments (with KKR)	AEP Ohio Transmission Company and Indiana Michigan Transmission Company (19.9% Stake)	$2,820	2025
Brookfield Infrastructure Partners	FirstEnergy Transmission (30% Stake)	$2,375	2024
Enbridge Inc.	The East Ohio Gas Company	$6,600	2024
Enbridge Inc.	Questar Gas Company	$4,250	2024
Enbridge Inc.	Public Service Company of North Carolina	$3,200	2024
Algonquin Power & Utilities	New York American Water Company	$608	2022
ENMAX Corporation	Emera Maine	$959	2019
Liberty Utilities Co.	St. Lawrence Gas Company, Inc.	$65	2019
AltaGas	WGL Holdings Inc.	$6,955	2018
Algonquin Power & Utilities	Empire District Electric Co	$2,349	2017

[119] Duke Energy Florida entered into a definitive agreement with Brookfield in 2025 to acquire 19.7% of the company for $6 Billion (USD), however, the transaction is still ongoing as of September 2026.

Buyer	Target	Deal Value (US$ Millions)	Year
Fortis Inc.	ITC Holdings Corp	$11,582	2016
Emera Inc.	TECO Energy Inc.	$10,585	2016
Caisse de dépôt et placement	IPALCO Enterprises Inc.	$134	2016
Caisse de dépôt et placement	IPALCO Enterprises Inc.	$247	2015
Algonquin Power & Utilities	New Hampshire Gas Corp	$3	2015
Fortis Inc.	UNS Energy Corp	$4,383	2014
Algonquin Power & Utilities	New England Gas Company	$74	2013
Fortis Inc.	CH Energy Group Inc.	$1,526	2013
Algonquin Power & Utilities	Atmos Energy Corp.	$141	2013
Algonquin Power & Utilities	California Pacific Electric Co.	$39	2012
AltaGas	SEMCO Holding Corp	$1,156	2012
Algonquin Power & Utilities	Midwest Natural Gas Distribution	$124	2012
Algonquin Power & Utilities	Granite State / EnergyNorth	$285	2012
Gaz Metro LP	Central Vermont Public Service	$700	2012
Emera Inc	Maine & Maritimes Corporation	$99	2010
Gaz Métro LP	Green Mountain Power Corp	$293	2007
NS Power Holdings Inc.	Bangor Hydro-Electric Co.	$365	2001
Total U.S. Acquisitions by Canadian Utilities		$70,751	
U.S. Buyers Acquiring Canadian Utilities Since 2000			
Berkshire Hathaway Inc.	AltaLink LP	$5,683	2014
Investor Consortium	Terasen Water & Utility	$110	2006
Kinder Morgan Inc.	Terasen Inc.	$5,246	2005
Total Canadian Acquisitions by U.S. Utilities		$11,039	

As shown, the value of Canadian acquisitions in the U.S. totaled approximately $71 billion, while U.S. acquisitions in Canada were approximately $11 billion, for a ratio of approximately 6:1. In the last ten years (i.e., 2016 – 2025), capital for utility investments has flowed overwhelmingly from Canada to the U.S. Specifically, Canadian investors have spent $50 billion in 12 different U.S. acquisitions, while Concentric did not identify any examples of U.S. investors acquiring Canadian utilities in the past decade.

The fewer U.S. acquisitions in Canada can be explained, in part, by the smaller number of potential Canadian investor-owned utility targets. Canadian companies also see higher allowed shareholder returns and opportunities for growth in the U.S. as favorable, as demonstrated in the case studies below. Specifically, Concentric studied a selection of recent cross-border transactions (both completed and attempted) to understand the factor(s) underlying this cross-border flow of capital. These case studies are discussed in the bullets below:

- Fortis / ITC: On October 14, 2016, Fortis Inc. ("Fortis") paid approximately $11.6 billion to acquire ITC Holdings Corp. ("ITC"), a fully regulated electric transmission utility providing service in eight states in the Midwestern U.S. Fortis emphasized the attractiveness of FERC's allowed returns and formula rate structure when explaining the strategic rationale for the transaction to its investors. Specifically, Fortis identified the "[c]onstructive ROEs and greater equity in OpCo capital structures" and that the "[f]orward-looking rate-setting mechanism with true-up provides timely recovery and reduces regulatory lag."[120] On a call with investors to discuss the transaction, Barry Perry, Fortis' then President and Chief Executive Officer, stated that "FERC is a supportive regulator, the returns at FERC are greater than 11%, and the equity thickness is 60% on these assets. Let me just repeat that again, returns are greater than 11%, and the equity thickness is 60%."[121]
- Emera / TECO: Emera Inc. ("Emera") acquired TECO Energy Inc. ("TECO") on July 1, 2016, in a transaction valued at approximately $10.6 billion. TECO is a holding company that primarily owns electric and natural gas utilities in Florida and New Mexico. Emera characterized these regulatory jurisdictions as "constructive," noting that they have authorized ROEs of 10 percent or more and employ "[c]onstructive rate design with mechanisms in place to adjust rates on a timely basis."[122] Further, in a conference call with

[120] Fortis Inc, February 2016 Investor Presentation, p. 13.
[121] Thomson Reuters Streetevents, Transcript of February 9, 2016, Conference Call, "Fortis Inc to Acquire ITC Holdings Corp – M&A Call."
[122] Emera Inc., "Emera to Acquire TECO Energy: Building a North American Energy Leader," September 8, 2015, at 12.

investors following the announcement of the transaction, TECO's regulatory climates were characterized as "very favorable" with "attractive allowed returns on equity."[123] In fact, one analyst from CIBC World Markets Inc. questioned whether the company's capital allocation decisions would be swayed by the relatively lower returns authorized in the Canadian jurisdictions in which the Company operates.[124]

- Enbridge / EOG, Questar, and PSCO NC: On September 5, 2023, Enbridge Inc. ("Enbridge") announced its acquisition of three U.S. natural gas utilities, The East Ohio Gas Company ("EOG") operating in Ohio, Questar Gas Company ("Questar") operating in Utah, Wyoming, and Idaho, and Public Service Company of North Carolina ("PSCO NC") operating in North Carolina. All three deals closed at various points in 2024 for an aggregate transaction value of approximately $14.1 billion. At announcement, Enbridge stated that "these utilities operate in regions with very attractive regulatory regimes, offer diverse, low-risk growth opportunities, and are capital efficient with short cycles between capital deployments and earnings generation."[125] Further, in an earnings call with investors in May 2024, Enbridge appeared to agree that its capital allocation could shift towards the U.S. jurisdictions due to attractive returns and regulatory environments: "Yes, absolutely…You only have so much capital…we want to put that capital to work where it attracts the best returns. I am confident that, particularly with the support of the Ontario government and ensuring that consumers have choice, that we'll have our opportunities in Ontario. But you're exactly right…[Utah and North Carolina] are going to be highly competitive."[126]

Generally, while the transaction participants in the above case studies also noted other value drivers (e.g., growth prospects, diversification, proven management teams, etc.), these statements indicate that Canadian utilities (1) are investing capital in the U.S. at least in part because of the higher equity returns generally offered in those jurisdictions, and (2) perceive the regulatory environment in U.S. jurisdictions as supportive. In other words, our analysis shows that Canadian utilities are choosing to invest in the U.S. where higher returns are available than in Canada. This is direct market evidence

123 S&P Capital IQ, McGraw Hill Financial, Transcript of Emera Incorporated M&A Call, September 4, 2015, at 5-6.

124 *Id*., at 17.

125 PRNewswire, "Enbridge Announced Strategic Acquisition of Three U.S. Based Utilities to Create Largest Natural Gas Utility Franchise in North America", provided by Enbridge, Inc., September 5, 2023.

126 In response to an investor question: "If EGI doesn't deliver the mechanisms that are as attractive as maybe some of your other jurisdictions, [can you discuss] the potential to wheel capital around to where you see the best opportunity?" S&P Capital IQ, McGraw Hill Financial, Transcript of Enbridge, Inc. Earnings Call, May 10, 2024.

of better potential reward for taking on a similar level of risk.

B. The Interconnected Nature of Canadian and U.S. Electric Grids

Operationally, Hydro One's network directly connects to the U.S. at four key intertie areas. These are high-voltage alternating current transmission lines (230 kV – 345 kV) that allow power exchange between Ontario and neighboring U.S. systems in New York, Michigan and Minnesota. Hydro One also operates under a unified continental reliability framework: Ontario is a member of the North American Electric Reliability Corporation ("NERC"), and specifically part of NERC's Northeast Power Coordinating Council ("NPCC") region alongside New York and New England. NPCC's footprint spans both sides of the international border, including New York and the New England states as well as Ontario and Québec in Canada. This means Hydro One follows the same reliability standards as U.S. grid operators, and its system planning and operations are closely coordinated with neighbors to ensure the interconnected grid's stability. Furthermore, Ontario's Independent Electricity System Operator ("IESO") coordinates directly with the New York Independent System Operator ("NYISO") and the Midcontinent Independent System Operator ("MISO") to manage these shared interconnections. While not direct evidence of risk similarity from an investor's perspective, the interconnected nature of the U.S. and Canadian electricity grids indicates similarities in operations and reliability requirements, both of which impact risk.

C. Country Risk Comparisons

The previous two subsections discussed the environments in Canada and the U.S. from a utility perspective. From a macroeconomic perspective, country-specific economic, business and political conditions that affect investment risk can be measured through a variety of qualitative and quantitative metrics. One such measure, produced by S&P Global rates 144 countries on a scale of 1 (very low risk) to 6 (very high risk), and defines "country risk" as, "[t]he broad range of economic, institutional, financial market, and legal risks that arise from doing business with or in a specific country and can affect a non-sovereign entity's credit quality."[127] As of July 2026, both Canada and the U.S. are rated 1 (very low risk) by S&P Global.[128]

The Economist Intelligence Unit ("EIU") also rates Canada and the U.S. similarly from an overall country operational risk perspective.[129] The EIU provides the following description in its country

[127] S&P Global Ratings, Country Risk Assessment Methodology and Assumptions, November 19, 2013, at 1.
[128] S&P Global Ratings, Insurance Industry and Country Risk Assessment Update, July 29, 2026, at 2-3.
[129] The Economist Intelligence Unit, Operational Risk Report: Canada, June 10, 2026; The Economist Intelligence Unit, Operational Risk Report: United States of America, June 29, 2026.

operational risk reports:

> *EIU is the research and analysis division of The Economist Group, a leading source of international business and world affairs information. It provides accurate and impartial intelligence for corporations, governments, financial institutions and academic organisations, inspiring business leaders to identify opportunities and manage risks with confidence since 1946.*[130]

Figure 10 summarizes the EIU's country operational risk ratings for Canada and the U.S. as of June 2026.[131] As shown in the table, Canada and the U.S. are rated the same in several categories that have some degree of bearing on utility investment risk, including: legal and regulatory, macroeconomic, financial, tax policy, labour market, and infrastructure risk. Categories where the countries diverge, such as political stability risk, are driven by near-term political considerations that are not necessarily reflective of investor sentiment related to the long-term cost of capital related to utility infrastructure. Canada (rated A by EIU) and the U.S. (rated B by EIU) both score as low risk for overall country operational risk.

130 *Ibid.*
131 *Ibid.*

Figure 10: Country Risk Ratings

EIU June 2026	Canada	U.S.
Security Risk	B	C
Political Stability Risk	A	C
Government Effectiveness Risk	A	C
Legal & Regulatory Risk	A	A
Macroeconomic Risk	C	C
Foreign Trade & Payments Risk	B	C
Financial Risk	A	A
Tax Policy Risk	A	A
Labour Market Risk	B	B
Infrastructure Risk	A	A
Overall Score	A	B

These assessments are further confirmed in country risk reports from Allianz indicating that Canada was ranked AA1 as of February 2026, while the U.S. was ranked similarly at A1 as of February 2025.[132] Altogether, these independent county risk ratings suggest that from a country risk perspective, Canada and the U.S. are comparable in a global context.

Additionally, despite recent trade tensions, the magnitude and significance of trade between the two countries reflects the high degree of integration between the two economies. According to the Government of Canada, "Canada and the U.S. enjoy the world's most comprehensive trading relationship, which supports millions of jobs in each country. Nearly CAD $3.6 billion (US $2.6 billion) worth of goods and services crossed the border each day in 2024. The United States is Canada's largest trading partner in goods and services, while Canada is the U.S.' second-largest trading partner."[133] This is an indication of the high degree of integration between the two economies.

From a business risk perspective, including overall business environment and competitiveness, Canada and the U.S. are ranked closely when compared against other developed and developing

[132] Country Risk Report Canada (allianz.com), Country Risk Report United States (allianz.com).
[133] Government of Canada, "Canada - United States relations". Date modified: 2026-04-17. https://www.international.gc.ca/country-pays/us-eu/relations.aspx?lang=eng.

countries. Based on these macroeconomic indicators, there are no fundamental dissimilarities between Canada and the U.S. (in terms of economic growth, inflation, or government bond yields) that would cause a reasonable investor to have a materially different return expectation for a group of comparable risk utilities in the two countries.

D. Regulatory Decisions

Canadian regulators have adopted a pragmatic view of the use of U.S. data and proxy groups to estimate the authorized ROE for Canadian regulated utilities. The development of a proxy group comprised entirely of Canadian regulated utilities is challenged by the small number of publicly-traded utilities in Canada and the fact that many of those Canadian companies derive a significant percentage of revenues and net income from operations other than regulated electricity transmission and distribution service. The continuing trend toward mergers and acquisitions in the utility industry, both within Canada and across the border with U.S. utility holding companies, further blurs the distinction between a Canadian and U.S. utility company. Multiple regulatory authorities in Canada have recognized that Canadian utility companies are competing for capital in global financial markets and that Canadian data are limited by the small number of publicly-traded utilities. Regulators have also recognized the integrated nature of Canadian and U.S. financial markets, which is evidenced by Canadian and U.S. utilities issuing securities in each other's countries, and the similarity of the utility regulatory regimes.

In particular, both the BCUC and the Alberta Utilities Commission ("AUC") have accepted the use of a North American proxy group comprised of utility companies in both Canada and the U.S. to set the authorized ROE for utilities under their jurisdiction. The BCUC explained its rationale for using a North American proxy group as follows:

> *For the reasons outlined above, we find the use of the Canadian proxy groups and US proxy groups alone to be inferior to that of using a North American proxy group which has a reasonable mix of both Canadian and US comparators, and the averaging of the results of these three groups to be a poor compromise. On balance, we find that having a proxy group of North American comparators trumps any jurisdictional or structural differences. In making this determination, we rely on the facts that financial and capital*

> *markets are highly integrated and that utility regulatory regimes in North America are sufficiently similar for the purpose of establishing a comparable ROE.*[134]

The BCUC decision is consistent with Concentric's experience that equity investors and credit analysts consider the utility industry as a North American industry, with Canadian companies competing for capital with similar risk companies in both countries. This is evidenced by, for example, S&P assessing North American regulatory jurisdictions as a group, not separately by country.[135]

The AUC also developed a set of screening criteria for purposes of selecting a proxy group used to estimate the cost of equity for Alberta's electric and gas utilities.[136] The large majority of companies chosen by the AUC for the comparator group (28 out of 33 companies, or almost 85%) were either U.S. electric or U.S. gas utilities (or both). In addition, several of the Canadian companies in the AUC's comparator group have significant U.S. operations, including Emera, Fortis, and Algonquin Power.

Concentric recognizes that proxy company selection necessarily involves judgment, because no utility is identical to another, whether in Canada or the U.S. The NEB recognized these challenges and reinforced this view in its bellwether TQM decision.

> *In light of the Board's views expressed above on the integration of U.S. and Canadian financial markets, the problems with comparisons to either Canadian negotiated or litigated returns, and the Board's view that risk differences between Canada and the U.S. can be understood and accounted for, the Board is of the view that U.S. comparisons are very informative for determining a fair return for TQM for 2007 and 2008.*[137]

Since the NEB's 2009 decision, the North American utility industry has become even more integrated from both an investor and allocation of capital viewpoint. In Concentric's view, careful screening of a North American proxy group of companies remains the most reliable method for determining the cost of capital, and is consistent with how investors see the market.

The OEB has previously found that U.S. data is relevant to its cost of capital determinations. Specifically, in its 2009 Cost of Capital Report, the OEB noted:

> *[T]here was a general presumption held by participants representing ratepayer groups in the consultation that Canadian and U.S. utilities are not comparators, due to*

134 British Columbia Utilities Commission, Decision and Order G-236-23, September 5, 2023, at 16.
135 S&P Global, North American Utilities Regulatory Jurisdictions Update: Connecticut and Mississippi Assessments Revised, Other Notable Developments, February 19, 2025.
136 AUC Decision 27084-D02-2023, October 9, 2023, at para 99-104.
137 RH-1-2008, March 2009, at 71.

> *differences in the "time value of money, the risk value of money and the tax value of money." In other words, because of these differences, Canadian and U.S. utilities cannot be comparators. The Board disagrees and is of the view that they are indeed comparable, and that only an analytical framework in which to apply judgment and a system of weighting are needed.*[138]

After discussing the positions of the various parties to that proceeding, the OEB concluded:

> *The Board is of the view that the U.S. is a relevant source for comparable data. The Board often looks to the regulatory policies of State and Federal agencies in the United States for guidance on regulatory issues in the province of Ontario. For example, in recent consultations, the Board has been informed by U.S. regulatory policies relating to low income customer concerns, transmission cost connection responsibility for renewable generation, and productivity factors for 3rd generation incentive ratemaking.*
>
> *Finally, the Board agrees with Enbridge that, while it is possible to conduct DCF and CAPM analyses on publicly-traded Canadian utility holding companies of comparable risk, there are relatively few of these companies. As a result, the Board concludes that North American gas and electric utilities provide a relevant and objective source of data for comparison.*[139]

In a 2016 proceeding involving Ontario Power Generation ("OPG"), however, the OEB noted that both Concentric (presenting information on behalf of OPG) and the Brattle Group (presenting information on behalf of the OEB Staff) should have made adjustments to the comparator group data "to account for the substantially lower common equity ratios allowed regulated utilities in Canada."[140] More recently, in EB-2024-0063, the OEB expressed some hesitancy about relying on U.S. proxies:

> *While it may be relevant to consider U.S. utility ROE results, differences in structure and risk limit the ability to find truly comparable companies. […]*[141]
>
> *The integration of U.S. and Canadian utility markets and the potential lure of higher returns for investors is a factor to be considered in arriving at a final conclusion concerning the requisite ROE that must be provided to meet the FRS. However, the use*

138 EB-2009-0084, Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, December 11, 2009, at 21-22.
139 *Id*., at 23.
140 Ontario Energy Board, Decision and Order EB-0216-0152, Ontario Power Generation Inc. , December 28, 2017, at 109.
141 EB-2024-0063, Decision and Order, at 37.

> *of U.S. regulated utility data as equivalent to Canadian regulated utility data in any computation is questionable. […]*[142]
>
> *In 2009, the heavy reliance on U.S. comparators was, in part, a response to the heightened uncertainty and financial distress that made it difficult to draw reliable conclusions from Canadian market data alone. Current financial conditions demonstrate that Canadian and U.S. financial markets have been stable and well-functioning, and any potential short-term volatility is unpredictable. Therefore, there may be less justification for placing the same degree of reliance on U.S. comparators, without discarding appropriate U.S. comparators out of hand.*[143]

In Concentric's experience, the integrated nature of North American capital markets, the lack of a sufficient sample of comparators in Canada, and the similarities in rate regulation in Canada and the U.S. continue to support the inclusion of U.S. proxy companies when analyzing the cost of capital for Canadian utilities. In addition, while the above findings from the OEB indicate its preference for the moderation of the reliance on U.S. comparators relative to the recent past, at least as it related to the generic cost of capital proceeding, it does not suggest that U.S. comparators should be ignored where they are appropriate.

In considering this matter in this report, Concentric observes that allowed equity ratios for U.S. utilities generally remain higher than deemed equity ratios for Canadian utilities. However, this wide differential is not currently explained by differences in risk. Rather, Canada and the U.S. are both part of an integrated North American capital market and independent, third-party evidence from both equity and debt investors makes clear that investors do not perceive meaningful risk differentials between regulated utility investments in the two countries. For those reasons, as well as the evidence provided above regarding the integrated nature of Canadian and U.S. markets and the fact that regulated utilities in both countries have broadly similar risk profiles, Concentric continues to recommend the examination of a broad group of North American utilities when assessing the cost of capital for Hydro One.

Concentric further notes that, regardless of the weight assigned to U.S. comparators in Canadian cost of capital analyses, Concentric has not adopted the U.S. proxy group results mechanically. Its recommendation reflects judgment and moderation, including an equity thickness below the proxy group central tendency, which effectively gives weight to potential differences between the U.S. proxy companies and Hydro One.

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142 *Ibid.*
143 *Id.*, at 38.

E. Country Risk Conclusions

Regulated utilities in both Canada and the U.S. participate in an integrated North American market for capital. While authorized equity ratios have historically diverged between the two countries, our analysis suggests that this divergence is not justified by differentials in risk. Rather, the available market evidence does not indicate that equity investors view Canadian and U.S. utilities as categorically different investment opportunities from a risk perspective. The disparity in authorized costs of capital also is consistent with Canadian utilities seeking U.S. investment opportunities where authorized returns and capital structures may be more supportive. By contrast, the transaction record reviewed in this section shows comparatively limited acquisition activity by U.S. utilities into Canada.

Further, the economies of Canada and the U.S. are highly integrated, and key macroeconomic indicators for the two countries, including GDP growth, bond yields, and inflation, are closely correlated. The two countries are each other's largest export market. According to independent, third-party evaluation from S&P Global, EIU, and Allianz, the two countries have comparable risks from a global perspective.

For all these reasons, Concentric does not believe it is necessary to adjust the equity ratio data from U.S. firms for purposes of establishing Hydro One's deemed equity ratio. Such an adjustment would be inconsistent with the market evidence discussed above, which indicates that Canadian and U.S. utilities operate in closely integrated capital markets and are generally viewed as comparable investment alternatives, subject to company-specific differences in business and financial risks. There are, of course, differences in risk between individual companies operating in the U.S. and/or Canada. As discussed herein, Concentric accounts for those differences by comparing Hydro One's business and financial risks to those of the proxy companies in a variety of ways. As a general matter, Concentric's position is that it is not appropriate to adjust U.S. equity ratio data solely because the companies operate in the U.S. Nonetheless, Concentric's recommended equity ratio of 47.5% for Hydro One does not mechanically adopt the U.S. proxy group evidence; it is below the central tendency of the proxy group results and therefore already reflects moderation in the application of that evidence.

SECTION 6:

MARKET/INDUSTRY ASSESSMENT: FAIR RETURN STANDARD ANALYSIS

A. Overview

As part of the FRS, the capital structure allowed in this proceeding should ensure that Hydro One can attract capital on reasonable and comparable terms. In this section, Concentric develops a main proxy group of utilities similar to Hydro One, analyzes the equity ratios of those utilities, and compares the results to Hydro One's deemed equity ratio of 40%. In addition, we provide secondary comparisons to relevant subgroups to analyze the impacts of various financial and operational factors.[144] Finally, we provide an estimate of current market ROEs[145] using the main proxy group, although we are not recommending any change to the authorized ROE for Hydro One. Rather, Concentric's ROE analysis provides context for whether Hydro One's equity ratio, in combination with its authorized ROE, provides a fair return. Altogether, the analyses demonstrate that Hydro One's deemed equity ratio of 40%, in combination with the generic ROE in Ontario, does not reflect a risk-comparable level of return. Based on the results of our analyses, Concentric finds that an equity thickness range of 45% to 50% is appropriate for Hydro One to meet the comparability component of the FRS. Within that range, we recommend a point estimate of 47.5%.

B. Use of Proxy Company Analysis for Cost of Capital Determinations

Analyses of comparable, or "proxy," companies is a common and well-accepted approach used in the determination of the cost of capital for regulated utilities and for benchmarking business and financial risks. Proxy groups are used for the following main reasons in cost of capital determinations: (1) adherence to the comparable investment standard; (2) since the cost of capital is a market-based concept, it is necessary to establish a group of companies that is both publicly-traded and comparable to Hydro One in certain fundamental business and financial respects to serve as its "proxy" for purposes of the cost of capital evaluation process; and (3) it is possible that transitory events could bias Hydro One's market-determined cost of capital in one way or another over a given period of time. A significant benefit of using a proxy group is its ability to mitigate the effects of anomalous events that may be associated with any one company.

[144] The equity ratio data in this report is based on market data from January 2026.
[145] Concentric's ROE analysis is based on market data from December 2025.

Regulatory commissions and cost of capital analysts generally apply a set of screening criteria in order to define a risk-appropriate group of comparable companies. For instance, the Federal Energy Regulatory Commission ("FERC") provides the following summary of its practice for selection of a proxy group for electric transmission companies:

> *Composition of the Proxy Group: In this section we address the following issues concerning the proper methodology for developing a proxy group and calculating the zone of reasonableness: (1) the use of a national group of companies considered electric utilities by Value Line; (2) the inclusion of companies with credit ratings no more than one notch above or below the utility or utilities whose rate is at issue; (3) the inclusion of companies that pay dividends and have neither made nor announced a dividend cut during the six-month study period; (4) the inclusion of companies with no major merger activity during the six-month study period; and (5) companies whose DCF results pass threshold tests of economic logic.*[146]

While the individual screens require modification based on the subject company to which proxy companies are being compared,[147] the goal of screening companies based on their risk characteristics increases both the comparability of the group and the confidence that the analyst (or regulator) can have in drawing conclusions based on analyses of the proxy group. Therefore, for consistency with the above considerations, Concentric relied on a screening process similar to one we typically apply in cost of capital analyses to establish a risk-comparable proxy group of North American electric utility companies.

As discussed in Section 5, there is strong precedent in Canada for considering North American proxy groups in cost of capital decisions. In Concentric's experience, the integrated nature of North American economies and capital markets, the lack of a sufficient sample of comparators in Canada, and the similarities in rate regulation in Canada and the U.S. support the inclusion of U.S. proxy companies when analyzing the cost of capital for Canadian utilities.

At the same time, Concentric is cognizant of the OEB's findings regarding the use of U.S. comparators in proceeding EB-2024-0063, in which the OEB indicated its preference for the moderation of the reliance on U.S. comparators relative to the recent past. However, the OEB's statements do not suggest that U.S. comparators should be ignored, but rather that U.S. data should still be considered

[146] Opinion No. 531, Order on Initial Decision, 147 FERC ¶ 61,234 (June 19, 2014), at 44-45.

[147] For instance, the FERC applies a screen for the inclusion of master limited partnerships ("MLPs") in natural gas pipeline proxy groups that the MLPs derive at least 50% of operating income from, or have 50% of their assets devoted to, interstate operations (see, Opinion No. 510, Portland Natural Gas Transmission System, 134 FERC ¶ 61,129 (February 17, 2011), at 62.

as a factor. In Concentric's view, the consideration of U.S. comparators provides representative market data that is relevant to investors and imperfect, albeit meaningful, market and industry assessments that would otherwise have been limited.

Finally, since all utility companies vary to some degree in asset mix, geography, and customer base, it is not possible to find a singular proxy company that is perfectly comparable to Hydro One from a risk perspective. The determination of an appropriate equity ratio in the context of a range of proxy group companies' equity ratios must then be based on an assessment of Hydro One-specific risks relative to the proxy group, as well as informed judgment. For example, the OEB has expressed its view that "the capital attraction standard, indeed the [Fair Return Standard] in totality, will be met if the cost of capital determined by the Board is sufficient to attract capital on a long-term sustainable basis given the opportunity costs of capital."[148] The "opportunity cost of capital" is the return available from investments of similar risk. Further, the OEB has determined that "[t]he comparable investment standard requires empirical analysis to determine the similarities and differences between rate-regulated utilities." However, the assessment of comparability "does not require that those entities be 'the same'."[149] In addition, the National Energy Board (predecessor to the Canada Energy Regulator), in discussing the cost of capital for the TransCanada Mainline, stated, "[t]o the greatest extent possible, comparable companies have to face similar business risk as the Mainline. If they do not, judgment needs to be applied to the cost of capital estimates to reflect business risk differences." [150] In other words, whereas a subject company of average risk relative to the proxy group potentially would warrant an equity ratio equal to the average or median result of the proxy group, a company of greater risk potentially would warrant an equity ratio above the mean or median result, and conversely a company of lower risk potentially would warrant an equity ratio below the mean or median result.

In summary, the use of comparable companies to benchmark business and financial risks in the context of cost of capital determinations is common practice among North American regulatory jurisdictions, and it is a method Concentric has applied to our evaluation of Hydro One's capital structure. In the discussion that follows, we present Concentric's analysis of Hydro One's level of business and financial risk relative to a proxy group of electric utilities, as well as our review of equity ratios authorized for the proxy group to provide context for where, within a reasonable range,

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148 Ontario Energy Board, Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, EB-2009-0084 (December 11, 2009), at 20.

149 *Id.*, at 21.

150 National Energy Board RH-003-2011 Reasons for Decision, TransCanada PipeLines Ltd, NOVA Gas Transmission Ltd., and Foothills Pipelines Ltd., March 2013, at 165.

Concentric believes Hydro One's deemed equity ratio should be set by the OEB. Finally, we present analysis of current market ROEs based on this proxy group, although Concentric is not recommending a change in Hydro One's authorized ROE in this report. Our ROE analysis, however, provides evidence regarding whether Hydro One's weighted equity return (i.e., its equity thickness multiplied by its ROE) provides a compensatory return.

C. Selection of Proxy Companies

To develop the Main Proxy Group, Concentric started with the list of publicly-traded Canadian utilities, of which there were eight, and all publicly-traded U.S. Electric Utilities as categorized by Value Line, of which there were 36. Concentric then applied a series of screens designed to filter out companies that are materially different from Hydro One. The screens are as follows:

- **Must have an investment-grade credit rating.** Hydro One, Inc. has an "A" issuer rating from S&P, an "A (high)" issuer and senior unsecured debt rating from DBRS, and an "A3" senior unsecured debt rating from Moody's. Since rating agencies incorporate an assessment of financial and business risks in their ratings, Concentric's credit rating screen selects electric utility companies with investment-grade credit ratings (an S&P credit rating of BBB- or above or a Moody's credit rating of Baa3 and above), which reduces the need to adjust the results to account for any perceived differences in business or financial risk compared to Hydro One. Further, selecting proxy companies that have an investment grade credit rating ensures that the proxy companies are generally in sound financial condition.[151]
- **Must have regulated revenue and regulated operating income that make up greater than 75% of total revenue and total income for the consolidated company.** Hydro One derives 100% of its revenue and income from regulated operations. This screen excludes companies that do not derive a significant portion of their financial results from regulated operations, ensuring that the proxy companies are sufficiently "regulated" to be comparable to Hydro One. In other words, the companies are mostly protected by regulation rather than being subject to substantial merchant or market-related risks. While there is no "bright line" percentage for separating regulated from non-regulated companies, a threshold of 75% in this instance is both sufficiently restrictive, while simultaneously not resulting in an unduly small proxy group.

[151] The only utilities removed from the proxy group due to this screening criterion were PG&E Corporation and Hawaiian Electric Industries, Inc, which have sub-investment grade credit ratings.

- **Must have regulated electricity revenue and operating income that make up greater than 75% of revenue and income for the consolidated company's regulated operations.** Hydro One derives 100% of its revenue and income from electric operations. This screen excludes companies that do not derive a significant portion of their financial results from electric operations, ensuring that the proxy companies are sufficiently "electric" to be comparable to Hydro One. In conjunction with the previous screen, this screen ensures that the proxy group companies derive the vast majority of their financial results from regulated electricity operations. Similar to the previous screen, the 75% regulated electric revenue and income threshold is not a "bright line," but rather is intended to balance the comparability of the proxy group with its overall size.

- **Must pay stable or increasing dividends and have positive projected long-term earnings growth rates from at least two sources.** These screens are necessary for Concentric's ROE analysis as they ensure that a discounted cash flow analysis is both applicable to the company and sufficiently robust. The availability of earnings growth projections from two or more analysts indicates sufficient coverage to provide a more balanced perspective on the company's business and earnings outlook than a single analyst could provide. Stable and increasing dividends, as well as positive long-term earnings growth rates, are required by the discounted cash flow model, as described in Section 6I, Main Proxy Group ROE Analysis.

- **Must not have material M&A activity within the analytical period.** This screen ensures that one-time events do not disproportionately affect the company, including its stock price that is used in the DCF analysis and its capitalization ratios analyzed in the equity ratio analysis.

- **Hydro One Limited was excluded from the proxy group to avoid circularity issues.**

Of the Canadian utilities, Emera Inc. and Fortis Inc. passed the screens and were included in the Main Proxy Group. The remaining Canadian companies either did not have sufficient regulated operations or electric operations: Enbridge Inc. and TC Energy Corporation do not have any regulated electric operations, being primarily natural gas or oil companies, while Algonquin Power & Utilities Corporation and Canadian Utilities Limited both derive less than 60% of their regulated businesses from their regulated electric segments and thus fail the "sufficiently electric" screen. AltaGas failed both the regulated portion and electric portion screens. Finally, Hydro One Limited was excluded due to it being the parent company of Hydro One. Of the 36 U.S. electric utilities initially considered, 19 passed the screens and were included in the Main Proxy Group.

The resulting composition of the Main Proxy Group is described in Figure 11, below. Exhibit 2 provides greater detail on the development of the Main Proxy Group.

Figure 11: Main Proxy Group

Company	Ticker
Emera Inc.	EMA
Fortis Inc.	FTS
Alliant Energy Corporation	LNT
Ameren Corporation	AEE
American Electric Power Company, Inc.	AEP
Dominion Energy, Inc.	D
Duke Energy Corporation	DUK
Edison International	EIX
Eversource Energy	ES
Entergy Corporation	ETR
Exelon Corporation	EXC
FirstEnergy Corporation	FE
Evergy, Inc.	EVRG
IDACORP, Inc.	IDA
NorthWestern Energy Corporation	NWE
OGE Energy Corporation	OGE
Pinnacle West Capital Corporation	PNW
Portland General Electric Company	POR
PPL Corporation	PPL
Southern Company	SO
Xcel Energy Inc.	XEL

D. Proxy Group Authorized and Actual Equity Ratio Analysis

Concentric analyzed the equity ratios of the operating utilities of the Main Proxy Group companies described above to inform a range of reasonable deemed equity ratios for Hydro One. Specifically, Concentric analyzed (i) the actual equity ratios based on five years of historical financial data for the operating companies owned by each proxy group holding company; and (ii) the current regulatory commission-authorized equity ratios for each operating company jurisdiction, averaged by holding company.

For part (i), Concentric gathered total proprietary capital and long-term debt data from balance sheets, sourced by S&P Capital IQ, for every electric operating company owned by the holding companies in the Main Proxy Group. (For example, Dominion Energy, Inc.s owns two electric operating utilities, Dominion Energy South Carolina and Virginia Electric and Power Company.) Concentric then rolled the operating company data up to the holding company level by calculating a weighted average equity ratio for each year, weighted by the equity size of each operating company. Importantly, this methodology excludes any capitalization effects of holding company balance sheet items that are not directly tied to an operating utility. Finally, Concentric averaged these equity ratios for the years 2020 through 2024 to determine an equity ratio value for each holding company. From this distribution of holding company equity ratios, median, average, minimum, and maximum results were determined.

For part (ii), Concentric gathered the current authorized equity ratio for each electric operating company jurisdiction under each holding company in the Main Proxy Group.[152] (For example, Dominion Energy South Carolina operates in one state, South Carolina, while Virginia Electric and Power Company operates in two states, North Carolina and Virginia, meaning that Dominion Energy, Inc. is comprised of three electric operating company jurisdictions and has three separate authorized equity ratios.) For each holding company, the average authorized equity ratio across all its jurisdictions was calculated. From this distribution of holding company equity ratios, median, average, minimum, and maximum results were determined.

The results of these analyses are provided in summary form in Figure 12 and Figure 13 below, and on a company-by-company basis in Figure 14 below. Exhibits 3, 4, and 5 provide greater detail on the analyses provided below.

[152] Authorized equity ratios for jurisdictions that account for zero cost of capital items in utilities' regulated capital structure (Florida, Arkansas, Indiana, and Michigan) were excluded, except in the case(s) where an authorized equity ratio excluding zero cost of capital effects was publicly-available.

Figure 12: Main Proxy Group Equity Ratios

Main Proxy Group:

Highly-regulated publicly-traded electric utilities in the U.S. and Canada

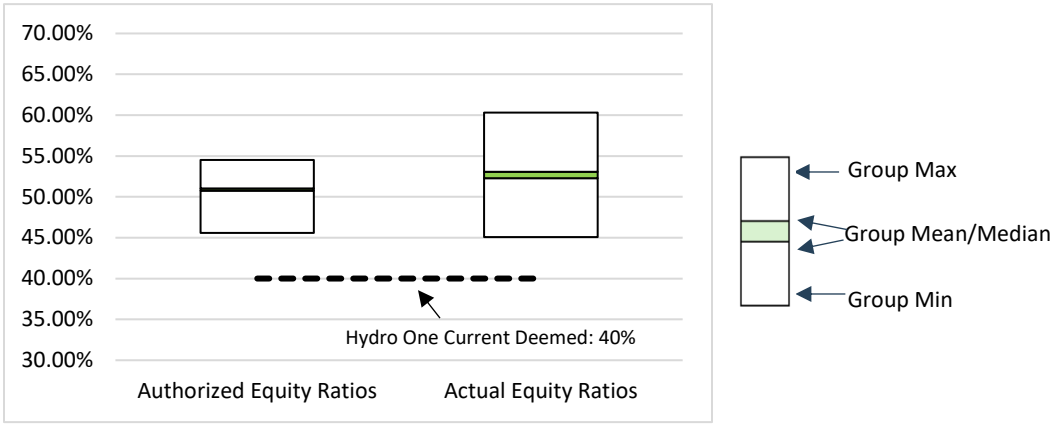


Figure 13: Main Proxy Group Equity Ratios – Summary Table

Main Proxy Group	Current Authorized Equity Ratios	Actual Equity Ratios (avg. 2020-2024)
Median	51.02%	53.07%
Average	50.77%	52.28%
Min	45.58%	45.07%
Max	54.50%	60.31%
Hydro One Current Deemed	*40.00%*	

Figure 14: Main Proxy Group Equity Ratios – Detailed Table

Holding Company	Authorized Equity Ratio	Actual Equity Ratio
EMA	47.00%	47.68%
FTS	45.58%	48.11%
LNT	51.09%	52.40%
AEE	50.00%	53.85%
AEP	47.48%	48.31%
D	52.35%	53.39%
DUK	52.60%	53.07%
EIX	52.00%	46.56%
ES	51.50%	56.15%
ETR	50.35%	48.59%
EXC	50.61%	53.21%

Holding Company	Authorized Equity Ratio	Actual Equity Ratio
FE	51.70%	56.18%
EVRG	NA	60.31%
IDA	50.50%	52.54%
NWE	47.84%	51.66%
OGE	53.50%	53.77%
PNW	51.93%	50.90%
POR	50.00%	45.07%
PPL	50.95%	56.56%
SO	54.50%	54.90%
XEL	53.85%	54.64%

The figures above illustrate that the proxy group holding companies had average authorized equity ratios ranging from 45.58% (Fortis, Inc.) to 54.50% (Southern Company) and weighted average actual equity ratios ranging from 45.07% (Portland General Electric Company) to 60.31% (Evergy, Inc.). The median and average results for both analyses generally ranged from 50% to 53%.

Hydro One's currently deemed equity ratio of 40.00% is significantly below the overall range of the Main Proxy Group, more than 10% below the measures of central tendency, and more than 5% below the minimum result presented. On its face, this analysis suggests that Hydro One's deemed equity ratio significantly lags those of its peers and does not currently satisfy the Fair Return Standard.

Further context for these results can be found by examining (i) the results for the Canadian holding companies specifically, as well as (ii) the results for the Main Proxy Group on an operating company basis, rather than a holding company basis. First, the Canadian holding companies in the Main Proxy Group (Emera, Inc. and Fortis, Inc.) have authorized and actual equity ratios as follows:

Figure 15: Equity Ratios of Canadian Holding Companies in Main Proxy Group

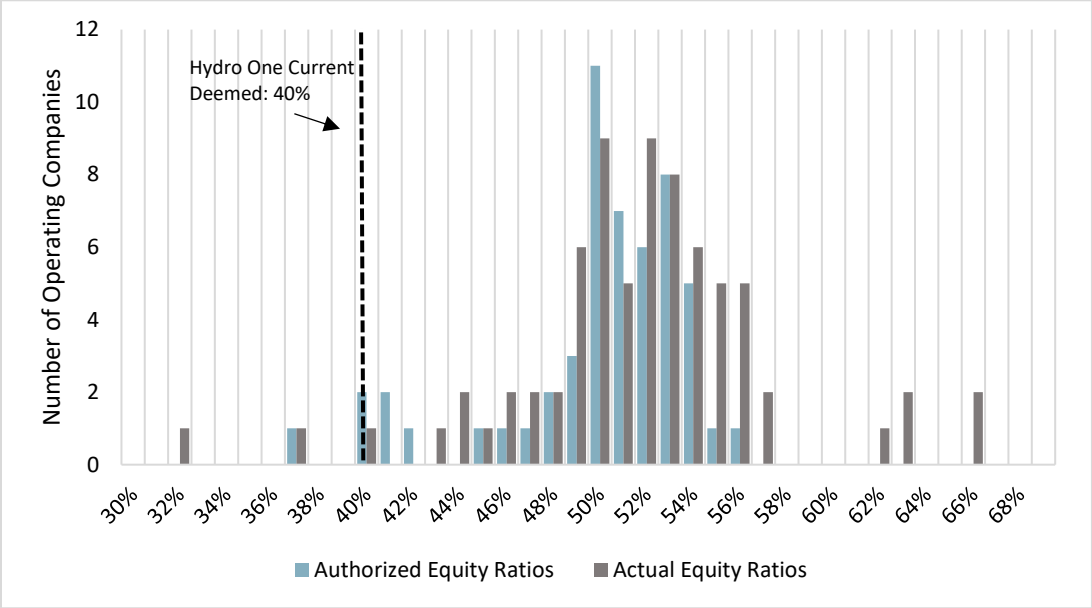
	Electric Operating Company	Authorized Equity Ratio	Actual Equity Ratio
Emera, Inc.	Tampa Electric Company	54.00%	57.45%
	Nova Scotia Power	40.00%	32.93%
	Emera, Inc. Total	***47.00% (Average)***	***47.68% (Weighted Average)***
Fortis, Inc.	Central Hudson Gas & Electric	48.00%	49.21%
	Tucson Electric Power Company	54.32%	54.04%
	UNS Electric, Inc.	53.72%	55.55%
	FortisAlberta, Inc.	37.00%	40.45%
	FortisBC, Inc.	41.00%	51.62%
	Newfoundland Power, Inc.	45.00%	44.54%
	Maritime Electric Company	40.00%	37.80%
	Fortis, Inc. Total	***45.58% (Average)***	***48.11% (Weighted Average)***

As described in Figure 15, Emera, Inc. and Fortis, Inc. have aggregate authorized and actual equity ratios slightly below the mean and median of the wider Main Proxy Group, ranging from 45% to 49%. However, these results still exceed Hydro One's current deemed equity ratio of 40%. On an individual operating company basis, of the nine electric operating companies owned by Emera, Inc. and Fortis, Inc., only one has an authorized equity ratio *below* that of Hydro One, two have authorized equity ratios *equal* to Hydro One's, and six have authorized equity ratios *greater* than Hydro One's.

Second, it is also useful to look at the Main Proxy Group at the operating company level, in order to compare Hydro One to all the operating companies of the Main Proxy Group, rather than rolled up to the holding company level. Figure 16 below plots the distribution of all of the electric operating companies in the Main Proxy Group in terms of their authorized and actual equity ratios in relation to Hydro One's deemed equity ratio. Of the 53 operating companies with available authorized equity ratio data, 50 had authorized equity ratios exceeding 40%. The only three that did not were the aforementioned Nova Scotia Power and Maritime Electric Company, which are also authorized 40% equity ratios, and FortisAlberta, which is authorized a 37% equity ratio. The maximum was Georgia Power Company, which is authorized 56% equity. Of the 73 operating companies with available actual equity ratio data, 71 had actual equity ratios exceeding 40%. The only two that did not were Nova Scotia Power and Maritime Electric. Although the Canadian utilities tend to have lower authorized equity ratios, Concentric believes it would be inconsistent with the FRS to exclude the U.S.

comparators due to the integrated nature of the North American capital markets and the substantial capital flow between the two countries, as discussed in Section 5.

Figure 16: Distribution of Equity Ratios for Operating Companies in Main Proxy Group

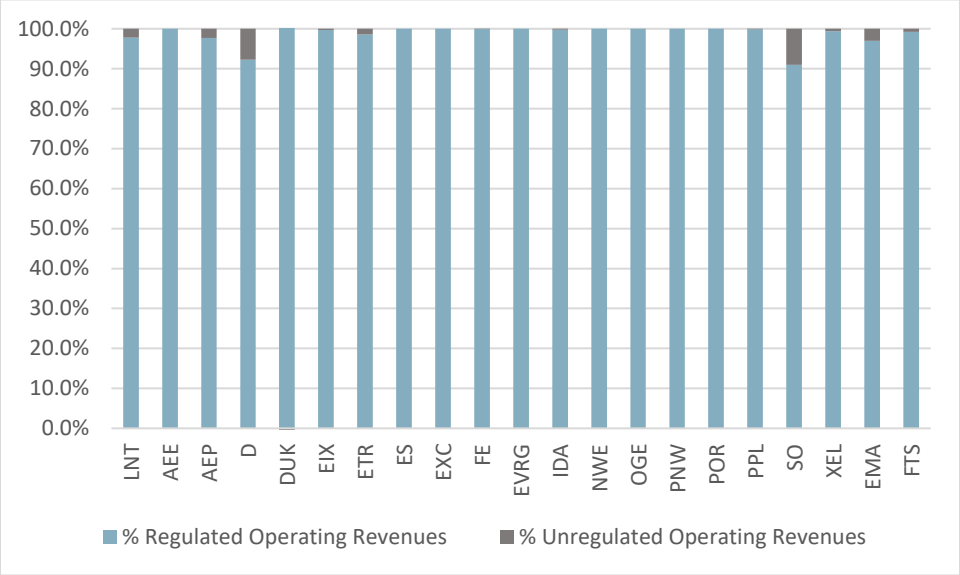


On an operating company basis, there is more variability around low- and high-end outliers than there is on a holding company basis (see, e.g., actual equity ratios well below 40% or well above 60%), which is a result of examining individual data points rather than composite data at the holding company level. While those data points are included in the holding company averages, as outliers they are not provided undue weight. Further, as illustrated in Figure 16, it is abundantly clear that Hydro One's current deemed equity ratio falls below the vast majority of operating company-level equity ratios.

E. Proxy Group Business Risk Assessment

Hydro One's highly-regulated nature allows it to operate in a lower-risk environment than those of less regulated entities. Similarly, the companies in the Main Proxy Group operate almost exclusively in regulated areas, as shown in Figure 17 below.

Figure 17: Regulated vs Unregulated Operating Revenues – Main Proxy Group[153]

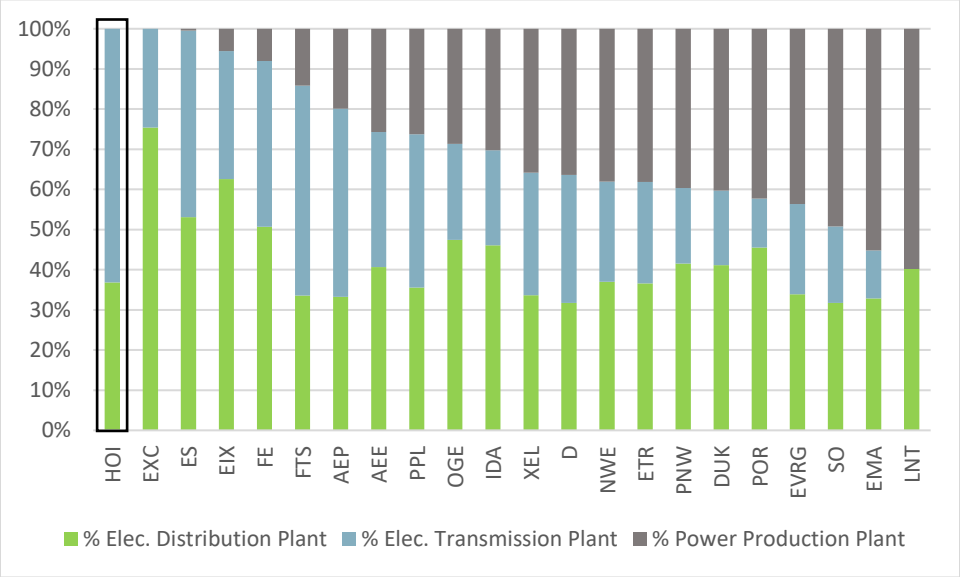


Dominion Energy ("D" in the chart above) operates a "Contracted Energy" business segment, which, along with corporate adjustment-type business segments, comprises roughly 8% of its total business operating revenue. Southern Company ("SO") operates a "Southern Power" business segment, which sells electricity at wholesale market rates, and, along with its corporate adjustment-type business segments, comprises roughly 9% of total business operating revenue. Emera ("EMA") exclusively operates regulated business segments outside of corporate adjustment-type business segments, and Fortis ("FTS") exclusively operates regulated business segments outside of its "Non-Regulated – Energy Infrastructure" segment, comprising less than 1% of total business operating revenues. The remainder of the companies nearly exclusively operate in regulated areas, rendering their business risk from a regulated versus unregulated standpoint, on an aggregate basis, nearly identical to Hydro One's.

Within Hydro One's regulated business, Hydro One does not own any generation assets. On the other hand, most of the companies in the Main Proxy Group own generation assets, which is a product of holding companies frequently owning portfolios of companies in multiples U.S. states with differing approaches to generation ownership, whereby many U.S. utilities continue to be vertically-integrated, while others are "T&D-only" utilities like Hydro One. To understand the companies' asset mixes, Concentric analyzed the proportional share of power production, electric transmission, and electric distribution net plant for each company as of 2024 in Figure 18 below.

[153] Represents the average of 2022-2024, as sourced by annual Form 10-Ks and financial statements.

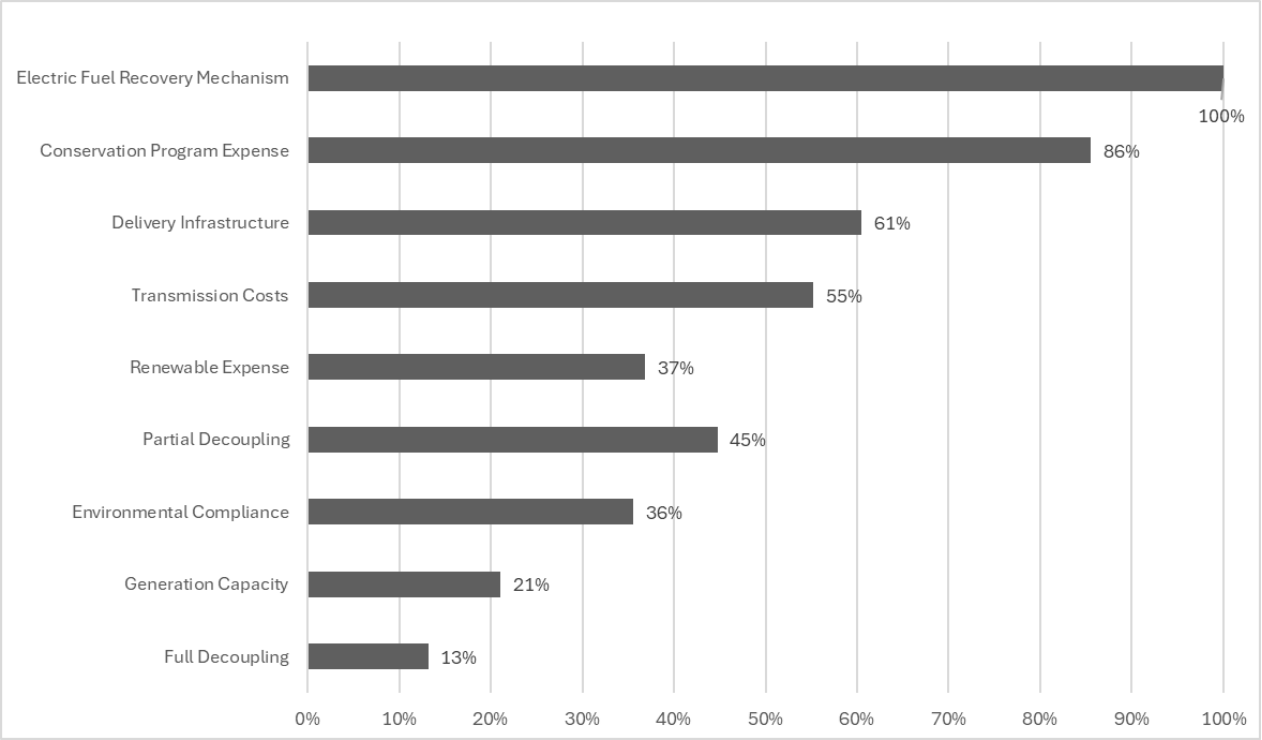
Figure 18: Proportion of Distribution, Transmission, and Production Plant



As shown in Figure 18 above, only Exelon Corporation ("EXC") and Eversource Energy ("ES") do not own a material amount of generation assets; the remaining 19 companies have production net plant that makes up between 6% and 60% of total electric net plant. As the investment community generally regards the generation function to be of higher risk than distribution and transmission functions, it is reasonable to conclude that Hydro One has less risk than the Main Proxy Group with regard to generation asset ownership.

In addition, it is important to understand the regulatory environments and structures within which the peer companies operate. Across all regulated utilities, key regulatory items such as adjustment clauses and cost recovery mechanisms allow utilities to recover prudently incurred costs in a timely manner and reduce regulatory risk to investors. For the operating companies owned by the 21 holding companies in the Main Proxy Group and covered by S&P's Adjustment Mechanisms report, Concentric analyzed the regulatory mechanisms available to each company. As summarized in Figure 19 below, the utilities have a mix of regulatory mechanisms that reduce risk, similar to Hydro One's use of DVAs.

Figure 19: Summary of Regulatory Mechanisms – Main Proxy Group



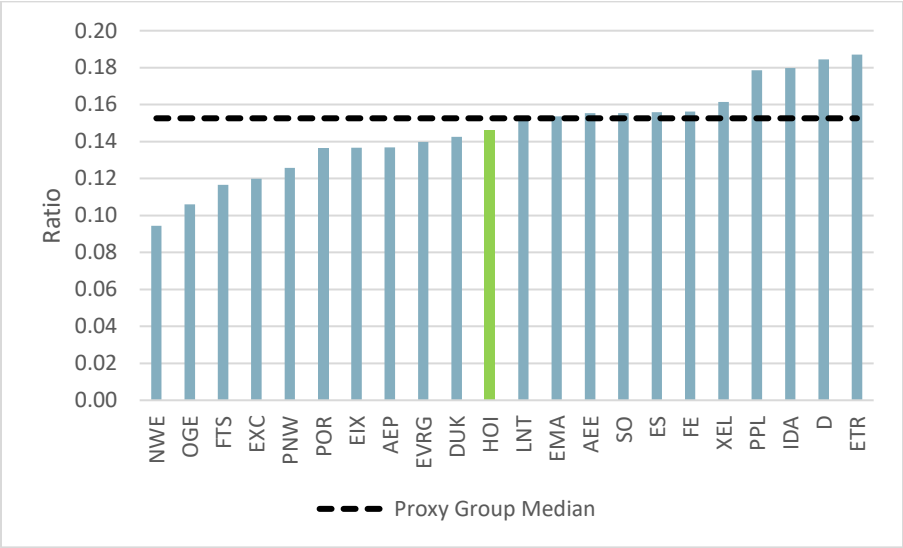
All utilities have an electric fuel recovery mechanism available, if applicable, and most utilities have a conservation program expense mechanism. In addition, more than half of the peer operating utilities have delivery infrastructure and transmission cost mechanisms, while nearly half have partial decoupling mechanisms. More than a third of the peer operating companies have renewable expense and environmental compliance mechanisms. A minority of companies have full decoupling mechanisms. While individual mechanisms have risk mitigating characteristics that are specific to each individual utility and its operating profile, these mechanisms taken as a whole serve the function of reducing regulatory risk and improving cash flow consistency and predictability, which are the key items investors look to when comparing utility profiles.

The supportiveness of utilities' regulatory environments allows for timely and predictable recovery of investments, which is increasingly important as utilities across North America expand their capital spending plans.

As illustrated in Figure 3, Hydro One's annual transmission and distribution capital spending is projected to increase over the upcoming rate period, increasing from under $3 billion CAD annually in 2025 to over $6 billion CAD annually by 2031. As shown in Figure 20 below, Concentric compared Hydro One to the Main Proxy Group in terms of capital spending forecasts by calculating the ratio of

the utilities' 2025-2030 average stated capital spending amounts to the utilities' 2024 net utility plant. Higher ratios indicate greater spending relative to the utilities' existing asset base size. As shown by the green-highlighted bar as well as the black dotted line, Hydro One ranks just below the Main Proxy Group median, indicating its capital plan is in-line with industry standards on a relative size basis.

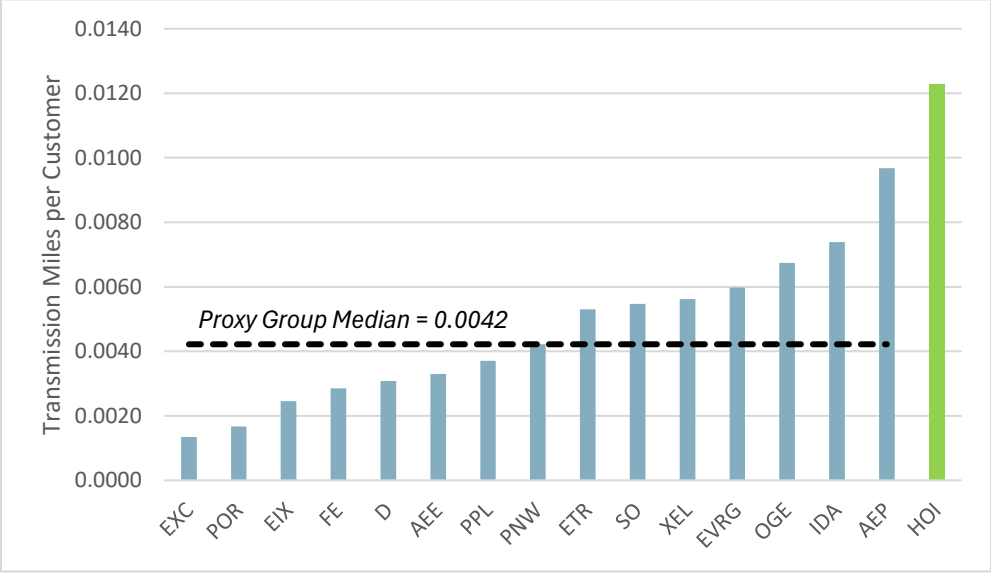
Figure 20: Average Annual Forecast Capital Spending as a Ratio of 2024 Net Plant



Finally, Hydro One mostly serves a sprawling, rural customer base, which poses unique challenges and differentiates it from the proxy group companies, many of which serve denser urban populations. Importantly, recent utility literature has identified customer density, line length, and service-area characteristics as statistically-significant capital cost drivers.[154] As summarized in Figure 21 below, Hydro One has the largest electric network on a relative basis compared to the proxy companies, with over 0.0123 miles of transmission line per electric distribution customer, nearly three times the proxy group median of 0.0042, indicating that Hydro One builds and maintains significantly more transmission assets per customer than do the proxy group companies. This is largely a function of Hydro One's vast coverage of Ontario. Low customer density often places upward pressure on distribution capital costs per customer, as utilities must build and maintain longer line networks and related infrastructure relative to the size of their customer base.

[154] Rauschkolb, et al., "Estimating Electricity Distribution Costs using Historical Data," Utilities Policy, Volume 73, 2021. https://doi.org/10.1016/j.jup.2021.101309

Figure 21: Miles of Transmission Line per Customer[155]



G. Equity Ratios of Subsets of the Main Proxy Group

Concentric conducted further analysis on the Main Proxy Group to understand the impact of certain financial and operational factors on the results. Specifically, Concentric developed three subsets of the Main Proxy Group and analyzed these groups separately:

- **T&D OpCos:** Concentric determined which of the 73 operating companies in the Main Proxy Group were "T&D Only;" i.e., did not own any amount of regulated generation.[156] There were 28 such operating companies, which are listed in Figure 22 below. These companies are more similar to Hydro One with respect to asset mix due to the absence of owned generation:

Figure 22: "T&D OpCos" Subset of Main Proxy Group

Operating Company Name	Parent Ticker
Ameren Illinois Company	AEE
AEP Texas Inc.	AEP
Kingsport Power Company	AEP
Ohio Power Company	AEP
Duke Energy Ohio, Inc.	DUK
NSTAR Electric Company	ES
Public Service Company of New Hampshire	ES

[155] Based on electric distribution customers only. LNT, EMA, and FTS excluded due to lack of available data and/or no significant transmission assets.

[156] This screen was completed at the operating company level because almost all holding companies own a nonzero amount of regulated generation, which would have created an unduly small subset group.

Operating Company Name	Parent Ticker
The Connecticut Light and Power Company	ES
Atlantic City Electric Company	EXC
Baltimore Gas and Electric Company	EXC
Commonwealth Edison Company	EXC
PECO Energy Company	EXC
FirstEnergy Pennsylvania Electric Company	FE
Jersey Central Power & Light Company	FE
Metropolitan Edison Company	FE
Pennsylvania Electric Company	FE
Pennsylvania Power Company	FE
The Potomac Edison Company	FE
West Penn Power Company	FE
The Cleveland Electric Illuminating Company	FE
The Toledo Edison Company	FE
Ohio Edison Company	FE
Central Hudson Gas & Electric Corp.	FTS
FortisAlberta	FTS
Newfoundland Power, Inc.	FTS
Maritime Electric Company	FTS
PPL Electric Utilities Corporation	PPL
The Narragansett Electric Company	PPL

- **OpCos with Credit Rating A- and Above:** Hydro One is an "A-rated" utility per the credit ratings agencies. To narrow the proxy group to other "A-rated" utilities, Concentric determined which operating companies in the Main Proxy Group had credit ratings of A- and above from S&P. There were 26 such operating companies. The screen is more restrictive than the "investment-grade" criterion in the Main Proxy Group screen and provides for a subgroup of companies within a tighter distribution of credit ratings to Hydro One, which has an S&P credit rating of A. The full list is provided in Figure 23 below:

Figure 23: "OpCos with Credit Rating A- and Above" Subset of Main Proxy Group

Operating Company Name	Parent Ticker
NSTAR Electric Company	ES
Public Service Company of New Hampshire	ES
The Connecticut Light and Power Company	ES
Entergy Arkansas, LLC	ETR

Operating Company Name	Parent Ticker
Entergy Mississippi, LLC	ETR
Evergy Metro, Inc.	EVRG
Atlantic City Electric Company	EXC
Baltimore Gas and Electric Company	EXC
Commonwealth Edison Company	EXC
Delmarva Power & Light Company	EXC
PECO Energy Company	EXC
Potomac Electric Power Company	EXC
FirstEnergy Pennsylvania Electric Company	FE
Ohio Edison Company	FE
Tucson Electric Power Company	FTS
FortisAlberta	FTS
Wisconsin Power and Light Company	LNT
Oklahoma Gas and Electric Company	OGE
Kentucky Utilities Company	PPL
Louisville Gas and Electric Company	PPL
PPL Electric Utilities Corporation	PPL
The Narragansett Electric Company	PPL
Alabama Power Company	SO
Georgia Power Company	SO
Mississippi Power Company	SO
Northern States Power Company	XEL

- **Most Credit Supportive Jurisdictions:** In EB-2024-0063, the OEB found that "any increased risks [since 2009] have been at least mitigated by the OEB's regulatory approach, which S&P Global has classified as 'most credit supportive'."[157] Based on this finding, Concentric determined which operating company jurisdictions were ranked by S&P as "Most Credit Supportive" in S&P's latest credit supportiveness ranking report.[158] This screen was completed at the jurisdictional level, as certain operating companies may operate in jurisdictions with differing rankings. There were 12 such operating company jurisdictions, which are listed in Figure 24 below:

[157] Ontario Energy Board, Generic Cost of Capital proceeding, EB-2024-0063, March 27, 2025, at 10.
[158] See S&P Global Ratings' *North American Utilities Regulatory Jurisdictions Update: South Carolina Assessment Revised; Other Notable Developments*, November 2025.

Figure 24: "Most Credit Supportive Jurisdictions" Subset of Main Proxy Group

Operating Company Name	Parent Ticker	State
Indiana Michigan Power Co.	AEP	Michigan
Kentucky Power Co.	AEP	Kentucky
Duke Energy Florida, LLC	DUK	Florida
Duke Energy Kentucky, Inc.	DUK	Kentucky
Tampa Electric Co.	EMA	Florida
FortisBC Inc.	FTS	British Columbia
Interstate Power & Light Co.	LNT	Iowa
Wisconsin Power & Light Co.	LNT	Wisconsin
Kentucky Utilities Co.	PPL	Kentucky
Louisville Gas & Electric Co.	PPL	Kentucky
Alabama Power Co.	SO	Alabama
Northern States Power Co.	XEL	Wisconsin

Concentric provides the results of the three subset group analyses below.

Figure 25: Subset Group Equity Ratio Analyses

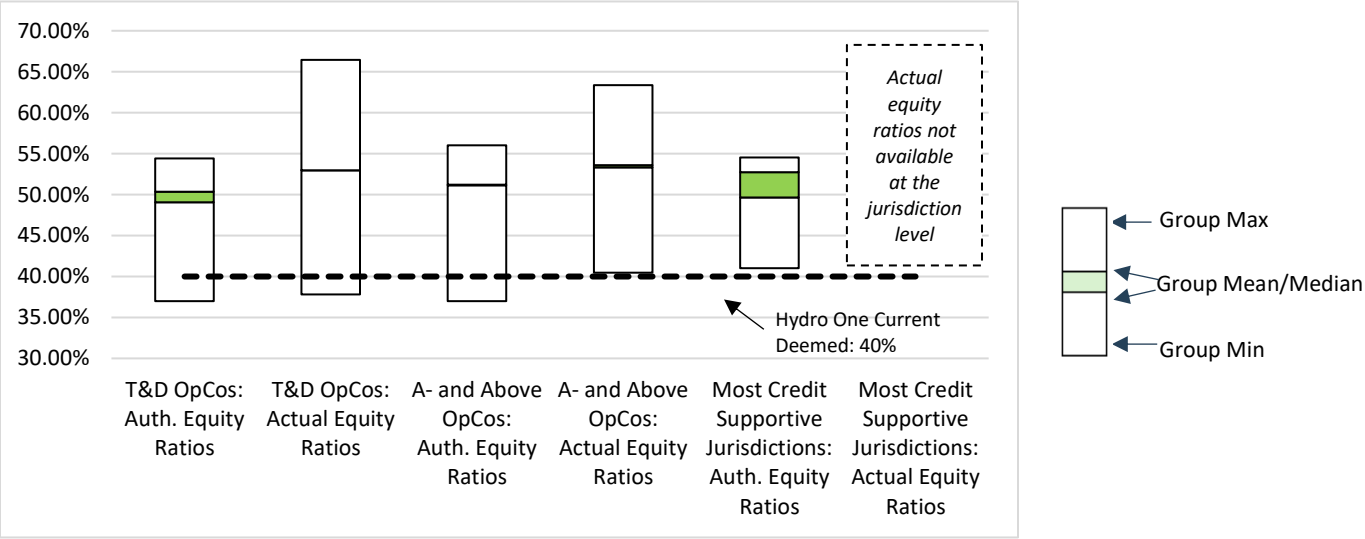


Figure 26: Subset Group Equity Ratio Analyses – Table

	Subset: T&D OpCos		*Subset: OpCos with Credit Rating A- and Above*		*Subset: Most Credit Supportive Jurisdictions*	
Equity Ratios	**Authorized**	**Actual**	**Authorized**	**Actual**	**Authorized**	**Actual**
Median	50.37%	52.96%	51.20%	53.59%	52.73%	n/a
Average	49.05%	52.95%	51.12%	53.34%	49.64%	n/a
Min	37.00%	37.80%	37.00%	40.45%	41.00%	n/a
Max	54.43%	66.46%	56.00%	63.38%	54.53%	n/a

As shown in Figure 25 and Figure 26 above, the subset screening approaches, while broadening the range of results due to the inclusion of individual operating companies in the minimum and maximum results, did not materially change the measures of centrality (i.e., the mean and median equity ratio results) relative to the Main Proxy Group. Specifically, compared to the Main Proxy Group results presented in Figure 12 and Figure 13, the median and mean results center around 49% - 54% rather than 50% - 53%. Concentric notes that while the low- and high-end results are different, the more polar extremes are a function of the subset group analyses being completed at the operating company level or jurisdictional level, rather than the holding company level, naturally lending the subset analyses to higher variability. Further, Concentric notes that the low end of the results presented in the screening for the most credit supportive jurisdictions had the effect of eliminating utilities that operate in Alberta, including FortisAlberta, which represented the low end of the authorized equity ratios of the Main Proxy Group's operating companies, with a 37% authorized equity ratio.

Finally, with respect to Ontario's current ranking of "Most Credit Supportive" from S&P, Concentric notes that regardless of where the utility regulation falls on S&P's assessment spectrum, S&P considers any utility regulation as enhancing a utility's business risk profile, as compared to companies that are unregulated.[159] The differentiation of level of credit supportiveness by S&P stems from general regulatory stability, tariff-setting procedures and design, financial stability, and regulatory independence and insulation.[160] Concentric further notes that, while S&P recognizes the strength of the OEB's and other North American jurisdictions' regulatory processes and stability, a

[159] S&P Global Ratings' *North American Utilities Regulatory Jurisdictions Update: Connecticut and Mississippi Assessments Revised, Other Notable Developments*, February 19, 2025, at 2.

[160] *Ibid*.

ranking of "most credit supportive" does not mitigate all of the heightened business and financial risks that Hydro One and other utilities in "most credit supportive" jurisdictions may face.

H. North American T&D Operating Company Analysis

As a supplemental analysis, Concentric developed a North American-wide analysis of pure T&D regulated electric operating companies, without any further screening. This secondary analysis was designed to assess utility equity ratios through a broader lens.

To develop this analysis, Concentric compiled a proxy group of investor-owned T&D Canadian and U.S. regulated utilities with no generation ownership, excluding those utilities in Ontario and municipal utilities. In Canada, these utilities were the Alberta T&D utilities, Maritime Electric Company, and Newfoundland Power, Inc. In the U.S., there were 41 T&D-only operating companies, with two of those companies operating in multiple jurisdictions.[161] Concentric developed analyses of authorized and actual equity ratios based on this broader peer group, analyzing authorized equity ratios at the jurisdictional level and actual equity ratios at the operating company level. To further segment the group, Concentric further sub-divided these results into operating companies that had an S&P credit rating of A- and above.[162]

The results of the North American T&D operating company analyses are presented in Figure 27 and Figure 28 below.[163]

Figure 27: North American T&D Operating Company Equity Ratios

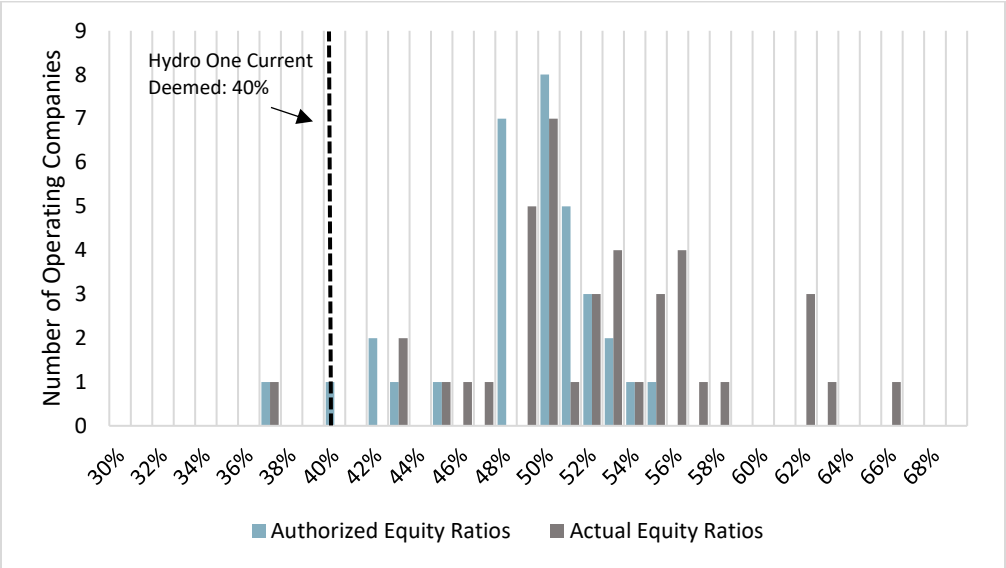
	North American T&D OpCos		*Subset: OpCos with Credit Rating A- and Above*	
Equity Ratios	**Authorized**	**Actual**	**Authorized**	**Actual**
Median	50.24%	52.77%	50.00%	53.32%
Average	49.09%	52.92%	49.56%	53.54%
Min	37.00%	37.80%	42.50%	46.72%
Max	55.00%	66.46%	55.00%	62.68%

[161] The U.S. companies included in this analysis were those U.S. utility operating companies that have had an electric distribution rate case in S&P's rate case database since 2020.

[162] There were no jurisdictions in the North American T&D operating utility analysis that fell under S&P's "Most Credit Supportive" ranking.

[163] Not included in the analysis due to anomalous capitalization resulting in high outlier results: Liberty Utilities Granite State actual equity ratio (85%); Rockland Electric Company actual equity ratio (100%).

Figure 28: North American T&D Operating Company Equity Ratios – Distribution



As with the Main Proxy Group Analysis, the majority of the operating companies considered in this supplemental analysis have equity ratios exceeding Hydro One's current deemed equity ratio. The only *authorized* equity ratio below 40% is the 37% equity ratio authorized to all utilities in Alberta; the only *actual* equity ratio below 40% is Maritime Electric Company's 37.80%. The remainder of the operating companies form a distribution that clusters centrally around 49% - 54%. The Canadian authorized equity ratios – 37% for Alberta utilities, 40% for Maritime Electric Company, and 45% for Newfoundland Power – average just over 40%. However, there are 30 remaining operating utilities in the U.S., and these utilities average over 49% authorized equity. Although the Canadian utilities have lower authorized equity ratios, as explained in Section 5, Concentric believes it would not meet the FRS, and specifically the comparability standard, to exclude the U.S. comparators due to the integrated nature of the North American capital markets and the substantial capital flow between the two countries, as detailed in Section 5, above.

I. Main Proxy Group ROE Analysis

In addition to the equity ratio analyses presented, Concentric considered the results of multiple return on equity models using the Main Proxy Group to provide further context for a fair rate of return for Hydro One. While Concentric is not recommending a specific ROE for Hydro One in this report, as the Generic Cost of Capital proceeding in EB-2024-0063 established the formula and parameters for all regulated utilities in Ontario, the continued relationship between equity ratio and ROE warrants a review of current market ROEs and provides context for the sufficiency of Hydro One's equity ratio on a weighted basis. As described in Section 3C, Relationship Between Capital

Structure and ROE, the deemed equity ratio and authorized ROE should be considered together to reach a conclusion on whether the Fair Return Standard has been met. Other factors being equal, firms with lower common equity ratios require higher rates of return to compensate for the additional financial risks they face.

For the Main Proxy Group, Concentric developed a constant growth DCF model, multi-stage DCF model, and CAPM analysis, as well as a U.S. Risk Premium analysis and Canadian Risk Premium analysis using market data through December 2025. Concentric describes the methodology of each model in greater detail in Appendix B. A summary of the five ROE model results is provided in Figure 29 below.

Figure 29: Main Proxy Group ROE Models Summary

Return on Equity Model	Result
Constant Growth DCF	10.86%
Multi-Stage Growth DCF	10.14%
CAPM	10.05%
U.S. Risk Premium	10.44%
Canadian Risk Premium	9.51%
Average	**10.20%**
2026 Ontario Formula ROE	*9.11%*
Current Hydro One IR Plan Allowed ROE	*9.36%*

As shown in Figure 29, the average model result of 10.20% exceeds the current 2026 Ontario Formula ROE result of 9.11%,[164] which used data through September 2025, and Hydro One's current IR Plan allowed ROE of 9.36%. For illustrative purposes, Hydro One's current allowed equity-weighted return of 3.74% is 58 basis points lower than the equity-weighted return implied by Concentric's equity ratio recommendation of 47.50% and the 2026 Ontario Formula ROE, and 110 basis points lower than the equity-weighted return implied by a 47.50% equity thickness and the average ROE model result of 10.20%.

J. Fair Return Standard Conclusion

Concentric concludes that Hydro One's current deemed equity ratio of 40% is not sufficient to satisfy the Fair Return Standard when considered together with Hydro One's current risk profile, projected

[164] See 2026 Cost of Capital Parameters for 2026 Cost-Based Rates, EB-2025-0303, Ontario Energy Board, October 31, 2025.

capital requirements, and the return available to investors in comparable North American utility investments. A deemed equity ratio range of 45% to 50% better aligns Hydro One's capital structure with the evidence presented in this section, including peer equity ratios, North American T&D operating company benchmarks, and the Company's projected credit metrics.

Concentric's recommendation is based on the results of our Fair Return Standard analyses, as presented in this section, and our assessment of Hydro One's business and financial risks, as presented in Section 4. As described earlier in this section, Concentric developed a proxy group of similar-risk North American utilities and analyzed these utilities' authorized and actual equity ratios. This analysis demonstrated a reasonable range of equity ratios of 45% to 60% based off the aggregate results of the authorized and actual equity ratio analyses, with measures of central tendencies around 50% to 53%. This analysis suggests that Hydro One's current deemed equity ratio of 40% lags its peers and does not satisfy the Fair Return Standard. Subsequently, the determination of an appropriate equity ratio, in the context of the range of proxy group companies' equity ratios, must be based on an assessment of Hydro One-specific risks relative to the proxy group, as well as informed judgment.

Concentric's recommendation reflects both the market evidence and Hydro One-specific considerations. The market evidence supports an equity ratio materially above Hydro One's current 40% deemed equity ratio. Specifically, the T&D-only subset of operating companies in the Main Proxy Group produced measures of central tendency of approximately 49% to 54%, and Concentric's broader North American T&D-only analysis produced a similar range of approximately 49% to 53%. Hydro One's current 40% deemed equity ratio is below the vast majority of the operating utilities considered in both analyses. Concentric also found no basis to apply a material risk discount to Hydro relative to the Main Proxy Group. Although the Main Proxy Group utility holding companies include a greater proportion of generation plant, which investors generally view as higher risk, Hydro One is broadly comparable to the Main Proxy Group when considering adjustment mechanisms, capital expenditure requirements, and regulated business mix. In addition, Concentric's ROE analysis indicates that Hydro One's current IR Plan allowed ROE is below current market ROE estimates, which is relevant because investors consider both ROE and equity ratio when evaluating investment alternatives. Concentric's recommendation also reflects gradualism. That principle supports selecting an equity ratio below the central tendency of the market evidence, but still materially above Hydro One's current 40% deemed equity ratio. On balance, these considerations support a recommended deemed equity ratio range of 45% to 50%, with a midpoint of 47.5%.

Based on our FRS analyses, a deemed equity ratio set at 47.5% would adhere to the Fair Return Standard, as it would be comparable to the return available from the application of the invested capital to other enterprises of like risk, enable the financial integrity of Hydro One to be maintained, and permit incremental capital to be attracted to Hydro One on reasonable terms and conditions.

SECTION 7:

SUMMARY OF FINDINGS AND CONCLUSIONS

This report provides Concentric's findings and recommendations regarding an appropriate deemed equity thickness for Hydro One in its next rate application with the OEB, which will cover the five-year period from 2028 to 2032. Concentric's analysis and conclusions are focused on whether the current cost of capital for Hydro One, inclusive of the capital structure, adheres to the FRS and meets the capital attraction, financial integrity, and comparability components of that standard.

To perform our evaluation, Concentric examined trends in the electricity industry related to increased capital spending for energy security and reliability, electrification and increasing electricity demand that are impacting electric utilities across North America. Because Hydro One has been and will continue to be competing for capital as the North America energy industry navigates these sector-wide trends, its authorized cost of capital needs to be commensurate with returns available at peers of similar risk. These trends illustrate the criticality of support for strengthened balance sheets and the provision of competitive returns on investment to ensure that adequate capital at a reasonable cost can be secured. Concentric's analysis also included a company-focused assessment of Hydro's business and financial risks and how they have changed over time. Concentric concludes based on our examination of industry trends and our company-focused assessment that a reassessment of Hydro One's deemed equity ratio is warranted.

Concentric then turned to a market/industry assessment from a cost of capital perspective, focusing squarely on the "comparability" component of the FRS. Specifically, Concentric conducted a series of screens based on Hydro One's operational profile to narrow down all publicly-traded North American investor-owned utility companies to a Main Proxy Group of those regulated utilities with similar operating characteristics to Hydro One. In addition to the Main Proxy Group, Concentric developed and analyzed three subset groups to examine the impacts of various financial and operational factors: T&D-only utilities, "A- and Above" rated utilities only, and only utilities operating in "Most Credit Supportive" jurisdictions. As a separate analysis, Concentric also examined a more expansive set of North American T&D-only companies that was not limited to the companies in our main peer group to provide a broad indication of the appropriate equity thickness for Hydro One.

As discussed in this report, the range of equity ratios from our Main Peer Group analysis was 45% to 60% based off the aggregate results of the authorized and actual equity ratio analyses, with measures of central tendency (mean and median) results centering around 50% to 53%. Hydro One's current deemed equity ratio of 40% is therefore more than 10% below the mean and median results and

more than 5% points below the minimum result. Concentric's analyses of various operating utility subgroups, as well as the North American-wide group of T&D-only operating utilities, likewise show that Hydro One's current deemed equity ratio is below the vast majority of similar-risk operating companies. Finally, Concentric performed an analysis of the ROE for the Main Proxy Group. That analysis indicates that the current weighted equity return for Hydro One is significantly below that which would be implied by Concentric's equity ratio recommendation and ROE analysis, both of which are based on industry peers.

For this upcoming rate setting period, Concentric finds that a reasonable range for Hydro One's equity ratio is from 45.0% to 50.0%, and, within that range, we recommend an equity ratio of 47.5% for Hydro One. This recommendation balances considerations related to industry-level factors that are impacting the cost of capital for Hydro One, as well as Hydro One's lower-than-peers' weighted equity return, with the OEB's findings in prior regulatory orders, as discussed herein.

Appendix A:

SUMMARY OF HYDRO ONE'S RATES APPLICATIONS

Below is a brief synopsis of Hydro One's prior five rates application proceedings, as well as the OEB's findings in EB-2024-0063, regarding cost of capital matters.

EB-2013-0416/EB-2014-0247:

This OEB decision on Hydro One's distribution rates approved Hydro One's proposal to adjust its cost of capital using the OEB's cost of capital parameters and an update of the company's long-term debt before each new rate year, and continued previous adoption of a 40% equity thickness.[165] As outlined in the associated draft rate order, the OEB assigned a debt component comprised of 4% short-term debt and 56% long-term debt.[166] A 9.3% ROE was approved and the OEB approved rates for 2015, 2016, and 2017 using a traditional cost of service methodology.[167]

EB-2016-0160:

Hydro One applied to the OEB on May 31, 2016, for approval of transmission revenue requirements for 2017 and 2018 using a traditional cost of service approach. The OEB retained Hydro One's 40% equity thickness in EB-2016-0160, which set the Company's transmission revenue requirement and rates for 2017-2018.[168] Additionally, the OEB retained a debt component comprising 4% short term debt and 60% long term debt. Hydro One's request for an 8.78% ROE was consistent with the OEB's report on cost of capital released on October 27, 2016, and thus was approved.

EB-2017-0049:

The OEB's decision in EB-2017-0049 set Hydro One's distribution rates and approved a 9% ROE based on the September 2017 Consensus Forecasts and Bank of Canada data, consistent with OEB's cost of capital parameters.[169] Hydro One proposed a five-year Custom IR plan, to be adjusted annually through a Custom RCI formula. The OEB approved Hydro One's proposed Custom IR framework with

[165] Ontario Energy Board, EB-2013-0416/EB-2014-0247, In the Matter of an Application by Hydro One Networks Inc. for Approval of Distribution Rates for 2015 to 2019.
[166] Hydro One Draft Rate Order, EB-2015-0079 - HONI Distribution Rates 2015-2017 – Draft Rate Order 2016.
[167] Ontario Energy Board, EB-2013-0416/EB-2014-0247, In the Matter of an Application by Hydro One Networks Inc. for Approval of Distribution Rates for 2015 to 2019.
[168] Ontario Energy Board, EB-2016-0160, Hydro One: Application for electricity transmission revenue requirement and related changes to the Uniform Transmission Rates beginning January 1, 2017 and January 1, 2018.
[169] Ontario Energy Board, EB-2017-0049, Hydro One: Application for electricity distribution rates beginning January 1, 2018 until December 31, 2022.

modifications, noting that the framework met the criteria outlined in the OEB's *Handbook for Utility Rate Applications*. The framework included the following key components:

- A five-year term.
- A Custom Index developed based on the empirical analysis by Power System Engineering.
- Several program-based benchmarking studies.
- Additional performance scorecard measures.
- Several updates throughout the term, some of which were focused on the unique issue of incorporating three acquired utilities into Hydro One's revenue requirement.
- A Z-factor mechanism for unforeseen events.
- An earnings sharing mechanism to provide additional protection for customers.

EB-2019-0082:

EB-2019-0082, the rate case for transmission rates for 2020-2022, also used the custom incentive rate-setting methodology outlined in the OEB's rate handbook.[170] The final order approved a Custom IR plan that applied an annual rate escalation determined by an RCI formula, where RCI growth was driven by an inflation factor that was to be updated annually based on an approved formula, a productivity factor that included base productivity, a stretch factor that would remain constant throughout the term, and a capital factor that was determined for each year in the proceeding and included a capital stretch factor. The OEB approved the two-factor inflation factor proposed by Hydro One, including weights of 14% for labor and 86% for non-labor components. The formula was updated each year based on Statistics Canada data. The OEB approved Hydro One's earnings sharing mechanism, sharing with customers 50% of any earnings that exceed the OEB allowed ROE by more than 100 basis points in any year of the Custom IR term. An equity thickness of 40% and an ROE of 8.52% were approved.

[170] Ontario Energy Board, EB-2019-0082, Hydro One: Application for electricity transmission revenue requirements beginning January 1, 2020 until December 31, 2022.

EB-2021-0110:

EB-2021-0110 was Hydro One's first joint transmission and distribution rate application, which was described as "the largest and most complicated rate case to come before the OEB" in the settlement.[171] The settlement approved a transmission rate base of $2.17 billion and a distribution rate base of $10.56 billion, with a 40% equity thickness and 9.36% ROE. The OEB approved the use of a custom RCI framework for 2024-2027 across both the transmission and distribution businesses. The inflation factor in the Custom IR Framework was to be updated annually to align with OEB-issued inflation factors. The cost of common equity and short-term debt was based upon the OEB's 2023 Cost of Capital Parameters, and the cost of long-term debt was based on Hydro One's actual 2021 and 2022 debt issuances, as well as forecasted debt issuances in 2022 and 2023 with coupon rates based on the 2022 September Consensus Forecast. Hydro One retained the earning sharing mechanism of previous rate cases and agreed not to establish a Capital In-Service Variance Account.

EB-2024-0063 (Generic Cost of Capital):

In EB-2024-0063, the OEB held a generic proceeding ("GCOC") to determine cost of capital parameters used to set rates, effective January 1, 2025.[172] The Cost of Capital Framework outlined in the GCOC reaffirms the standards for a fair and reasonable return on capital, in which the return must meet the following components:

- Be comparable to the return available from the application of invested capital to other enterprises of like risk.
- Enable the financial integrity of the regulated enterprise to be maintained.
- Permit incremental capital to be attracted to the enterprise on reasonable terms and conditions.

The OEB declined to alter ROE or equity thickness guidelines due to the energy transition, citing that the effects of the transition are too uncertain to alter the ROE or equity thickness in any such way. The OEB further reaffirmed its belief that the cost of capital should be determined based on the use of funds and the risk profiles of utilities, rather than their ownership type or capital source. The OEB

[171] Ontario Energy Board, EB-2021-0110, Hydro One: Application for electricity transmission and distribution rates and other charges for the period from January 1, 2023 to December 31, 2027.

[172] Ontario Energy Board, EB-2024-0063, A generic proceeding commenced by the Ontario Energy Board on its own motion to consider the cost of capital parameters and deemed capital structure to be used to set rates.

set the 2025 ROE at 9.00%, consisting of a base ROE of 8.75% plus 25 basis points for flotation costs. Finally, the OEB affirmed the use of the 40% equity / 60% debt ratio for electricity distributors.

Appendix B:

ROE MODEL METHODOLOGIES

As described in Section 6I, Main Proxy Group ROE Analysis, for the Main Proxy Group, Concentric developed a constant growth DCF model, multi-stage DCF model, and CAPM analysis, as well as a U.S. Risk Premium analysis and Canadian Risk Premium analysis. Concentric used these five ROE models to estimate a range of reasonable ROEs for Hydro One. The methodologies for each are described in greater detail below.

Constant Growth DCF Model: The discounted cash flow approach is based on the theory that a stock's current price represents the present value of all expected future cash flows. The standard form of the DCF is a present value calculation that can be simplified and rearranged into a form relating the Constant Growth DCF result, *k*, as the sum of the expected dividend yield and the expected constant long-term growth rate. For each holding company in the Main Proxy Group, the Constant Growth DCF result was calculated using 90-day average stock prices, annualized dividends, and long-term earnings growth estimates from Zacks, S&P Capital IQ, and Value Line, as of December 31, 2025. A 25-basis point allowance for flotation costs was then added, in accordance with the OEB-approved adjustment in EB-2024-0063.[173] The average Main Proxy Group result was 10.86%.

Multi-Stage DCF Model: To address some of the limiting assumptions underlying the Constant Growth form of the DCF model, Concentric also considered the results of a multi-period (three-stage) DCF Model. The Multi-stage DCF model tempers the assumption of constant growth in perpetuity with a three-stage approach based on near-term, transitional and long-term growth rates. Concentric's implementation of the Multi-stage DCF model transitions from near-term growth (i.e. the average of Value Line, Zacks, S&P Global forecasts used in the Constant Growth model) for the first stage (years 1-5) to the long-term forecast of nominal GDP growth for the third stage (year 11 and beyond). After 25-basis point adjustments for flotation costs were added, the average Main Proxy Group result was 10.14%.

Capital Asset Pricing Model: The CAPM is a risk premium approach that estimates the cost of equity for a given security as a function of a risk-free return plus a risk premium to compensate investors for the non-diversifiable or "systematic" risk of that security. This second component is the product of the market risk premium and the Beta coefficient, which measures the relative riskiness of the

[173] Ontario Energy Board, Generic Cost of Capital proceeding, EB-2024-0063, March 27, 2025, at 46.

security being evaluated. The CAPM is defined by four components, each of which must theoretically be a forward-looking estimate: K_e = the required market ROE; β = Beta coefficient of an individual security; r_f = the risk-free rate of return; and r_m = the required return on the market. Non-diversifiable risk is measured by Beta, which is defined as the covariance of a security with the market divided by the variance of a security. Concentric calculated a CAPM result for each company using five-year betas from Bloomberg Professional, estimated thirty-year government bond yield forecasts for both the U.S. and Canada, and estimated forward market returns for both the S&P500 and SPTSX Composite Index. After 25-basis point adjustments for flotation costs were added, the average Main Proxy Group result was 10.05%.

U.S. Risk Premium Model: The Risk Premium approach estimates the cost of equity as the sum of the equity risk premium and the yield on a particular class of bonds. The equity risk premium in this case is the difference between the government bond yield and the authorized return on equity for regulated electric distribution utilities. Concentric conducted a linear regression analysis on the equity risk premiums for U.S. electric distribution rate cases from 1992 through 2025 against the thirty-year treasury yield at the time of authorization, with both series aggregated quarterly. The results of this linear regression were applied to the same 30-year government bond yield used in the CAPM analysis to determine a forward equity risk premium estimate. A U.S. Risk Premium result was then calculated as the sum of the forward equity risk premium estimate and the forecast U.S. government bond yield. The U.S. Risk Premium result was 10.44%.

Canadian Risk Premium Model: This approach was the same as the U.S. Risk Premium Model, except using Canadian ROE decisions from 1994 through 2025 in place of the U.S. rate cases, and Canadian government bond yields in place of the U.S. government bond yields. The Canadian Risk Premium result was 9.51%.

Appendix C:

RESUME OF DANIEL S. DANE

DANIEL S. DANE, CPA
PRESIDENT

Daniel S. Dane has more than 20 years of experience in the energy, utility, and financial services industries advising electric, gas, and water utilities, power generators, and natural gas pipelines in the areas of regulation and ratemaking, litigation, mergers and acquisitions, valuation, and regulatory accounting matters. Mr. Dane also provides expert testimony on regulated ratemaking matters and merger approval applications for investor- and provincially-owned utilities, including on multi-year rate plans and earnings sharing mechanisms, corporate finance matters such as the cost of capital and capitalization, merger impacts, revenue requirements, lead-lag studies/cash working capital, and regulatory policy. Mr. Dane has an MBA from Boston College in Chestnut Hill, Massachusetts, and a BA in Economics from Colgate University in Hamilton, New York. Mr. Dane is also a certified public accountant.

REPRESENTATIVE PROJECT EXPERIENCE

Ratemaking and Utility Regulation Assignments

Expert Testimony

- Submitted expert testimony on behalf of utilities and other stakeholders in state and provincial administrative rate setting and merger approval proceedings regarding multi-year rate plans and earnings sharing mechanisms, corporate finance matters such as the cost of capital and capitalization, valuation of energy and utility assets, merger impacts, revenue requirements, lead-lag studies/cash working capital, and regulatory policy.

Regulatory Advisory

- Provided financial modeling, development of expert reports, and preparation of multiple rounds of testimony on behalf of U.S. and Canadian investor-owned electric, natural gas, and water utilities related to multiple aspects of the ratemaking process, including: performance-based ratemaking; cost of capital; ring fencing; revenue requirements and lead-lag studies/cash working capital; decoupling; prudence and cost recovery; capital tracker tariff mechanisms; cost allocation and shared services; merger approval; securitization and ratemaking policy.
- Consulting assignments have included utility clients across the U.S. and Canada.

Financial Advisory Assignments

Competitive Solicitations & Asset Divestitures

- Sell-side support for approximately $2 billion in generating asset transactions, including nuclear, natural gas, and coal generating facilities.
- Buy-side due diligence support for U.S., Canadian, and international investors in electric and natural gas LDC utility operations, wind generation, natural gas pipeline facilities, and water/wastewater utilities.
- Regulatory policy, ring-fencing, and merger impacts advisory services including expert testimony, provided to U.S. and Canadian investor-owned utilities.

Valuation Services

- Developed Fairness Opinions issued by CE Capital Advisors, Inc. to Boards of Directors of companies entering into asset purchases and sales. Led valuation modeling on multiple energy-related valuation assignments using the Income Approach, Cost Approach, and Sales Comparison Approach.

Litigation Advisory Assignments

- Prepared economic and valuation analyses and expert reports in proceedings related to contract disputes, takings claims, and bankruptcy proceedings. Clients include international diversified energy companies, regulated utilities, and bondholders.

Management and Operations Consulting Assignments

- Performed prudence reviews, including contracting strategy reviews and assessments of project controls and oversight for developers of nuclear-generating capacity uprates and new nuclear facilities.
- Performed operations and financial performance benchmarking and studies of productivity programs.

PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc. (2004 – Present)
President and Vice Chair

CE Capital Advisors, Inc. (2004 – 2023)
A FINRA-Member broker-dealer subsidiary of Concentric Energy Advisors, Inc.

Ernst & Young (2000 – 2001, 2003 – 2004)
Staff Auditor and Database Management Associate

ZIA Information Analysis Group (1997 – 2000)

EDUCATION

Boston College
M.B.A., 2003

Colgate University
B.A., Economics, 1996

DESIGNATIONS AND PROFESSIONAL AFFILIATIONS

Certified Public Accountant, 2004
Massachusetts Society of Certified Public Accountants, 2004
American Institute of Certified Public Accountants, 2011

PRESENTATIONS

"Regulatory Treatment of Timing Differences Related to Pension and OPEB Costs." Presented to the Ontario Energy Board, July 2016 (Docket No. EB-2015-0040).
"Financial Management and Capital Markets." University of Idaho Utility Executive Course, 2018.
"Increasing Shareholder Value through the Capital Markets." University of Idaho Utility Executive Course, 2015, 2016 and 2017.
"A Comparative Analysis of Return on Equity of Natural Gas Utilities" (with Jim Coyne and Julie Lieberman), presented to the Ontario Energy Association, June 2007.

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Arkansas Public Service Commission				
Liberty Utilities	02/23	The Empire District Electric Company	Docket 22-085-U	Return on Equity Capital Structure
Connecticut Public Utilities Regulatory Authority				
SJW Group and Connecticut Water Service, Inc.	12/18	Application of SJW Group and Connecticut Water Service, Inc. for Approval of Change of Control	Docket No. 18-07-10	Merger Impacts Cost of Debt and Credit Quality
SJW Group and Connecticut Water Service, Inc.	04/19	Application of SJW Group and Connecticut Water Service, Inc. for Approval of Change of Control	Docket No. 19-04-02	Merger Impacts Cost of Debt and Credit Quality
The United Illuminating Company	09/22	The United Illuminating Company	Docket No. 22-08-08	Multi-Year Rate Plan Revenue Requirements
The Southern Connecticut Gas Company and Connecticut Natural Gas Company	11/23	The Southern Connecticut Gas Company and Connecticut Natural Gas Company	Docket No. 23-11-02	Revenue Requirements
The United Illuminating Company	11/24	The United Illuminating Company	Docket No. 24-10-04	Revenue Requirements
Illinois Commerce Commission				
The Ameren Illinois Utilities	07/10	Central Illinois Light Company; Central Illinois Public Service Company; Illinois Power Company	Docket No.	Rate Base Adjustments Earnings Attrition
Maine Public Utilities Commission				
The Maine Water Company	07/19	Application for Approval of Reorganization Pursuant to 35-A M.R.S. § 708	Docket No. 2019-00096	Merger Impacts, Customer Benefits, Public Interest

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Unitil Corporation, Northern Utilities, Inc.	07/24	Request for Regulatory Approvals Related to a Merger of Bangor Natural Gas Company Into Unitil Corporation and Related Debt and Affiliate Arrangements (35-A M.R.S. §§ 707, 708, 901 & 902)	Docket No. 2024-00174	Utility valuation; Merger commitments; Rate base Valuation
Massachusetts Department of Public Utilities				
National Grid	11/17	Boston Gas Company and Colonial Gas Company (each d/b/a National Grid)	D.P.U. 17-170	Performance-Based Rate Plan Revenue Requirement
National Grid	04/18	Boston Gas Company and Colonial Gas Company (each d/b/a National Grid)	D.P.U. 17-170	Impact of the Tax Cuts and Jobs Act of 2017 Administrative and General Expense Allocations
The Berkshire Gas Company	05/18	The Berkshire Gas Company	D.P.U. 18-40	Revenue Requirement
National Grid	11/20	Boston Gas Company and Colonial Gas Company (each d/b/a National Grid)	D.P.U. 20-120	Performance-Based Rate Plan Revenue Requirement
National Grid	11/23	Massachusetts Electric	D.P.U. 23-150	Performance-Based Rate Plan Revenue Requirement
National Grid	01/26	Boston Gas Company (d/b/a National Grid)	D.P.U. 26-50	Revenue Requirement
Missouri Public Service Commission				
Liberty Utilities (Empire District Electric Company)	11/24	Liberty Utilities (Empire District Electric Company)	Case No. ER-2024-0261	Return on Equity Cost of Debt Capital Structure
Public Utilities Commission of Nevada				

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Greater Basin Water Co.	02/26	Greater Basin Water Co.	Docket No. 26-02038	Capitalization Policy Administrative and General Expense Allocation
New Hampshire Public Utilities Commission				
Liberty Utilities (EnergyNorth Natural Gas) Corp.	04/17	Liberty Utilities (EnergyNorth Natural Gas) Corp.	Docket No. DG 17-048	Temporary Rates
Liberty Utilities (EnergyNorth Natural Gas) Corp.	04/17	Liberty Utilities (EnergyNorth Natural Gas) Corp.	Docket No. DG 17-048	Revenue Requirement Step Adjustments
Liberty Utilities (Granite State Electric) Corp.	05/23	Liberty Utilities (Granite State Electric) Corp.	Docket No. DG 23-039	Temporary Rates
Liberty Utilities (Granite State Electric) Corp.	05/23	Liberty Utilities (Granite State Electric) Corp.	Docket No. DG 23-039	Multi-Year Rate Plan Revenue Requirement
Nova Scotia Utility Board				
Nova Scotia Power, Inc.	01/22	Nova Scotia Power, Inc.	M10431	Earnings Sharing Mechanism, Storm Rider, and Demand Side Management Rider
Oklahoma Corporate Commission				
Liberty Utilities Co.	02/22	Liberty-Empire	Cause No. PUD 202100163	Return on Equity Capital Structure
Liberty Utilities Co.	06/22	Liberty-Empire	Cause No. PUD 202100050	Winter Storm Funding and Cost Recovery
Ontario Energy Board				
Ontario Power Generation	05/16	Ontario Power Generation	EB-2016-0152	Cost of Capital: Equity Thickness
Ontario Power Generation	12/20	Ontario Power Generation	EB-2020-0290	Cost of Capital: Equity Thickness

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Hydro One Networks Inc.	08/21	Hydro One Networks Inc.	EB-2021-0110	Productivity Framework Review
Enbridge Gas Inc. (Operating as Enbridge Gas Distribution Inc.)	10/22	Enbridge Gas Inc. (Operating as Enbridge Gas Distribution Inc.)	EB-2022-0200	Cost of Capital: Equity Thickness
Ontario Energy Association, Coalition of Large Distributors and Ontario Power Generation	07/24	Generic proceeding commenced by the Ontario Energy Board to consider the cost of capital parameters and deemed capital structure to be used to set rates	EB-2024-0063	Cost of Capital (ROE, Cost of Debt, and Capital Structure); Carrying Costs on Regulatory Deferrals; Carrying Costs on Cloud Computing Deferrals
Ontario Power Generation	12/25	Ontario Power Generation	EB-2025-0297	Cost of Capital: Equity Thickness
Oregon Public Utilities Commission				
Northwest Natural Gas Company d/b/a NW Natural	05/25	Northwest Natural Gas Company d/b/a NW Natural	UG 520	Future Test Year; Rate Base Development
Pennsylvania Public Utility Commission				
PPL Electric Utilities Corporation	09/25	PPL Electric Utilities Corporation	R-2025-3057164	Forecasted Test Year Revenue Requirement
Rhode Island Division of Public Utilities and Carriers				
PPL Corporation	11/21	PPL Corporation and PPL Rhode Island Holdings, LLC	D-21-09	Merger Impacts
Rhode Island Public Utilities Commission				
The Narragansett Electric Company d/b/a Rhode Island Energy, a subsidiary of PPL Corporation	11/25	The Narragansett Electric Company d/b/a Rhode Island Energy	25-33-GE	Hold Harmless Commitment Corporate Finance Principles
South Dakota Public Utilities Commission				

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Northern States Power Company-MN	06/11	Northern States Power Company-MN	EL 11-019	Return on Equity Capital Structure
Vermont Public Utility Commission				
Vermont Department of Public Service	08/17	Joint Petition of NorthStar Decommissioning Holdings, LLC, NorthStar Nuclear Decommissioning Company, LLC, NorthStar Group Services, Inc., LVI Parent Corp., NorthStar Group Holdings, LLC, Entergy Nuclear Vermont Investment Company, LLC, and Entergy Nuclear Operations, Inc., to transfer ownership of Entergy Nuclear Vermont Yankee, LLC, and for certain ancillary approvals, pursuant to 30 V.S.A. §§ 107, 231, and 232	Docket No. 8880	Nuclear Facility Transfer Financial Capability and Credit Quality

LEAD-LAG AND CASH WORKING CAPITAL STUDIES

JURISDICTION	SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.
Regulatory Commission of Alaska	Golden Heart Utilities, Inc. and College Utilities Corporation	08/21	Golden Heart Utilities, Inc. and College Utilities Corporation	U-21-070 U-21-071
Regulatory Commission of Alaska	Golden Heart Utilities, Inc. and College Utilities Corporation	08/24	Golden Heart Utilities, Inc. and College Utilities Corporation	U-24-030 U-24-031
Regulatory Commission of Alaska	Alaska Electric Power & Light (AEP&L)	05/26	Alaska Electric Power & Light (AEP&L)	TA-545-1
Connecticut Public Utilities Regulatory Authority	The United Illuminating Company	07/16	The United Illuminating Company	Docket No. 16-06-04
Connecticut Public Utilities Regulatory Authority	The Southern Connecticut Gas Company	06/17	The Southern Connecticut Gas Company	Docket No. 17-05-42
Connecticut Public Utilities Regulatory Authority	Connecticut Natural Gas Corporation	06/18	Connecticut Natural Gas Corporation	Docket No. 18-05-16
Kentucky Public Service Commission	Duke Energy Kentucky	06/25	Duke Energy Kentucky	2025-00125
Massachusetts Department of Public Utilities	National Grid	11/17	Boston Gas Company and Colonial Gas Company (each d/b/a National Grid)	D.P.U. 17-170
Massachusetts Department of Public Utilities	National Grid	11/20	Boston Gas Company and Colonial Gas Company (each d/b/a National Grid)	D.P.U. 20-120
Massachusetts Department of Public Utilities	National Grid	11/23	Boston Gas Company and Colonial Gas Company (each d/b/a National Grid)	D.P.U. 23-150

JURISDICTION	SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.
New Mexico Public Regulation Commission	El Paso Electric Company	05/20	El Paso Electric Company	Case No. 20-00104-UT
Public Utilities Commission of Ohio	Duke Energy Ohio, Inc.	03/26	Duke Energy Ohio, Inc.	Case No. 26-134-EL-AIR
Public Utilities Commission of Ohio	Duke Energy Ohio, Inc.	06/26	Duke Energy Ohio, Inc.	Case No. 26-635-GA-AIR
Public Utility Commission of Texas	El Paso Electric Company	02/17	El Paso Electric Company	Docket No. 46831
Public Utility Commission of Texas	El Paso Electric Company	06/21	El Paso Electric Company	Docket No. 52195
Railroad Commission of Texas	Atmos Pipeline – Texas (APT), a division of Atmos Energy Corporation	05/23	Atmos Pipeline – Texas (APT), a division of Atmos Energy Corporation	Case No. 00013758
Railroad Commission of Texas	Atmos Energy Corporation, West Texas Division	10/24	Atmos Energy Corporation, West Texas Division	Docket No. OS-24-00018879 (West Texas)

CREDIT METRICS ANALYSIS
@ 40%

Label	Item	Formula/Source	Units	2028	2029	2030	2031	2032
[a]	Rate Base (financed by capital structure)	Ex. C-01-01 (Tables 4B&10B)	$ Millions	$ 33,633.8	$ 36,456.1	$ 39,403.7	$ 43,162.5	$ 49,182.0
[b]	Return on Equity	Ex. F-01-01 (Section 5.0)	%	9.11%	9.11%	9.11%	9.11%	9.11%
[c]	Equity Portion	Toggle	%	40%	40%	40%	40%	40%
[d]	Cost of Debt (Short and Long-Term)	Ex. F-01-03	%	4.38%	4.44%	4.48%	4.56%	4.61%
[e]	Construction Work in Progress	Ex. C-04-05 (Tx and Dx)	$ Millions	$ 7,298.1	$ 7,627.5	$ 8,498.5	$ 9,607.9	$ 3,734.9
[f]	Total Debt	[a]*(1-[c])+[e]	$ Millions	$ 27,478.4	$ 29,501.2	$ 32,140.7	$ 35,505.4	$ 33,244.1
[g]	Income Tax Rate	Ex. E-09-01 (Table 1)	%	26.5%	26.5%	26.5%	26.5%	26.5%
[h]	Net Income	[a]*[b]*[c]	$ Millions	$ 1,225.6	$ 1,328.5	$ 1,435.9	$ 1,572.8	$ 1,792.2
[i]	Interest Expense	[a]*(1-[c])*[d]	$ Millions	$ 884.8	$ 970.5	$ 1,058.3	$ 1,179.7	$ 1,360.1
[j]	Income Tax Expense	Ex. E-09-02 Attachment 1	$ Millions	$ 146.4	$ 241.7	$ 342.4	$ 309.4	$ 152.2
[k]	Depreciation	Ex. E-08-01 Attachment 2	$ Millions	$ 1,422.0	$ 1,541.0	$ 1,680.7	$ 1,756.2	$ 1,876.5
[l]	Regulatory Accounts	Ex. G-01-06 (Tables 1-3)	$ Millions	$ 271.7	$ 61.9	$ 61.9	$ 61.9	$ 61.9
[m]	EBITDA	[h]+[i]+[j]+[k]	$ Millions	$ 3,678.8	$ 4,081.7	$ 4,517.3	$ 4,818.2	$ 5,181.0
[n]	Funds from Operations	[m]-[i]-[j]	$ Millions	$ 2,647.6	$ 2,869.5	$ 3,116.6	$ 3,329.0	$ 3,668.7
[o]	Cashflow from Operations	[h]+[k]-[l]	$ Millions	$ 2,375.9	$ 2,807.6	$ 3,054.7	$ 3,267.1	$ 3,606.8
[p]	Pension & Post-Retirement Benefit Obligation	Ex. E-07-01 Attachment 2 App. A-1	$ Millions	$ 863.1	$ 779.6	$ 686.1	$ 586.0	$ 472.5

	METRICS - CALCULATED		**2028**	**2029**	**2030**	**2031**	**2032**
	FFO/Debt	[n]/([f]+([p]*(1-[g])))	9.4%	9.5%	9.5%	9.3%	10.9%
	CFO/Debt	[o]/[f]	8.6%	9.5%	9.5%	9.2%	10.8%

Notes:

General Amounts presented in this schedule are as of October 7, 2026.

[d] Cost of debt is the weighted avg. rate of short and long-term debt for each year for both Transmission and Distribution

[e] Construction Work in Progress (CWIP) includes Affiliate Transmission Partnerships (ATP) projects

[i] The Cost of Debt is based on Hydro One's forecasted Cost of Debt in its rates application, based on the assumptions therein. A decrease from Hydro One's proposed equity thickness of 40% would likely increase the Cost of Debt, although, conservatively, no such impact has been reflected in this analysis.

[j] Income Tax Expense implies the regulatory income tax for both Transmission and Distribution, approximates forecasted cash taxes paid

[l] Hydro One proposes to dispose of its regulatory accounts including Transmission regulatory accounts and Distribution Group 1 & 2 regulatory accounts

[p] Approximates funded status of Pension Benefits and Post-Retirement and Post-Employment Benefits. S&P adjusts debt for the after-tax amount of this funded status.

CREDIT METRICS ANALYSIS
@ 45%

Label	Item	Formula/Source	Units	2028	2029	2030	2031	2032
[a]	Rate Base (financed by capital structure)	Ex. C-01-01 (Tables 4B&10B)	$ Millions	$ 33,633.8	$ 36,456.1	$ 39,403.7	$ 43,162.5	$ 49,182.0
[b]	Return on Equity	Ex. F-01-01 (Section 5.0)	%	9.11%	9.11%	9.11%	9.11%	9.11%
[c]	Equity Portion	Toggle	%	45.0%	45.0%	45.0%	45.0%	45.0%
[d]	Cost of Debt (Short and Long-Term)	Ex. F-01-03	%	4.38%	4.44%	4.48%	4.56%	4.61%
[e]	Construction Work in Progress	Ex. C-04-05 (Tx and Dx)	$ Millions	$ 7,298.1	$ 7,627.5	$ 8,498.5	$ 9,607.9	$ 3,734.9
[f]	Total Debt	[a]*(1-[c])+[e]	$ Millions	$ 25,796.7	$ 27,678.4	$ 30,170.5	$ 33,347.3	$ 30,785.0
[g]	Income Tax Rate	Ex. E-09-01 (Table 1)	%	26.5%	26.5%	26.5%	26.5%	26.5%
[h]	Net Income	[a]*[b]*[c]	$ Millions	$ 1,378.8	$ 1,494.5	$ 1,615.4	$ 1,769.4	$ 2,016.2
[i]	Interest Expense	[a]*(1-[c])*[d]	$ Millions	$ 811.0	$ 889.6	$ 970.1	$ 1,081.4	$ 1,246.7
[j]	Income Tax Expense	Ex. E-09-02 Attachment 1	$ Millions	$ 146.4	$ 241.7	$ 342.4	$ 309.4	$ 152.2
[k]	Depreciation	Ex. E-08-01 Attachment 2	$ Millions	$ 1,422.0	$ 1,541.0	$ 1,680.7	$ 1,756.2	$ 1,876.5
[l]	Regulatory Accounts	Ex. G-01-06 (Tables 1-3)	$ Millions	$ 271.7	$ 61.9	$ 61.9	$ 61.9	$ 61.9
[m]	EBITDA	[h]+[i]+[j]+[k]	$ Millions	$ 3,758.3	$ 4,166.8	$ 4,608.6	$ 4,916.5	$ 5,291.7
[n]	Funds from Operations	[m]-[i]-[j]	$ Millions	$ 2,800.8	$ 3,035.5	$ 3,296.1	$ 3,525.6	$ 3,892.7
[o]	Cashflow from Operations	[h]+[k]-[l]	$ Millions	$ 2,529.1	$ 2,973.6	$ 3,234.2	$ 3,463.7	$ 3,830.8
[p]	Pension & Post-Retirement Benefit Obligation	Ex. E-07-01 Attachment 2 App. A-1	$ Millions	$ 863.1	$ 779.6	$ 686.1	$ 586.0	$ 472.5

METRICS - CALCULATED		2028	2029	2030	2031	2032
FFO/Debt	[n]/([f]+([p]*(1-[g])))	10.6%	10.7%	10.7%	10.4%	12.5%
CFO/Debt	[o]/[f]	9.8%	10.7%	10.7%	10.4%	12.4%

Notes:

General Amounts presented in this schedule are as of October 7, 2026.

[d] Cost of debt is the weighted avg. rate of short and long-term debt for each year for both Transmission and Distribution

[e] Construction Work in Progress (CWIP) includes Affiliate Transmission Partnerships (ATP) projects

[i] The Cost of Debt is based on Hydro One's forecasted Cost of Debt in its rates application, based on the assumptions therein. A decrease from Hydro One's proposed equity thickness of 40% would likely increase the Cost of Debt, although, conservatively, no such impact has been reflected in this analysis.

[j] Income Tax Expense implies the regulatory income tax for both Transmission and Distribution, approximates forecasted cash taxes paid

[l] Hydro One proposes to dispose of its regulatory accounts including Transmission regulatory accounts and Distribution Group 1 & 2 regulatory accounts

[p] Approximates funded status of Pension Benefits and Post-Retirement and Post-Employment Benefits. S&P adjusts debt for the after-tax amount of this funded status.

CREDIT METRICS ANALYSIS
@ 50%

Label	Item	Formula/Source	Units	2028	2029	2030	2031	2032
[a]	Rate Base (financed by capital structure)	Ex. C-01-01 (Tables 4B&10B)	$ Millions	$ 33,633.8	$ 36,456.1	$ 39,403.7	$ 43,162.5	$ 49,182.0
[b]	Return on Equity	Ex. F-01-01 (Section 5.0)	%	9.11%	9.11%	9.11%	9.11%	9.11%
[c]	Equity Portion	Toggle	%	50.0%	50.0%	50.0%	50.0%	50.0%
[d]	Cost of Debt (Short and Long-Term)	Ex. F-01-03	%	4.38%	4.44%	4.48%	4.56%	4.61%
[e]	Construction Work in Progress	Ex. C-04-05 (Tx and Dx)	$ Millions	$ 7,298.1	$ 7,627.5	$ 8,498.5	$ 9,607.9	$ 3,734.9
[f]	Total Debt	[a]*(1-[c])+[e]	$ Millions	$ 24,115.0	$ 25,855.6	$ 28,200.4	$ 31,189.2	$ 28,325.9
[g]	Income Tax Rate	Ex. E-09-01 (Table 1)	%	26.5%	26.5%	26.5%	26.5%	26.5%
[h]	Net Income	[a]*[b]*[c]	$ Millions	$ 1,532.0	$ 1,660.6	$ 1,794.8	$ 1,966.1	$ 2,240.2
[i]	Interest Expense	[a]*(1-[c])*[d]	$ Millions	$ 737.3	$ 808.7	$ 881.9	$ 983.1	$ 1,133.4
[j]	Income Tax Expense	Ex. E-09-02 Attachment 1	$ Millions	$ 146.4	$ 241.7	$ 342.4	$ 309.4	$ 152.2
[k]	Depreciation	Ex. E-08-01 Attachment 2	$ Millions	$ 1,422.0	$ 1,541.0	$ 1,680.7	$ 1,756.2	$ 1,876.5
[l]	Regulatory Accounts	Ex. G-01-06 (Tables 1-3)	$ Millions	$ 271.7	$ 61.9	$ 61.9	$ 61.9	$ 61.9
[m]	EBITDA	[h]+[i]+[j]+[k]	$ Millions	$ 3,837.7	$ 4,252.0	$ 4,699.9	$ 5,014.8	$ 5,402.4
[n]	Funds from Operations	[m]-[i]-[j]	$ Millions	$ 2,954.0	$ 3,201.6	$ 3,475.5	$ 3,722.3	$ 4,116.7
[o]	Cashflow from Operations	[h]+[k]-[l]	$ Millions	$ 2,682.3	$ 3,139.7	$ 3,413.6	$ 3,660.4	$ 4,054.8
[p]	Pension & Post-Retirement Benefit Obligation	Ex. E-07-01 Attachment 2 App. A-1	$ Millions	$ 863.1	$ 779.6	$ 686.1	$ 586.0	$ 472.5

METRICS - CALCULATED		2028	2029	2030	2031	2032
FFO/Debt	[n]/([f]+([p]*(1-[g])))	11.9%	12.1%	12.1%	11.8%	14.4%
CFO/Debt	[o]/[f]	11.1%	12.1%	12.1%	11.7%	14.3%

Notes:

General Amounts presented in this schedule are as of October 7, 2026.

[d] Cost of debt is the weighted avg. rate of short and long-term debt for each year for both Transmission and Distribution

[e] Construction Work in Progress (CWIP) includes Affiliate Transmission Partnerships (ATP) projects

[i] The Cost of Debt is based on Hydro One's forecasted Cost of Debt in its rates application, based on the assumptions therein. A decrease from Hydro One's proposed equity thickness of 40% would likely increase the Cost of Debt, although, conservatively, no such impact has been reflected in this analysis.

[j] Income Tax Expense implies the regulatory income tax for both Transmission and Distribution, approximates forecasted cash taxes paid

[l] Hydro One proposes to dispose of its regulatory accounts including Transmission regulatory accounts and Distribution Group 1 & 2 regulatory accounts

[p] Approximates funded status of Pension Benefits and Post-Retirement and Post-Employment Benefits. S&P adjusts debt for the after-tax amount of this funded status.

HYDRO ONE PROXY GROUP SCREENING DATA

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Company	Ticker	S&P Credit Rating	Percent of Total Business Revenue from Regulated Operations	Percent of Regulated Business Revenue from Electric Operations	Percent of Total Business Operating Income from Regulated Operations	Percent of Regulated Business Operating Income from Electric Operations	Pays Dividends	Positive Earnings Growth Estimate from At Least Two Sources	Material M&A Activity within Analysis Period	Exclude Hydro One Limited (H)
ALLETE, Inc.	ALE	NR	75.8%	97.8%	100.0%	98.4%	n/a	No	Yes	n/a
Alliant Energy Corporation	LNT	BBB+	97.8%	84.9%	97.8%	84.9%	Yes	Yes	No	n/a
Ameren Corporation	AEE	BBB+	100.0%	85.1%	100.0%	84.4%	Yes	Yes	No	n/a
American Electric Power Company, Inc.	AEP	BBB+	97.7%	100.0%	97.3%	100.0%	Yes	Yes	No	n/a
Avista Corporation	AVA	BBB	100.0%	67.9%	95.0%	74.4%	Yes	Yes	No	n/a
Black Hills Corporation	BKH	BBB+	100.0%	37.6%	100.0%	48.3%	Yes	Yes	Yes	n/a
CenterPoint Energy, Inc.	CNP	BBB+	98.5%	49.5%	100.0%	59.5%	Yes	Yes	Yes	n/a
CMS Energy Corporation	CMS	BBB+	95.5%	67.7%	100.0%	63.1%	Yes	Yes	No	n/a
Consolidated Edison, Inc.	ED	A-	96.9%	74.6%	86.3%	70.8%	Yes	Yes	No	n/a
Dominion Energy, Inc.	D	BBB+	92.2%	100.0%	94.4%	100.0%	Yes	Yes	No	n/a
DTE Energy Company	DTE	BBB+	55.9%	77.2%	88.3%	74.4%	Yes	Yes	No	n/a
Duke Energy Corporation	DUK	BBB+	100.4%	91.5%	100.0%	90.0%	Yes	Yes	No	n/a
Edison International	EIX	BBB-	99.7%	100.0%	100.0%	100.0%	Yes	Yes	No	n/a
Entergy Corporation	ETR	BBB+	98.6%	98.5%	98.7%	99.1%	Yes	Yes	No	n/a
Eversource Energy	ES	BBB+	100.0%	82.2%	94.2%	84.6%	Yes	Yes	No	n/a
Exelon Corporation	EXC	A-	100.0%	91.1%	99.8%	89.8%	Yes	Yes	No	n/a
FirstEnergy Corporation	FE	BBB+	100.0%	100.0%	100.0%	100.0%	Yes	Yes	No	n/a
Evergy, Inc.	EVRG	BBB+	100.0%	100.0%	100.0%	100.0%	Yes	Yes	No	n/a
Hawaiian Electric Industries, Inc.	HE	B+	99.6%	100.0%	94.4%	100.0%	No	No	No	n/a
IDACORP, Inc.	IDA	BBB	99.8%	100.0%	100.0%	100.0%	Yes	Yes	No	n/a
MGE Energy, Inc.	MGEE	AA-	99.9%	69.9%	78.9%	78.5%	Yes	No	No	n/a
NextEra Energy, Inc.	NEE	A-	73.0%	100.0%	85.2%	100.0%	Yes	Yes	No	n/a
NorthWestern Corporation	NWE	BBB	100.0%	76.4%	100.0%	86.0%	Yes	Yes	No	n/a
OGE Energy Corporation	OGE	BBB+	100.0%	100.0%	100.0%	100.0%	Yes	Yes	No	n/a
Otter Tail Corporation	OTTR	BBB	38.7%	100.0%	29.0%	100.0%	Yes	Yes	No	n/a
PG&E Corporation	PCG	BB	100.0%	71.2%	100.0%	58.1%	Yes	Yes	No	n/a
Pinnacle West Capital Corporation	PNW	BBB+	100.0%	100.0%	100.0%	100.0%	Yes	Yes	No	n/a
TXNM Energy, Inc.	TXNM	BBB	100.0%	100.0%	100.0%	100.0%	Yes	Yes	Yes	n/a
Portland General Electric Company	POR	BBB+	100.0%	100.0%	100.0%	100.0%	Yes	Yes	No	n/a
PPL Corporation	PPL	A-	99.9%	94.2%	100.0%	94.3%	Yes	Yes	No	n/a
Public Service Enterprise Group Inc.	PEG	BBB+	77.5%	72.1%	83.6%	78.5%	Yes	Yes	No	n/a
Sempra Energy	SRE	BBB+	88.3%	53.6%	81.5%	50.8%	Yes	Yes	Yes	n/a
Southern Company	SO	A-	90.9%	79.6%	95.8%	84.7%	Yes	Yes	No	n/a
Unitil Corporation	UTL	BBB+	100.0%	52.7%	100.0%	34.0%	Yes	No	Yes	n/a
Wisconsin Energy Corporation	WEC	A-	98.0%	56.3%	97.6%	57.3%	Yes	Yes	No	n/a
Xcel Energy Inc.	XEL	BBB+	99.4%	81.4%	100.0%	84.5%	Yes	Yes	No	n/a
Algonquin Power & Utilities Corporation	AQN	BBB	98.5%	56.0%	99.1%	54.4%	No	No	No	n/a
AltaGas Limited	ALA	BBB-	36.1%	0.0%	53.6%	0.0%	Yes	No	No	n/a
Canadian Utilities Limited	CU	NR	85.1%	51.0%	86.8%	57.3%	Yes	No	No	n/a
Emera Inc.	EMA	BBB	97.0%	76.2%	95.3%	79.2%	Yes	Yes	No	n/a
Enbridge Inc.	ENB	BBB+	95.1%	0.0%	97.7%	0.0%	Yes	Yes	No	n/a
Fortis Inc.	FTS	A-	99.2%	83.1%	99.2%	85.3%	Yes	Yes	No	n/a
Hydro One Limited	H	A	99.5%	100.0%	100.0%	100.0%	Yes	Yes	No	Exclude
TC Energy Corporation	TRP	BBB+	82.0%	0.0%	72.8%	0.0%	No	No	No	n/a

Notes:
[1] Source: S&P Capital IQ, as of January 22, 2026
[2] Source: Average of 2022-2024 10-Ks and AIFs
[3] Source: Average of 2022-2024 10-Ks and AIFs
[4] Source: Average of 2022-2024 10-Ks and AIFs
[5] Source: Average of 2022-2024 10-Ks and AIFs
[6] Source: Bloomberg Professional. Indicates currently pays dividends and did not cut dividends within the last two years
[7] Sources: Value Line, Zacks, and S&P Capital IQ
[8] Source: S&P Capital IQ, as of January 22, 2026. Indicates material M&A activity within the last 180 days from August 31, 2025.
[9] Exclude Hydro One Limited, as it is the parent company of Hydro One, Inc.
[10] Include if BBB- or higher
[11] Include if 75% or higher
[12] Include if 75% or higher
[13] Include if 75% or higher
[14] Include if 75% or higher
[15] Include if currently pays dividends and did not cut dividends within the last two years
[16] Include if positive earnings growth estimate from at least two sources
[17] Exclude if material M&A activity within analysis period
[18] Exclude Hydro One Limited, as it is the parent company of Hydro One, Inc.
[19] Include in proxy group if all screens are passed

HYDRO ONE PROXY GROUP SCREENING RESULTS

		75%	75%	75%	75%					
	[10]	[11]	[12]	[13]	[14]	[15]	[16]	[17]	[18]	[19]
Company	S&P Credit Rating	Percent of Total Business Revenue from Regulated Operations	Percent of Regulated Business Revenue from Electric Operations	Percent of Total Business Operating Income from Regulated Operations	Percent of Regulated Business Operating Income from Electric Operations	Pays Dividends	Positive Earnings Growth Estimate from At Least Two Sources	Material M&A Activity within Analysis Period	Exclude Hydro One Limited (H)	
ALLETE, Inc.	0	1	1	1	1	0	0	0	1	Fail
Alliant Energy Corporation	1	1	1	1	1	1	1	1	1	Pass
Ameren Corporation	1	1	1	1	1	1	1	1	1	Pass
American Electric Power Company, Inc.	1	1	1	1	1	1	1	1	1	Pass
Avista Corporation	1	1	0	1	0	1	1	1	1	Fail
Black Hills Corporation	1	1	0	1	0	1	1	0	1	Fail
CenterPoint Energy, Inc.	1	1	0	1	0	1	1	0	1	Fail
CMS Energy Corporation	1	1	0	1	0	1	1	1	1	Fail
Consolidated Edison, Inc.	1	1	0	1	0	1	1	1	1	Fail
Dominion Energy, Inc.	1	1	1	1	1	1	1	1	1	Pass
DTE Energy Company	1	0	1	1	0	1	1	1	1	Fail
Duke Energy Corporation	1	1	1	1	1	1	1	1	1	Pass
Edison International	1	1	1	1	1	1	1	1	1	Pass
Entergy Corporation	1	1	1	1	1	1	1	1	1	Pass
Eversource Energy	1	1	1	1	1	1	1	1	1	Pass
Exelon Corporation	1	1	1	1	1	1	1	1	1	Pass
FirstEnergy Corporation	1	1	1	1	1	1	1	1	1	Pass
Evergy, Inc.	1	1	1	1	1	1	1	1	1	Pass
Hawaiian Electric Industries, Inc.	0	1	1	1	1	0	0	1	1	Fail
IDACORP, Inc.	1	1	1	1	1	1	1	1	1	Pass
MGE Energy, Inc.	1	1	0	1	1	1	0	1	1	Fail
NextEra Energy, Inc.	1	0	1	1	1	1	1	1	1	Fail
NorthWestern Corporation	1	1	1	1	1	1	1	1	1	Pass
OGE Energy Corporation	1	1	1	1	1	1	1	1	1	Pass
Otter Tail Corporation	1	0	1	0	1	1	1	1	1	Fail
PG&E Corporation	0	1	0	1	0	1	1	1	1	Fail
Pinnacle West Capital Corporation	1	1	1	1	1	1	1	1	1	Pass
TXNM Energy, Inc.	1	1	1	1	1	1	1	0	1	Fail
Portland General Electric Company	1	1	1	1	1	1	1	1	1	Pass
PPL Corporation	1	1	1	1	1	1	1	1	1	Pass
Public Service Enterprise Group Inc.	1	1	0	1	1	1	1	1	1	Fail
Sempra Energy	1	1	0	1	0	1	1	0	1	Fail
Southern Company	1	1	1	1	1	1	1	1	1	Pass
Unitil Corporation	1	1	0	1	0	1	0	0	1	Fail
Wisconsin Energy Corporation	1	1	0	1	0	1	1	1	1	Fail
Xcel Energy Inc.	1	1	1	1	1	1	1	1	1	Pass
Algonquin Power & Utilities Corporation	1	1	0	1	0	0	0	1	1	Fail
AltaGas Limited	1	0	0	0	0	1	0	1	1	Fail
Canadian Utilities Limited	0	1	0	1	0	1	0	1	1	Fail
Emera Inc.	1	1	1	1	1	1	1	1	1	Pass
Enbridge Inc.	1	1	0	1	0	1	1	1	1	Fail
Fortis Inc.	1	1	1	1	1	1	1	1	1	Pass
Hydro One Limited	1	1	1	1	1	1	1	1	0	Fail
TC Energy Corporation	1	1	0	0	0	0	0	1	1	Fail
										21

HYDRO ONE PROXY GROUP

Company	Ticker
Alliant Energy Corporation	LNT
Ameren Corporation	AEE
American Electric Power Company, Inc.	AEP
Dominion Energy, Inc.	D
Duke Energy Corporation	DUK
Edison International	EIX
Entergy Corporation	ETR
Eversource Energy	ES
Exelon Corporation	EXC
FirstEnergy Corporation	FE
Evergy, Inc.	EVRG
IDACORP, Inc.	IDA
NorthWestern Corporation	NWE
OGE Energy Corporation	OGE
Pinnacle West Capital Corporation	PNW
Portland General Electric Company	POR
PPL Corporation	PPL
Southern Company	SO
Xcel Energy Inc.	XEL
Emera Inc.	EMA
Fortis Inc.	FTS

ACTUAL EQUITY RATIO ANALYSIS

		Common Equity Ratio (%)					Common Equity Ratio (%)
Proxy Group Company	**Ticker**	**2024**	**2023**	**2022**	**2021**	**2020**	**2020-2024 Average**
Alliant Energy Corporation	LNT	52.71%	52.10%	52.60%	51.32%	53.29%	52.40%
Ameren Corporation	AEE	53.73%	54.17%	53.91%	54.00%	53.44%	53.85%
American Electric Power Company, Inc.	AEP	48.67%	48.64%	48.55%	47.65%	48.03%	48.31%
Dominion Energy, Inc.	D	53.40%	55.08%	52.25%	53.04%	53.16%	53.39%
Duke Energy Corporation	DUK	53.08%	52.87%	53.04%	53.39%	52.95%	53.07%
Edison International	EIX	43.27%	44.77%	44.82%	48.09%	51.85%	46.56%
Eversource Energy	ES	56.93%	57.29%	56.74%	54.83%	54.97%	56.15%
Entergy Corporation	ETR	51.34%	52.01%	47.70%	45.54%	46.38%	48.59%
Exelon Corporation	EXC	52.89%	53.27%	53.42%	53.30%	53.19%	53.21%
FirstEnergy Corporation	FE	58.94%	54.19%	55.52%	55.24%	56.98%	56.18%
Evergy, Inc.	EVRG	60.34%	60.30%	61.00%	60.63%	59.30%	60.31%
IDACORP, Inc.	IDA	49.95%	49.42%	54.37%	55.00%	53.96%	52.54%
NorthWestern Energy Corporation	NWE	51.66%					51.66%
OGE Energy Corporation	OGE	53.25%	53.53%	55.65%	53.38%	53.04%	53.77%
Pinnacle West Capital Corporation	PNW	52.22%	49.56%	50.25%	51.12%	51.35%	50.90%
Portland General Electric Company	POR	45.57%	45.37%	43.24%	45.09%	46.07%	45.07%
PPL Corporation	PPL	56.61%	56.49%	56.77%	57.10%	55.81%	56.56%
Southern Company	SO	55.54%	54.82%	54.58%	54.62%	54.92%	54.90%
Xcel Energy Inc.	XEL	54.31%	54.58%	54.93%	54.52%	54.88%	54.64%
Emera Inc.	EMA	50.42%	46.39%	46.74%	48.03%	46.84%	47.68%
Fortis Inc.	FTS	48.16%	48.21%	47.83%	48.66%	47.69%	48.11%
MEAN		52.52%	52.15%	52.20%	52.23%	52.41%	52.28%
MEDIAN		52.89%	53.07%	53.23%	53.34%	53.18%	53.07%
LOW		43.27%	44.77%	43.24%	45.09%	46.07%	45.07%
HIGH		60.34%	60.30%	61.00%	60.63%	59.30%	60.31%

AUTHORIZED EQUITY RATIO ANALYSIS

[1]

Operating Company	Parent Company Ticker	State	Service Type	Current Authorized Equity Ratio
Ameren Illinois Co.	AEE	Illinois	Electric	50.00%
Union Electric Co.	AEE	Missouri	Electric	NA
AEP Texas Inc.	AEP	Texas	Electric	42.50%
Appalachian Power Co.	AEP	Virginia	Electric	48.24%
Appalachian Power Co.	AEP	West Virginia	Electric	44.00%
Indiana Michigan Power Co.	AEP	Indiana	Electric	NA
Indiana Michigan Power Co.	AEP	Michigan	Electric	NA
Kentucky Power Co.	AEP	Kentucky	Electric	41.25%
Kingsport Power Co.	AEP	Tennessee	Electric	48.90%
Ohio Power Co.	AEP	Ohio	Electric	54.43%
Public Service Co. of Oklahoma	AEP	Oklahoma	Electric	51.12%
Southwestern Electric Power Co	AEP	Arkansas	Electric	NA
Southwestern Electric Power Co	AEP	Louisiana	Electric	NA
Southwestern Electric Power Co	AEP	Texas	Electric	49.37%
Dominion Energy South Carolina	D	South Carolina	Electric	52.51%
Virginia Electric & Power Co.	D	North Carolina	Electric	52.50%
Virginia Electric & Power Co.	D	Virginia	Electric	52.04%
Duke Energy Carolinas, LLC	DUK	South Carolina	Electric	53.00%
Duke Energy Carolinas, LLC	DUK	North Carolina	Electric	53.00%
Duke Energy Florida, LLC	DUK	Florida	Electric	53.00%
Duke Energy Indiana, LLC	DUK	Indiana	Electric	NA
Duke Energy Kentucky, Inc.	DUK	Kentucky	Electric	52.73%
Duke Energy Ohio, Inc.	DUK	Ohio	Electric	50.50%
Duke Energy Progress, LLC	DUK	South Carolina	Electric	53.00%
Duke Energy Progress, LLC	DUK	North Carolina	Electric	53.00%
Southern California Edison Co.	EIX	California	Electric	52.00%
Tampa Electric Co.	EMA	Florida	Electric	54.00%
Nova Scotia Power	EMA	Nova Scotia	Electric	40.00%
NSTAR Electric Company	ES	Massachusetts	Electric	NA
Public Service Company of New Hampshire	ES	New Hampshire	Electric	50.00%
The Connecticut Light and Power Company	ES	Connecticut	Electric	53.00%
Entergy Arkansas LLC	ETR	Arkansas	Electric	NA
Entergy Louisiana LLC	ETR	Louisiana	Electric	NA
Entergy Mississippi LLC	ETR	Mississippi	Electric	49.83%
Entergy New Orleans LLC	ETR	Louisiana	Electric	50.00%
Entergy Texas Inc.	ETR	Texas	Electric	51.21%
Evergy Kansas Central Inc.	EVRG	Kansas	Electric	NA
Evergy Metro Inc.	EVRG	Kansas	Electric	NA
Evergy Metro Inc.	EVRG	Missouri	Electric	NA
Evergy Missouri West Inc.	EVRG	Missouri	Electric	NA
Atlantic City Electric Co.	EXC	New Jersey	Electric	50.24%
Baltimore Gas & Electric Co.	EXC	Maryland	Electric	52.00%
Commonwealth Edison Co.	EXC	Illinois	Electric	50.00%
Delmarva Power & Light Co.	EXC	Delaware	Electric	50.50%
Delmarva Power & Light Co.	EXC	Maryland	Electric	50.50%
PECO Energy Co.	EXC	Pennsylvania	Electric	NA
Potomac Electric Power Co.	EXC	District of Columbia	Electric	50.50%
Potomac Electric Power Co.	EXC	Maryland	Electric	50.50%
Jersey Central Power & Light Co.	FE	New Jersey	Electric	51.90%
Metropolitan Edison Co.	FE	Pennsylvania	Electric	NA
Monongahela Power Co.	FE	West Virginia	Electric	NA
The Cleveland Electric Illuminating Company	FE	Ohio	Electric	51.20%
The Toledo Edison Company	FE	Ohio	Electric	51.20%
Ohio Edison Company	FE	Ohio	Electric	51.20%
Pennsylvania Electric Co.	FE	Pennsylvania	Electric	NA
Pennsylvania Power Co.	FE	Pennsylvania	Electric	NA
The Potomac Edison Co.	FE	Maryland	Electric	53.00%
West Penn Power Co.	FE	Pennsylvania	Electric	NA
Central Hudson Gas & Electric Corp.	FTS	New York	Electric	48.00%
Tucson Electric Power Co.	FTS	Arizona	Electric	54.32%
UNS Electric Inc.	FTS	Arizona	Electric	53.72%
FortisAlberta	FTS	Alberta	Electric	37.00%
FortisBC Inc.	FTS	British Columbia	Electric	41.00%
Newfoundland Power	FTS	Newfoundland and Labrador	Electric	45.00%
Maritime Electric	FTS	Prince Edward Island	Electric	40.00%
Idaho Power Co.	IDA	Idaho	Electric	51.00%
Idaho Power Co.	IDA	Oregon	Electric	50.00%
Interstate Power & Light Co.	LNT	Iowa	Electric	51.00%
Interstate Power & Light Co.	LNT	Minnesota	Electric	47.74%
Wisconsin Power & Light Co.	LNT	Wisconsin	Electric	54.53%
NorthWestern Energy Public Service Corporation	NWE	Montana	Electric	47.84%
NorthWestern Energy Public Service Corporation	NWE	South Dakota	Electric	NA
Oklahoma Gas & Electric Co.	OGE	Arkansas	Electric	NA
Oklahoma Gas & Electric Co.	OGE	Oklahoma	Electric	53.50%
Arizona Public Service Co.	PNW	Arizona	Electric	51.93%
Portland General Electric Co.	POR	Oregon	Electric	50.00%
Kentucky Utilities Co.	PPL	Kentucky	Electric	NA
Kentucky Utilities Co.	PPL	Virginia	Electric	NA
Louisville Gas & Electric Co.	PPL	Kentucky	Electric	NA
PPL Electric Utilities Corp.	PPL	Pennsylvania	Electric	NA
The Narragansett Electric Co.	PPL	Rhode Island	Electric	50.95%
Alabama Power Co.	SO	Alabama	Electric	NA
Georgia Power Co.	SO	Georgia	Electric	56.00%
Mississippi Power Co.	SO	Mississippi	Electric	53.00%
Northern States Power Co.	XEL	Minnesota	Electric	52.50%
Northern States Power Co.	XEL	North Dakota	Electric	52.50%
Northern States Power Co.	XEL	South Dakota	Electric	NA
Northern States Power Co.	XEL	Wisconsin	Electric	NA
Public Service Co. of Colorado	XEL	Colorado	Electric	55.69%
Southwestern Public Svc Co.	XEL	New Mexico	Electric	54.70%
Southwestern Public Svc Co.	XEL	Texas	Electric	NA
AVERAGE				50.32%
MEDIAN				51.16%
MIN				37.00%
MAX				56.00%

Notes:

[1] Source: S&P Capital IQ and Concentric research. Represents rate cases as of January 20, 2026. Note that only electric operating subsidiaries were included in this analysis. Note that jurisdictions that account for zero-cost of capital items in utilities' regulated capital structure (Florida, Arkansas, Indiana, and Michigan) were marked as "NA" equity ratio, except in the case(s) where an authorized equity ratio excluding zero cost of capital effects was publicly-available.

AUTHORIZED EQUITY RATIOS ANALYSIS - HOLDING COMPANY AVERAGES

HoldCo Name	Ticker	Average Authorized Equity Ratio of Operating Subsidiaries
Alliant Energy Corporation	LNT	51.09%
Ameren Corporation	AEE	50.00%
American Electric Power Company, Inc.	AEP	47.48%
Dominion Energy, Inc.	D	52.35%
Duke Energy Corporation	DUK	52.60%
Edison International	EIX	52.00%
Eversource Energy	ES	51.50%
Entergy Corporation	ETR	50.35%
Exelon Corporation	EXC	50.61%
FirstEnergy Corporation	FE	51.70%
Evergy, Inc.	EVRG	n/a
IDACORP, Inc.	IDA	50.50%
NorthWestern Energy Corporation	NWE	47.84%
OGE Energy Corporation	OGE	53.50%
Pinnacle West Capital Corporation	PNW	51.93%
Portland General Electric Company	POR	50.00%
PPL Corporation	PPL	50.95%
Southern Company	SO	54.50%
Xcel Energy Inc.	XEL	53.85%
Emera Inc.	EMA	47.00%
Fortis Inc.	FTS	45.58%
MEAN		50.77%
MEDIAN		51.02%
LOW		45.58%
HIGH		54.50%

ANALYSIS OF SUBSETS OF MAIN PROXY GROUP

	Median Authorized Equity Ratio (Avg of Jurisdictions)	Median Actual Equity Ratio
Main Proxy Group Opcos	51.20%	52.54%
T&D Opcos Only	50.37%	52.96%
Opcos with Credit Rating A- and Above Only	51.20%	53.59%

	Average Authorized Equity Ratio (Avg of Jurisdictions)	Average Actual Equity Ratio
Main Proxy Group Opcos	50.23%	52.13%
T&D Opcos Only	49.05%	52.95%
Opcos with Credit Rating A- and Above Only	51.12%	53.34%

	Min Authorized Equity Ratio (Avg of Jurisdictions)	Min Actual Equity Ratio
Main Proxy Group Opcos	37.00%	32.93%
T&D Opcos Only	37.00%	37.80%
Opcos with Credit Rating A- and Above Only	37.00%	40.45%

	Max Authorized Equity Ratio (Avg of Jurisdictions)	Max Actual Equity Ratio
Main Proxy Group Opcos	56.00%	66.46%
T&D Opcos Only	54.43%	66.46%
Opcos with Credit Rating A- and Above Only	56.00%	63.38%

ANALYSIS OF SUBSETS OF MAIN PROXY GROUP

Main Proxy Group OpCo	Ticker	Authorized Equity Ratio (Avg of Jurisdictions)	Actual Equity Ratios	Credit Rating	A- And Above?	T&D?
Ameren Illinois Company	AEE	50.00%	55.85%	BBB+	0	T&D Only
Union Electric Company	AEE	NA	52.07%	BBB+	0	Has Gen
AEP Texas Inc.	AEP	42.50%	43.29%	BBB+	0	T&D Only
Appalachian Power Company	AEP	46.12%	48.40%	BBB+	0	Has Gen
Indiana Michigan Power Company	AEP	NA	48.77%	BBB+	0	Has Gen
Kentucky Power Company	AEP	41.25%	44.09%	BBB	0	Has Gen
Kingsport Power Company	AEP	48.90%	53.12%	N/A	0	T&D Only
Ohio Power Company	AEP	54.43%	50.84%	BBB+	0	T&D Only
Public Service Company of Oklahoma	AEP	51.12%	52.60%	BBB+	0	Has Gen
Southwestern Electric Power Company	AEP	49.37%	50.85%	BBB+	0	Differ by Juris.
Dominion Energy South Carolina, Inc.	D	52.51%	54.14%	BBB+	0	Has Gen
Virginia Electric and Power Company	D	52.27%	53.17%	BBB+	0	Has Gen
Duke Energy Carolinas, LLC	DUK	53.00%	52.05%	BBB+	0	Has Gen
Duke Energy Florida, LLC	DUK	53.00%	52.19%	BBB+	0	Has Gen
Duke Energy Indiana, LLC	DUK	NA	53.06%	BBB+	0	Has Gen
Duke Energy Kentucky, Inc.	DUK	52.73%	54.25%	BBB+	0	Has Gen
Duke Energy Ohio, Inc.	DUK	50.50%	63.97%	BBB+	0	T&D Only
Duke Energy Progress, LLC	DUK	53.00%	51.23%	BBB+	0	Has Gen
Southern California Edison Company	EIX	52.00%	46.56%	BBB-	0	Has Gen
Tampa Electric Company	EMA	54.00%	57.45%	BBB+	0	Has Gen
Nova Scotia Power	EMA	40.00%	32.93%	BBB-	0	Has Gen
NSTAR Electric Company	ES	NA	56.55%	A-	1	T&D Only
Public Service Company of New Hampshire	ES	50.00%	52.81%	A-	1	T&D Only
The Connecticut Light and Power Company	ES	53.00%	56.93%	A-	1	T&D Only
Entergy Arkansas, LLC	ETR	NA	46.79%	A-	1	Has Gen
Entergy Louisiana, LLC	ETR	NA	49.11%	BBB+	0	Has Gen
Entergy Mississippi, LLC	ETR	49.83%	47.79%	A-	1	Has Gen
Entergy New Orleans, LLC	ETR	50.00%	49.27%	BB	0	Has Gen
Entergy Texas, Inc.	ETR	51.21%	50.12%	BBB+	0	Has Gen
Evergy Kansas Central, Inc.	EVRG	NA	66.39%	BBB+	0	Has Gen
Evergy Metro, Inc.	EVRG	NA	51.01%	A-	1	Has Gen
Evergy Missouri West, Inc.	EVRG	NA	53.30%	BBB+	0	Has Gen
Atlantic City Electric Company	EXC	50.24%	49.98%	A-	1	T&D Only
Baltimore Gas and Electric Company	EXC	52.00%	53.32%	A	1	T&D Only
Commonwealth Edison Company	EXC	50.00%	55.02%	A-	1	T&D Only
Delmarva Power & Light Company	EXC	50.50%	50.11%	A-	1	Has Gen
PECO Energy Company	EXC	NA	53.41%	A-	1	T&D Only
Potomac Electric Power Company	EXC	50.50%	50.11%	A-	1	Has Gen
FirstEnergy Pennsylvania Electric Company	FE	NA	52.71%	A-	1	T&D Only
Jersey Central Power & Light Company	FE	51.90%	66.46%	BBB+	0	T&D Only
Metropolitan Edison Company	FE	NA	50.47%	N/A	0	T&D Only
Monongahela Power Company	FE	NA	47.94%	BBB	0	Has Gen
Pennsylvania Electric Company	FE	NA	49.68%	N/A	0	T&D Only
Pennsylvania Power Company	FE	NA	50.94%	N/A	0	T&D Only
The Potomac Edison Company	FE	53.00%	50.94%	BBB	0	T&D Only
West Penn Power Company	FE	NA	49.19%	N/A	0	T&D Only
The Cleveland Electric Illuminating Company	FE	51.20%	56.14%	BBB+	0	T&D Only
The Toledo Edison Company	FE	51.20%	57.42%	BBB+	0	T&D Only
Ohio Edison Company	FE	51.20%	62.36%	A-	1	T&D Only
Central Hudson Gas & Electric Corp.	FTS	48.00%	49.21%	BBB+	0	T&D Only
Tucson Electric Power Company	FTS	54.32%	54.04%	A-	1	Has Gen
UNS Electric, Inc.	FTS	53.72%	55.55%	N/A	0	Has Gen
FortisAlberta	FTS	37.00%	40.45%	A-	1	T&D Only
FortisBC, Inc.	FTS	41.00%	51.62%	N/A	0	Has Gen
Newfoundland Power	FTS	45.00%	44.54%	N/A	0	T&D Only
Maritime Electric	FTS	40.00%	37.80%	BBB+	0	T&D Only
Idaho Power Company	IDA	50.50%	52.54%	BBB	0	Has Gen
Interstate Power and Light Company	LNT	49.37%	51.17%	BBB+	0	Has Gen
Wisconsin Power and Light Company	LNT	54.53%	53.85%	A-	1	Has Gen
NorthWestern Energy Public Service Corporation	NWE	47.84%	51.66%	BBB	0	Has Gen
Oklahoma Gas and Electric Company	OGE	53.50%	53.77%	A-	1	Has Gen
Arizona Public Service Company	PNW	51.93%	50.90%	BBB+	0	Has Gen
Portland General Electric Company	POR	50.00%	45.07%	BBB+	0	Has Gen
Kentucky Utilities Company	PPL	NA	54.43%	A-	1	Has Gen
Louisville Gas and Electric Company	PPL	NA	54.80%	A-	1	Has Gen
PPL Electric Utilities Corporation	PPL	NA	55.82%	A	1	T&D Only
The Narragansett Electric Company	PPL	50.95%	63.38%	A-	1	T&D Only
Alabama Power Company	SO	NA	52.92%	A	1	Has Gen
Georgia Power Company	SO	56.00%	56.11%	A	1	Has Gen
Mississippi Power Company	SO	53.00%	55.34%	A-	1	Has Gen
Northern States Power Company	XEL	52.50%	52.91%	A-	1	Has Gen
Public Service Company of Colorado	XEL	55.69%	56.42%	BBB+	0	Has Gen
Southwestern Public Service Company	XEL	54.70%	54.25%	BBB	0	Has Gen

ANALYSIS OF SUBSETS OF MAIN PROXY GROUP

	Median Authorized Equity Ratio	Median Actual Equity Ratio (n/a for jurisdictions)
Main Proxy Group Opco Jurisdictions	51.16%	n/a
Most Credit Supportive Jurisdictions Only	52.73%	n/a

	Average Authorized Equity Ratio	Average Actual Equity Ratio (n/a for jurisdictions)
Main Proxy Group Opco Jurisdictions	50.32%	n/a
Most Credit Supportive Jurisdictions Only	49.64%	n/a

	Min Authorized Equity Ratio	Min Actual Equity Ratio (n/a for jurisdictions)
Main Proxy Group Opco Jurisdictions	37.00%	n/a
Most Credit Supportive Jurisdictions Only	41.00%	n/a

	Max Authorized Equity Ratio	Max Actual Equity Ratio (n/a for jurisdictions)
Main Proxy Group Opco Jurisdictions	56.00%	n/a
Most Credit Supportive Jurisdictions Only	54.53%	n/a

ANALYSIS OF SUBSETS OF MAIN PROXY GROUP

Main Proxy Group Opco	Ticker	Jurisdiction	Authorized Equity Ratio	Actual Equity Ratio	Credit Supportiveness Ranking
Ameren Illinois Co.	AEE	Illinois	50.00%	n/a	Very Credit Supportive
Union Electric Co.	AEE	Missouri	NA	n/a	Highly Credit Supportive
AEP Texas Inc.	AEP	Texas	42.50%	n/a	Very Credit Supportive
Appalachian Power Co.	AEP	Virginia	48.24%	n/a	Highly Credit Supportive
Appalachian Power Co.	AEP	West Virginia	44.00%	n/a	Very Credit Supportive
Indiana Michigan Power Co.	AEP	Indiana	NA	n/a	Highly Credit Supportive
Indiana Michigan Power Co.	AEP	Michigan	NA	n/a	Most Credit Supportive
Kentucky Power Co.	AEP	Kentucky	41.25%	n/a	Most Credit Supportive
Kingsport Power Co.	AEP	Tennessee	48.90%	n/a	Highly Credit Supportive
Ohio Power Co.	AEP	Ohio	54.43%	n/a	Very Credit Supportive
Public Service Co. of Oklahoma	AEP	Oklahoma	51.12%	n/a	Very Credit Supportive
Southwestern Electric Power Co	AEP	Arkansas	NA	n/a	Highly Credit Supportive
Southwestern Electric Power Co	AEP	Louisiana	NA	n/a	Highly Credit Supportive
Southwestern Electric Power Co	AEP	Texas	49.37%	n/a	Very Credit Supportive
Dominion Energy South Carolina	D	South Carolina	52.51%	n/a	Very Credit Supportive
Virginia Electric & Power Co.	D	North Carolina	52.50%	n/a	Highly Credit Supportive
Virginia Electric & Power Co.	D	Virginia	52.04%	n/a	Highly Credit Supportive
Duke Energy Carolinas, LLC	DUK	South Carolina	53.00%	n/a	Very Credit Supportive
Duke Energy Carolinas, LLC	DUK	North Carolina	53.00%	n/a	Highly Credit Supportive
Duke Energy Florida, LLC	DUK	Florida	53.00%	n/a	Most Credit Supportive
Duke Energy Indiana, LLC	DUK	Indiana	NA	n/a	Highly Credit Supportive
Duke Energy Kentucky, Inc.	DUK	Kentucky	52.73%	n/a	Most Credit Supportive
Duke Energy Ohio, Inc.	DUK	Ohio	50.50%	n/a	Very Credit Supportive
Duke Energy Progress, LLC	DUK	South Carolina	53.00%	n/a	Very Credit Supportive
Duke Energy Progress, LLC	DUK	North Carolina	53.00%	n/a	Highly Credit Supportive
Southern California Edison Co.	EIX	California	52.00%	n/a	More Credit Supportive
Tampa Electric Co.	EMA	Florida	54.00%	n/a	Most Credit Supportive
Nova Scotia Power	EMA	Nova Scotia	40.00%	n/a	Credit Supportive
NSTAR Electric Company	ES	Massachusetts	NA	n/a	Highly Credit Supportive
Public Service Company of New Hampshire	ES	New Hampshire	50.00%	n/a	Highly Credit Supportive
The Connecticut Light and Power Company	ES	Connecticut	53.00%	n/a	Credit Supportive
Entergy Arkansas LLC	ETR	Arkansas	NA	n/a	Highly Credit Supportive
Entergy Louisiana LLC	ETR	Louisiana	NA	n/a	Highly Credit Supportive
Entergy Mississippi LLC	ETR	Mississippi	49.83%	n/a	Highly Credit Supportive
Entergy New Orleans LLC	ETR	Louisiana	50.00%	n/a	Highly Credit Supportive
Entergy Texas Inc.	ETR	Texas	51.21%	n/a	Very Credit Supportive
Evergy Kansas Central Inc.	EVRG	Kansas	NA	n/a	Highly Credit Supportive
Evergy Metro Inc.	EVRG	Kansas	NA	n/a	Highly Credit Supportive
Evergy Metro Inc.	EVRG	Missouri	NA	n/a	Highly Credit Supportive
Evergy Missouri West Inc.	EVRG	Missouri	NA	n/a	Highly Credit Supportive
Atlantic City Electric Co.	EXC	New Jersey	50.24%	n/a	More Credit Supportive
Baltimore Gas & Electric Co.	EXC	Maryland	52.00%	n/a	Very Credit Supportive
Commonwealth Edison Co.	EXC	Illinois	50.00%	n/a	Very Credit Supportive
Delmarva Power & Light Co.	EXC	Delaware	50.50%	n/a	Very Credit Supportive
Delmarva Power & Light Co.	EXC	Maryland	50.50%	n/a	Very Credit Supportive
PECO Energy Co.	EXC	Pennsylvania	NA	n/a	Highly Credit Supportive
Potomac Electric Power Co.	EXC	District of Columbia	50.50%	n/a	More Credit Supportive
Potomac Electric Power Co.	EXC	Maryland	50.50%	n/a	Very Credit Supportive
Jersey Central Power & Light Co.	FE	New Jersey	51.90%	n/a	More Credit Supportive
Metropolitan Edison Co.	FE	Pennsylvania	NA	n/a	Highly Credit Supportive
Monongahela Power Co.	FE	West Virginia	NA	n/a	Very Credit Supportive
The Cleveland Electric Illuminating Company	FE	Ohio	51.20%	n/a	Very Credit Supportive
The Toledo Edison Company	FE	Ohio	51.20%	n/a	Very Credit Supportive
Ohio Edison Company	FE	Ohio	51.20%	n/a	Very Credit Supportive
Pennsylvania Electric Co.	FE	Pennsylvania	NA	n/a	Highly Credit Supportive
Pennsylvania Power Co.	FE	Pennsylvania	NA	n/a	Highly Credit Supportive
The Potomac Edison Co.	FE	Maryland	53.00%	n/a	Very Credit Supportive
West Penn Power Co.	FE	Pennsylvania	NA	n/a	Highly Credit Supportive
Central Hudson Gas & Electric Corp.	FTS	New York	48.00%	n/a	Very Credit Supportive
Tucson Electric Power Co.	FTS	Arizona	54.32%	n/a	Very Credit Supportive
UNS Electric Inc.	FTS	Arizona	53.72%	n/a	Very Credit Supportive
FortisAlberta	FTS	Alberta	37.00%	n/a	Highly Credit Supportive
FortisBC Inc.	FTS	British Columbia	41.00%	n/a	Most Credit Supportive
Newfoundland Power	FTS	Newfoundland and Labrador	45.00%	n/a	Highly Credit Supportive
Maritime Electric	FTS	Prince Edward Island	40.00%	n/a	Credit Supportive
Idaho Power Co.	IDA	Idaho	51.00%	n/a	Very Credit Supportive
Idaho Power Co.	IDA	Oregon	50.00%	n/a	More Credit Supportive
Interstate Power & Light Co.	LNT	Iowa	51.00%	n/a	Most Credit Supportive
Interstate Power & Light Co.	LNT	Minnesota	47.74%	n/a	Highly Credit Supportive
Wisconsin Power & Light Co.	LNT	Wisconsin	54.53%	n/a	Most Credit Supportive
NorthWestern Energy Public Service Corporation	NWE	Montana	47.84%	n/a	More Credit Supportive
NorthWestern Energy Public Service Corporation	NWE	South Dakota	NA	n/a	Very Credit Supportive
Oklahoma Gas & Electric Co.	OGE	Arkansas	NA	n/a	Highly Credit Supportive
Oklahoma Gas & Electric Co.	OGE	Oklahoma	53.50%	n/a	Very Credit Supportive
Arizona Public Service Co.	PNW	Arizona	51.93%	n/a	Very Credit Supportive
Portland General Electric Co.	POR	Oregon	50.00%	n/a	More Credit Supportive
Kentucky Utilities Co.	PPL	Kentucky	NA	n/a	Most Credit Supportive
Kentucky Utilities Co.	PPL	Virginia	NA	n/a	Highly Credit Supportive
Louisville Gas & Electric Co.	PPL	Kentucky	NA	n/a	Most Credit Supportive
PPL Electric Utilities Corp.	PPL	Pennsylvania	NA	n/a	Highly Credit Supportive
The Narragansett Electric Co.	PPL	Rhode Island	50.95%	n/a	Very Credit Supportive
Alabama Power Co.	SO	Alabama	NA	n/a	Most Credit Supportive
Georgia Power Co.	SO	Georgia	56.00%	n/a	Highly Credit Supportive
Mississippi Power Co.	SO	Mississippi	53.00%	n/a	Highly Credit Supportive
Northern States Power Co.	XEL	Minnesota	52.50%	n/a	Highly Credit Supportive
Northern States Power Co.	XEL	North Dakota	52.50%	n/a	Highly Credit Supportive
Northern States Power Co.	XEL	South Dakota	NA	n/a	Very Credit Supportive
Northern States Power Co.	XEL	Wisconsin	NA	n/a	Most Credit Supportive
Public Service Co. of Colorado	XEL	Colorado	55.69%	n/a	Very Credit Supportive
Southwestern Public Svc Co.	XEL	New Mexico	54.70%	n/a	Credit Supportive
Southwestern Public Svc Co.	XEL	Texas	NA	n/a	Very Credit Supportive

BEFORE THE ONTARIO ENERGY BOARD

DOCKET NO. EB-2026-0164

CREDIT-FOCUSED CAPITAL MARKETS ANALYSIS

INDEPENDENT EXPERT REPORT OF TODD A. SHIPMAN, CFA
UTILITY CREDIT CONSULTANCY LLC
ON BEHALF OF HYDRO ONE NETWORKS, INC.

SEPTEMBER 2026

I. Introduction and Purpose of Report

II. Qualifications

III. Credit Ratings and Capital Markets

IV. Utility Industry Credit Outlook

V. Hydro One's Credit Ratings

VI. Conclusions and Recommendations

I. Introduction and Purpose of Report

My name is Todd A. Shipman, CFA. I am the founder and principal of Utility Credit Consultancy, LLC ("UCC"), which is based at 51 Woodsneck Rd., Orleans, Massachusetts 02653. I have prepared this report on behalf of Hydro One Networks, Inc. ("HON" or "Hydro One")[1], in connection with its application to the Ontario Energy Board for approval of 2028-2032 Transmission and Distribution Rates (EB-2026-0164).

The purpose of my report is to apprise the parties of the importance of Hydro One's credit quality to customers and the need for a constructive decision in this proceeding as the company continues its efforts to improve its transmission and distribution systems and promote provincial energy policies by devoting ever more corporate resources to invest the capital necessary to achieve those goals. Greater regulatory support would protect Hydro One's credit quality from deterioration and increasing capital costs, both debt and equity, during a time of intensive investment.

To provide context from an independent point of view, I review credit ratings and their role in the debt and equity markets, investor perspectives when making investment decisions, the rating process, the significance of utility credit ratings to regulators and customers, and the analytical framework used for determining utility credit ratings. I also provide information regarding the overall utility industry's financial outlook from a ratings perspective. I then summarize Hydro One's current credit ratings and discuss what two major global credit rating agencies – Moody's Investor Service ("Moody's") and S&P Global

[1] For readability purposes, I also use the term "Hydro One" to describe the entire corporate family at times.

Ratings (“S&P”) – would view as a supportive decision in this proceeding.

II. Qualifications

I was graduated from Texas Christian University with a Bachelor of Business Administration (B.B.A.) degree with a major in economics and from Texas Tech University School of Law with a Juris Doctor (J.D.) degree. I was awarded the Chartered Financial Analyst (C.F.A.) designation in 1989. I have over 40 years of experience in the financial services and utility industries. I began in the financial industry as an analyst with a research firm called Regulatory Research Associates that specialized in analyzing and reporting the investment implications of the actions and behavior of utility regulators. Subscribers to the research included investment bankers and analysts at major Wall Street firms, large institutional investors such as insurance companies and mutual funds, utilities, and regulators. I then joined an independent power producer, Sithe Energies, where my primary responsibility was in regulatory affairs coordinating participation in state regulatory proceedings.

After that I spent 21 years at S&P, a major ratings agency that has been in business over 150 years and issues more than one million ratings on over $46 trillion of debt across all global capital markets. I performed credit surveillance of utilities and pipelines, midstream energy, and diversified energy companies. I was the primary analyst on over 150 different issuers during my tenure at S&P. In the final ten years, I was the Sector Specialist on the North American utilities team.

In that role, I was the sector lead analyst charged with ensuring ratings quality and assisting in the training and development of new analysts. During this time S&P comprehensively revised and updated its corporate ratings criteria, and I led the effort in creating the criteria used to establish ratings on all utilities across the globe. I also led outreach efforts to investors and the regulatory community. As an analytical leader in corporate ratings and later infrastructure/project finance ratings, I was involved in many cross-sector ratings activities. For instance, I performed a lead analytical role in the

development and application of global ratings criteria for hybrid capital securities such as preferred stock.

My experience in various roles at S&P makes me uniquely qualified to opine on ratings matters and their effect on utility customers because of the degree and scope of my involvement in rating utilities over many decades. As the utilities Sector Specialist at S&P, I chaired a vast majority of the rating committees conducted over more than a decade. The chairperson role is critical to achieving effective committee deliberations and assuring a fully vetted ratings opinion. In conjunction with the primary analyst, the chairperson has the most influence over the ratings that emerge from each committee. The chairperson also brings a broader perspective to the committee to help them focus on how the proposed rating fits into the entire industry risk picture. Between the two roles chairing committees and surveilling numerous utilities as primary analyst, my work had a direct and lasting effect on the ratings of every investor-owned utility in the United States and Canada and therefore on the rates of a large majority of electricity customers in North America.

The breadth of my ratings experience beyond the utility industry also informs my perspective when opining on ratings matters. Prior to specializing in utilities, I followed many types of energy companies along the energy value chain, from upstream (oil & gas producers) to midstream (natural gas and petroleum products, pipelines, refiners) to downstream (natural gas distributors, energy marketers). My role in developing S&P's published ratings criteria exposed me to all corporate issuer ratings across all industries, as well as insurance and structured finance ratings. Furthermore, I participated in the major modification and rewriting of S&P's corporate ratings methodology in 2013 and wrote most of the utilities-related elements in the methodology.[2] For example, most U.S.

[2] S&P Global Ratings, *Criteria | Corporates | General: Corporate Methodology, July 7, 2025 (originally published Nov. 19, 2013);* S&P Global Ratings, *Criteria | Corporates | General: Sector-Specific Corporate Methodology, September 26, 2025 (originally published as Key Credit Factors for the Regulated Utilities Industry, Nov. 19, 2013*).

utilities are assessed on financial risk using the "medial volatility" set of metric benchmarks. I conceived, designed, and named those benchmarks, which sit between the standard table and low-volatility table.[3]

After retiring from S&P, I became a management consultant specializing in expert testimony in regulatory proceedings, advice to utilities and other entities on credit and ratings issues, balance sheet management, and capital markets strategies. In addition to my work with Utility Credit Consultancy LLC, I am an Executive Advisor with Concentric Energy Advisors, where I assist in engagements that can benefit from my credit ratings expertise. I was also an adjunct faculty member of Boston University's Questrom School of Business, where I taught advanced undergraduate courses in corporate finance and capital markets. My curriculum vitae appears as Appendix 1 to this report.

Expert Witness Experience

I have submitted testimony to the Federal Energy Regulatory Commission, the Hawaii Public Utilities Commission, the Wisconsin Public Service Commission, the California Public Utilities Commission, the New York Public Service Commission, the Virginia State Corporation Commission, the Mississippi Public Service Commission, the Public Utility Commission of Texas, the New Mexico Public Regulation Commission, the Arizona Corporation Commission, the Washington Utilities and Transportation Commission, and the Louisiana Public Service Commission. A list of filings and testimonies before regulators appears as Appendix 2 to this report. In addition, I have been certified as an expert on credit rating matters by the United States Tax Court in Washington, D.C.

[3] *See* S&P, *Criteria | Corporates | General: Corporate Methodology*, pp. 33-34.

III. Credit Ratings and Capital Markets

A credit rating is an independent, objective, and credible opinion of a borrower's ability and willingness to meet its financial commitments in full and on a timely basis. Credit ratings are assigned to issuers (entities) and issues (individual obligations). A credit rating is not a recommendation to buy, sell, or hold a security, nor is it a guarantee that default on specific obligations will not occur. A rating does not purport to opine on the market liquidity (i.e., the ability of an investor to efficiently purchase or sell a security) of a rated instrument or any other element affecting the suitability of an investment for a particular investor.

A credit rating summarizes credit risk by addressing the relative probability of default, *i.e.*, the failure to pay either the required periodic payment or the principal when it matures under the terms of the security. There are two broad types of credit ratings. A rating can be assigned to an entity, which is commonly called an issuer credit rating (ICR). A rating can also be assigned to a security, which is commonly called an issue credit rating. Issue credit ratings can be either short-term (for securities such as those that mature in one-year or less) or long-term (for instance, debt that initially matures more than one year from issuance).

The primary role of a credit rating agency is to provide an independent assessment of the creditworthiness of a company or a financial instrument to facilitate access to fixed income capital markets at the most efficient cost. The agencies publish analyses of the issuers and issuances to communicate to the market with more detail the nuances of the current ratings, the analysis behind them, and the important factors driving the ratings and that could change ratings. Ratings are expressed in a series of letters, numbers, and/or symbols to encapsulate the relative creditworthiness of the entity or issue. The ratings scales of the major rating agencies in Canada and the U.S. appear below.

RATINGS SCALES

MORNINGSTAR DBRS	MOODY'S INVESTOR SERVICE	S&P GLOBAL RATINGS
AAA	Aaa	AAA
AA (high)	Aa1	AA+
AA	Aa2	AA
AA (low)	Aa3	AA-
A (high)	A1	A+
A	A2	A
A (low)	A3	A-
BBB (high)	Baa1	BBB+
BBB	Baa2	BBB
BBB (low)	Baa3	BBB-
BB (high)	Ba1	BB+
BB	Ba2	BB
BB (low)	Ba3	BB-
B (high)	B1	B+
B	B2	B
B (low)	B3	B-
CCC(high)	Caa1	CCC+
CCC	Caa2	CCC
CCC (low)	Caa3	CCC-
CC	Ca	CC
C	C	C
D	D	D

Note: The line demarcates the investment-grade/speculative-grade divide

The 'AAA' rating or the equivalent indicates the strongest credit quality, and 'D' ratings represent the lowest credit quality (for issuers or issues in default). Long-term ratings may carry a plus (+) or minus (-) sign to show relative creditworthiness within a rating category. Ratings in the BBB/Baa category and above are considered "investment-grade" by market participants. Ratings in the 'BB'/'Ba' category or below are known as "speculative-grade," or colloquially "junk," securities. Because a significant number of large and prominent investors are precluded from holding speculative-grade issues, the difference between investment-grade and speculative-grade ratings is profound and is recognized as such by rating agencies and market participants. The notch between 'BBB-' and 'BB+' is more of a chasm than a step.

In addition to the assignment of a rating, rating agencies include an indication of the direction of possible changes to the rating in the future, either none ("Stable"), positive, or negative. The outlook or trend, as it is referred to, is a mild indication of the future direction of the credit rating over the medium term (one to two years). More serious is a rating being placed on review (Moody's term) or on CreditWatch (the S&P term). It carries a much higher risk of a rating change and under a much shorter timeframe, generally 6 months or less.

In a broader sense, credit ratings reflect a more comprehensive view of financial health than other, more familiar financial measures such as quarterly financial results, earnings per share, rate of return for a particular reporting period, or the market prices of a company's securities. Ratings are also an independent opinion offered by firms that have no financial stake in the outcome of their analyses. The *long-term* and *independent* nature of credit ratings makes them an ideal benchmark to assist utility regulators as they navigate the many decisions they must make as they balance competing interests. I have found that as disinterested observers with a long-term mindset, rating agencies are well aligned with the perspectives of regulators.

Credit Ratings As A Guide To Risk and Financial Strength

Credit ratings are *forward-looking* opinions of an obligor's likelihood of default and loss given default[4] on its obligations. By its nature a credit rating and the risk of default is a good proxy for overall risk and an issuer's financial strength. The default experience of issuers reinforces the usefulness of credit ratings as a measure of risk. According to Moody's, from 1994 through 2025 the five-year average, volume-weighted corporate bond default rate generally increases from one rating category to the next lower one in the ratings scale, from a low of 0.03% for the Aaa category to 39.4% for the combined "Caa-C"

[4] "Loss given default" is the technical term for the concept of estimating how much an investor in a security will actually lose if default occurs. It is also sometimes called "loss severity".

categories.[5] The overall difference between the investment-grade and speculative-grade categories is stark: 0.55% versus 11.54% in the same five-year period.[6] In other words, the risk to investors increases as you go down the rating scale and is markedly different once you leave the investment-grade categories. This track record is the main reason investors pay attention to credit ratings and why some avoid companies that are not investment-grade. Ratings have proven to be a reliable and transparent measure of risk over a long period of time.

Role in Capital Markets and Effect on Utility Customers

Investors consult credit ratings issued by the major global rating agencies[7] when making investment decisions and the price at which they are willing to lend to or invest in a company. Ratings are valuable to investors because they are based on a consistent approach to assessing risk across time. Investors generally fall into two basic categories with distinct risk appetites. Fixed-income investors (*e.g.*, lenders or bondholders) extend debt capital to a company in exchange for a fixed return and the obligation to be repaid the original investment. Equity investors (*i.e.*, stockholders) receive only a residual return after all expenses are paid with no ability to demand a return of the investment. Fixed-income investors use ratings as one, very important consideration when deciding whether, and at what cost, to lend capital to a utility. Both fixed-income and equity investors use the ratings

[5] Moody's Ratings, *Annual Default Study: Escalating geopolitical tension adds downside risk to 2026's default outlook*, March 12, 2026, Exhibit 46.

[6] *Ibid.*

[7] This report will focus on the two largest credit rating agencies, Moody's and S&P, because their ratings are the most recognized and widely accepted by investors, especially in the U.S. With Hydro One adopting a more international approach in managing its balance sheet and funding capital needs in the future, I believe the Moody's and S&P ratings are the most relevant in this proceeding.

and the credit analyses performed by rating agencies to help them understand the overall risk of an issuer.

Credit ratings directly affect the cost of capital for a utility's investments and, thereby, drive overall customer rates.[8] Fixed-income investors and other creditors use ratings to assist them in determining the price they will charge the utility for the use of their money. There is an inverse relationship between debt cost and ratings: the higher the rating, the lower the cost. Equity investors (i.e., stockholders) also use credit ratings as a risk guide to help them decide when and at what price they will offer their capital to a utility. The more risk they detect, the greater return they will require to compensate them for bearing that risk. The effect is not as direct or precisely quantifiable as it is with fixed-income instruments, but in my experience equity investors regularly take notice of credit ratings and react to ratings upgrades and downgrades.

The Credit Rating Process

The process for a new rating usually unfolds over a two to three month period and begins with the preliminary credit assessment of the issuer. The primary analyst evaluates creditworthiness and continually refines the evaluation as the process unfolds. The next step is meeting with the issuer's management to assess the effect of management and governance on credit quality and elicit more information that is not always accessible from securities filings and other public sources. The primary analyst conducts the meeting with the assistance of senior analysts on the team. They question and challenge management

[8] Phillips, Charles F., Jr., *The Regulation of Public Utilities*, Arlington, Virginia: Public Utilities Reports, Inc., 1993, p. 250.

to understand their commitment to credit quality, their grasp of business operations and financial matters, and their views of future strategy, capital plans, and financial policies. After analyzing the credit profile and incorporating the insights gleaned from the management meeting and follow-up interactions, the ratings process culminates in a rating committee convened by the rating committee chairperson, who is normally a senior member of the group.

The primary analyst submits a rating committee package with a complete dissertation of the creditworthiness of the issuer and presents the analytical findings and rating recommendations to the rating committee. The rating committee then decides on the ratings by majority vote, beginning with the issuer credit rating that corresponds to the fundamental credit quality of the entity. Issue-specific ratings are then assigned based upon legal and structural considerations that inform those ratings. Committee members also offer comments and explanations that are communicated to the issuer and inform the published credit report. After the committee has made its decisions, they are promptly communicated to the public by publishing and disseminating the credit opinion. The process then starts anew as the issuer and its ratings are placed under regular surveillance.

Utility Credit Analysis Basics

The analysis of a corporate entity is fundamentally an examination of two independent risk measurements that, when combined, sum to total credit risk. The *quantitative* side of the analysis develops financial ratios and other metrics to analyze the financial risk of the issuer. The *qualitative* side is the assessment of business risk, which is built up from the broad macro risks at the country and industry level. After the broad risk

environment is determined, the committee establishes the issuer's individual business risk within that business and economic environment. For a utility, risk at the provincial level enters into the analysis at this point.

Business risk and financial risk are best understood as complementary measures of the total risk of an entity. For example, two utilities, Utility A and Utility B, may have the same credit rating, but Utility A may have more business risk than Utility B. In such a situation, one would expect Utility A to have less financial risk to arrive at a particular rating. Because utilities are tightly regulated on financial matters that limit how much financial metrics can vary over time, I have found that it is more often that qualitative business risk drives ratings outcomes in the utility industry. This finding is supported by more than my experience. The utility credit analyses at Moody's and S&P are both designed to stress business risk over financial risk considerations when arriving at a rating. Moody's is explicit in this bias, as the weighting in their scorecard for utilities is a 60%/40% split between business and financial factors.[9]

BUSINESS RISK: For a utility, the main areas of risks are regulatory risk, operating risk, and cash flow diversity. The first, regulatory risk, is the major factor in the analysis. Evaluating regulatory risk almost invariably circles back to cost recovery, notably full recovery of a utility's cost of capital, including the cost of both debt and equity, through a reasonable authorized return on rate base, that is, the utility's capital investment. The nature and pace of the process of recognizing an incurred cost as recoverable through rates

[9] Moody's Ratings, *Rating Methodology, Regulated Electric and Gas Utilities,* August 6, 2024, p. 2.

is the paramount business risk factor for a utility credit analyst. Other elements of regulatory risk, such as political influences on regulation, are analyzed to discern the risk surrounding the ultimate factor of recovering all costs sufficiently to earn a reasonable return.

In the Moody's methodology for utilities, regulatory risk constitutes over 80% of business risk, and for S&P, it is 60%.[10] Each focuses on the basic regulatory framework, including (1) the legal foundation for utility regulation, (2) the ratemaking policies and procedures that determine how well the utility is afforded the opportunity to earn a reasonable return with a reasonable cash component, and (3) the history of regulatory behavior by the governing bodies applying those laws, policies and procedures.

The central question of utility regulation to a utility investor can be summed up in two words: cost recovery. Cost recovery includes the ability to recover the cost of capital (a large cost item for a utility) through a reasonable return on equity. But cost recovery is not just *how much*, but *how* that money is recovered. Relevant considerations include whether recovery is predictable and dependable, whether recovery mechanisms create extended lag, whether the regulator is taking timely action on rate requests, and whether all utilities are treated consistently in terms of the regulatory process. The process of recognizing an incurred cost as recoverable through rates is the paramount business-risk factor.

Next, credit rating agencies examine the mechanics of regulation, particularly the rate-setting process and the details of how a utility's rate structure translates into the stability of its cash flows. In the past, rate cases took up much of the analysis, but now, the totality of a utility's tariff and rate structure are assessed to capture the effect on business

[10] Moody's, *Rating Methodology*, Aug. 6, 2024, p.2; S&P, *Corporate Methodology*, July 7, 2025, p. 22 (Table 12).

risk of revenues generated outside base rates set in rate cases. Formula rates, fuel and purchased power clauses, and other varieties of rate mechanisms prevail across the utility industry and are the most common kind of rate mechanisms that stabilize earnings and cash flows to the benefit of the business risk profile. Creditors and therefore rating agencies attribute less risk to rate mechanisms that operate outside the rate case cycle and adjust rates automatically, in short time frames or flexible time frames to match revenues with costs, thereby minimizing regulatory lag.

The two most prominent elements of the revenue requirement calculation to a ratings analyst are return on common equity and the capital structure. Together they will, if supportive, give a utility a better opportunity to earn its actual cost of capital and provide more operating cash flow. Moreover, investors and rating agencies view these items in tandem as indicators of a regulator's attitude toward the utility's providers of capital. The authorized ROE is the most prominent feature of a utility's rate structure. The authorized ROE reveals the regard that the regulator has toward the debt and equity investors that are furnishing the capital needed to maintain safe and reliable utility service and achieve other public policy goals. An in-depth analysis of a utility's rates is required to fully understand the ratings implications, but the authorized return is widely used by investors to make preliminary judgments about the relative supportiveness of a regulatory jurisdiction. It is therefore an important *signaling device* to the investment community that affects the cost of capital, both equity and debt, and thus customer utility rates.

Rating agencies also look at the *consistency* and *transparency* exhibited in a regulatory jurisdiction's decisions.[11] Rating agencies rate many types and tenors of fixed income securities, but they regard debtholders who extend credit over long periods as their primary audience. They view their mandate as rating long-term debt as accurately as possible over the longest timeframe possible. Utilities ultimately fund capital expenditures with long-dated maturities to match the long-lived assets they are supporting, and utility investors (debt and equity holders) expect ratings to be forward-looking and stable. Regulatory frameworks and practices that provide certainty and allow rating agencies to confidently project future cash flows and debt leverage will naturally be accorded a better business risk profile. Regulatory frameworks and practices that are in transition or being questioned and do not allow rating agencies to confidently project future cash flows and debt leverage will be accorded an inferior business risk profile. The predictability that comes from the consistency and transparency exhibited in a regulatory jurisdiction's decisions offers creditors the ability to assess risk accurately over most of the debt's term and improves the ability of the company to manage its business activities and capital program for the long-term benefit of its customers. Thus, consistency and transparency are hallmarks of a supportive regulatory jurisdiction.

A seldom-appreciated aspect of regulatory risk is that regulatory behavior affects both the business risk and financial risk sides of the credit rating equation. This compounds the effect of regulatory behavior on the risk profile of a utility. The manner of establishing

[11] Moody's, *Rating Methodology*, Aug. 6, 2024, p. 4; S&P, *Assessing U.S. Investor-Owned Utility Regulatory Environments*, Aug. 10, 2016, p. 2.

rates and the level and timing of cost recovery has a direct effect on a utility's ability to earn its authorized return on rate base and produce enough earnings and cash flow to support its credit metrics that measure financial risk. A regulatory jurisdiction's approval of a rate mechanism using a fully compensatory rate of return, including a capital structure that offers sufficient risk protection to bondholders and other creditors, is a feature of a credit-supportive regulatory environment that would factor into assessing both business risk and financial risk. Because of this outsized influence of regulation, a kind of "feedback loop" of regulatory decisions acting on business risk factors and directly affecting a utility's ability to manage financial performance and its balance sheet tends to intensify the impact of regulation on utility credit ratings.

FINANCIAL RISK: The financial risk side of the credit analysis is distinguished by its emphasis on cash flow. Recognizing that debt is serviced with cash, not earnings, credit analysts strive to understand the cash flow dynamics of a company's financial results as much as or more than the accounting-derived earnings. The other major element of financial risk to a credit analyst is the total amount of debt or debt-like obligations on the issuer's balance sheet and from other activities. Items that the rating agency regards as debt-like are underfunded pension obligations, lease liabilities, long-term power purchase obligations, and deferred taxes.

Credit metrics are calculated for both historical periods and future forecasts and fall into two basic types: leverage and coverage ratios. Since ratings are forward-looking, the forecast is given more weight in the analysis. Leverage metrics assess the relative burden of debt and other fixed-income obligations (such as leases) compared to the financial

responsibility being carried by shareholders. Leverage refers to how much an issuer relies on debt to fund its capital needs and represents a longer-term view of credit protection. Because of its long-term perspective, credit analysis tends to emphasize leverage metrics in the assessment of financial risk. Coverage metrics are something of the opposite, gauging the more immediate question of how cash flow compares to the near-term need to service the fixed-income obligations.

The primary measure that rating agencies use as a base for most cash flow metrics is cash flow from operating activities. Moody's calls its preferred cash flow measure "Cash Flow From Operations Before Changes in Working Capital" ("CFO pre-WC"), which removes the effects of transitory changes in working capital from CFO to pinpoint the ongoing ability of an issuer to generate cash flow from its normal operating activities.[12] S&P uses a similar measure, called "Funds-From-Operations," ("FFO"), although for consistency reasons they base their FFO calculation off the more familiar income statement measure of "Earnings Before Interest, Taxes, Depreciation, and Amortization" ("EBITDA"). S&P then removes the actual cash paid for taxes and interest to arrive at a figure that aligns with operating cash flows stripped of the influence of working capital.[13]

FFO/Debt or the Moody's equivalent is the preferred credit metric of utility credit analysts because it captures actual cash flow better than other accounting concepts. Since utilities can be subject to deferral or denial of cost recovery, investors want to see how much regulators prioritize *when* costs are reflected in rates as well as *whether* they are. The

[12] Moody's, *Rating Methodology*, Aug. 6, 2024, p. 13.

[13] S&P Global Ratings, *Criteria | Corporates | General: Corporate Methodology: Ratios and Adjustments*, December 17, 2025, p. 2.

leverage measure is more stable and has a more long-term character than the coverage ratios that are given a secondary role in the financial analysis. The conventional leverage metric, debt-to-capitalization, is not regarded as a reliable measure of debt leverage for most corporate issuers, but it's more relevant for utilities. Moody's considers it for utilities based on the importance of the capital structure in setting utility rates.

Both S&P and Moody's methodologies allow for further refinement of the credit analysis beyond the business risk/financial risk dynamic to arrive at the final rating outcome. S&P criteria calls them "modifiers", and they range from benefits for diversification to demerits for lack of liquidity.[14] The most commonly used modifier, dubbed the "Comparable Ratings Analysis", is a catch-all provision that permits a rating committee to use its discretion to adjust the final rating outcome one notch in either direction to fine-tune the analysis.[15]

IV. The North American Utility Industry Outlook

The broader credit ratings environment for North American utilities has stabilized this year but contains several caveats that suggest a cautious approach to the neutral outlook.[16] The tentative move to a stable outlook follows several years of a negative credit environment. S&P first observed the credit quality of the utility industry deteriorating in

[14] S&P, *Corporate Methodology*, July 7, 2025, pp. 7-9.
[15] *Id*. at 10.
[16] S&P Global Ratings, *North America Investor-Owned Regulated Utility Industry Outlook Reverses Trend To Stable*, May 11, 2026; Morningstar | DBRS, *Commentary: 2026 North American Utilities Outlook: Striking a Balance Between Load Growth, Significant Capex, and Earnings Stability*, January 15, 2026

2020, with downgrades exceeding upgrades for the first time in a decade.[17] The downgrade-to-upgrade ratio for utilities stood at an unprecedented 7-to-1 as of the middle of 2021.[18] S&P reverted to a stable outlook for the industry in 2023 after the negative outlook on the industry for the previous three years[19] but returned to a negative outlook in February 2024.[20] Even as late as last year, S&P maintained its negative outlook ("Capex and climate change pressures [*sic*] credit quality")[21] and only turned back to stable this year.[22] Morningstar|DBRS (DBRS) also publishes a North American outlook now and maintains a neutral stance on the industry.[23]

Both outlooks, however, have a decidedly negative bent. DBRS notes that "...significant capital expenditure (capex) needs could pressure the credit metrics of some of the issuers in the regulated and nonregulated utilities space"[24] and emphasizes that "generally supportive regulatory frameworks, stable and predictable cash flows, and demonstrated access to capital markets"[25] are the key to maintaining credit quality. In a passage that almost seems to be tailored to Hydro One, DBRS expounds:

> *"We expect major Utilities in the U.S. and Canada to continue to invest heavily in increasing reliable grid capacity to cater to the surge in*

[17] S&P, *North American Regulated Utilities' Negative Outlook Could See Modest Improvement*, January 20, 2021, p. 1.

[18] S&P, *North American Corporate Credit Midyear Outlook 2021, Industry Top Trends Update, Regulated Utilities*, July 15, 2021, p. 1.

[19] S&P, *The Outlook for North American Regulated Utilities Turns Stable*, May 18, 2023

[20] S&P, *Rising Risks: Outlook for North American Investor-Owned Utilities Weakens*, February 14, 2024

[21] S&P, *Industry Credit Outlook 2025 | North America Regulated Utilities*, January 14, 2025, p.1

[22] S&P, *North America Investor-Owned Regulated Utility Industry Outlook Reverses Trend To Stable*, May 11, 2026.

[23] Morningstar | DBRS, *2026 North American Utilities Outlook: Striking a Balance Between Load Growth, Significant Capex, and Earnings Stability*, January 15, 2026.

[24] *Id*. at 1. A commentary late last year highlighted the challenge of the heavy spending to Canadian utilities. *See* Morningstar | DBRS, *Record Capex, Mounting Leverage: Can Canada's Utilities Maintain Credit Strength?*, November 3, 2025.

[25] *Ibid.*

> *electricity demand from artificial intelligence (AI), data centers, and industrialization, as well as broader electrification trends . . . . This shift from the Utilities' traditional defensive role to a growth-oriented approach will need access to nontraditional sources of capital, a favorable regulatory regime, and a thorough and efficient multipronged approach to load growth and demand management."*[26]

The other headwinds noted by DBRS in its outlook are similarly daunting: environmental and grid reliability concerns pressuring utilities to address aging grid infrastructure,[27] weather and climate risks,[28] and affordability considerations by regulators.[29] Those challenges are echoed by S&P in its industry outlook, particularly the rising capex imperatives[30] and perhaps the one that looms the most over the industry, affordability.[31] S&P expressed the irony of utility rates, which are by objective measures a bargain for consumers yet are perceived as expensive due in part to recent rises that have significantly exceeded the rate of inflation.[32] The issue of affordability has attracted so much attention that both agencies have published separate commentaries this year to draw attention to the risk.[33]

I do not dispute the general rating agency satisfaction with the state of the risk environment of utilities in North America. The stability of the industry is due in part to the confidence in the consistent behavior of regulators such as the OEB, which is to be

[26] *Ibid.*
[27] *Id*., pp. 2-3.
[28] *Id*. at 3.
[29] *Id*., pp. 3-4.
[30] S&P Global Ratings, *North America Investor-Owned Regulated Utility Industry Outlook Reverses Trend To Stable*, May 11, 2026, pp. 5-6.
[31] *Id*., pp. 7-8.
[32] *Ibid.*
[33] Morningstar | DBRS, *Rate Fatigue and the Regulated Utility Credit Story: How Affordability is Rewriting the Pace and Shape of Cost Recovery,* February 27, 2026; S&P Global Ratings, *White Paper: Affordability Is Emerging As A Defining Issue For The U.S. Investor-Owned Electric Utility Industry*, March 11, 2026.

commended. But the gathering clouds of huge capex requirements, demand growth that has not been seen in several generations, environmental prerogatives, and the acute focus on the pace and degree of rate increases could yet start to combine into a storm. I do not believe utilities, regulators, and other stakeholders in the future of the industry should be complacent in the face of these threats to utility credit quality as these trends unfold.

V. Hydro One's Credit Ratings

Hydro One has excellent credit quality based upon a low-risk business model, a very good operating record, a very constructive regulatory environment, and a management that has consistently shown a commitment to credit quality. Credit ratings have been strong throughout the company's modern history since restructuring in 2015. All stakeholders in Hydro One – customers, shareholders, bondholders, regulators, and intervenors – should be applauded for supporting this long record of financial strength and stability that I believe has provided demonstrable benefits to customers and the province of Ontario and will continue to do so for the foreseeable future.

Credit Ratings

The company carries ratings from three rating agencies. S&P assigns an 'A' issuer credit rating (ICR) to Hydro One's parent company Hydro One Ltd. (HOL) and by extension to Hydro One Inc (HOI), the operating company under HOL that issues debt on behalf of the utility HON. Moody's assigns an 'A3' senior unsecured rating to HOI, equivalent to one notch below the S&P rating. DBRS assigns an 'A(high)' rating to HOI, equivalent to one notch above the S&P rating and two notches above the Moody's rating. Despite the disparity in the ratings, there are commonalities in the respective approaches to analyzing the company's creditworthiness. Given that HOI has recently issued debt in the U.S.[34], ushering in a more global future for funding its capital needs, I will focus on the two major global rating agencies, Moody's and S&P, in my review and analysis of HOI's future rating prospects. I believe those are the ratings investors will rely upon the most going forward when making investment decisions.

[34] Hydro One Inc., Press Release: *Hydro One Inc. announces pricing of inaugural offering of US$ 1.0 billion of 5-year senior notes,* dated May 20, 2026.

S&P Credit Ratings

S&P provides a transparent analytical framework to assist investors and other users of ratings with a basic view of the credit profile of a utility. Recalling the two fundamental aspects of risk assessments of corporate entities, the business risk is described as "Excellent", the highest (i.e., the lowest risk) of the six risk categories in the S&P methodology.[35] This is not remarkable for a utility, especially one like Hydro One that operates in the perceived lowest end of the risk spectrum of the utility industry.[36] "Upstream" activities closest to ultimate customers (for electricity companies the distribution system) have historically been considered to have low operating risk compared to "midstream" transmission operations, and to "downstream" generation which has traditionally been regarded as harboring the highest risk. All transmission and distribution (T&D) utilities rated by S&P have an "excellent" business risk profile.

The financial risk profile is designated by S&P as "Significant", which represents the lower/middle position of the possible financial risk profiles in the S&P risk nomenclature.[37] This, too, is not unusual for the utility industry, where a large majority of rated utilities occupy this or the next higher category (meaning lower risk, called "Intermediate"). Straddling the mid-range of financial risk, utilities in general can withstand more financial risk than a typical corporate issuer. This phenomenon does have a downside, however, as I have found that utilities and their regulators often think the tolerance for excessive financial risk is almost limitless because of the monopoly business model and the regulatory backstop. Rating agency patience for utilities and regulators that skirt the boundaries of financial performance is ample, but in my experience the strategy of relying on that forbearance can fail as often as it succeeds.

[35] S&P Global Ratings, *Hydro One Ltd.*, June 10, 2026.

[36] The six business risk categories range from "Excellent" to "Vulnerable". S&P, *Corporate Methodology*, July 7, 2025, pp. 4-5.

[37] The six financial risk categories range from "Minimal" to "Highly Leveraged". *Id.* at 5.

S&P expects HOL to post credit metrics in the future that provide a *de minimus* cushion for the current rating, with the benchmark FFO-to-Debt measure at around 12% in their three-year (2026-2028) forecast.[38] This compares to a downgrade threshold figure of 11%[39] and an industry average of almost 15%.[40] To better communicate to investors the thinking behind a rating and allow them to gauge how vulnerable a rating is to being changed, S&P includes a downside and upside scenario in the credit report that often cites a key metric that could cause a downgrade or upgrade if it moves in one direction or the other and is expected to stay there. The closer a company is to the metric threshold, the less cushion it has for its rating. The cushion is not just financial. A thin metric threshold means a company's rating is at risk if adverse industry-wide trends develop or if the company's business risk worsens. I discuss the threat of lower ratings in more detail in the next sub-section.

Moody's Credit Ratings

As with S&P, Moody's views business risk as very low. They score the relevant analytical considerations on the same scale as the ratings, so four of the five factors carry an A-category score. The major area that suffers in the Moody's analysis is "Sufficiency of Rates and Returns", which comes in at the Baa category.[41] It is apparent that a perceived weakness in the company's authorized return, including the "low authorized equity capital"[42], is a driver of the Moody's rating. In keeping with the lower rating compared to the other rating agencies, the Moody's analysis is replete with negative sentiment:

[38] S&P, *Hydro One Ltd*., June 10, 2026, p. 2. In my experience, S&P's forecast number is approximately the midpoint of the range listed in the forecast summary in the credit report.
[39] *Ibid.*
[40] S&P, *North America Investor-Owned Regulated Utility Industry Outlook*, May 11, 2026, p. 3.
[41] Moody's Ratings, *Credit Opinion, Hydro One Inc., Update to credit analysis*, November 7, 2025, p. 8.
[42] *Id.* at 2.

> *"...a baseline credit assessment ...of baa1 with a one notch uplift attributable to the moderate probability of extraordinary support from the Province of Ontario...."*[43]
>
> *"...relatively weaker financial metrics [that] are primarily the result of its low authorized equity layer in the capital structure (currently 40%)..."*[44]
>
> *"...weak but consistent credit metrics..."*[45]
>
> *"The capital investment program generally consists of a series of smaller projects and the company is not exposed to material execution risk that is often associated with larger, more complex projects. However the company is proceeding with a series of transmission line and station expansions which will likely consist of a series of projects with a larger capital spend than typical projects undertaken by the company."*[46]

Underpinning the Moody's analysis on the business risk side is the "supportive Ontario regulatory environment [that] is a key driver of HOI's credit quality."[47] The financial risk side points to the true vulnerability of the rating: *all* of the scoring for the 40% that constitutes the financial aspects of the credit analysis is in the Baa category.[48] Consistent with the S&P forecast, Moody's projects an 11% to 13% range for its FFO/Debt-equivalent credit metric over the next 12-to-18 months.[49] That is weaker than the company's recent historical performance, which approached 15% in 2022 and has since reverted to almost COVID-era levels.[50] Tellingly, the "scorecard-indicated outcome" in the agency's analytical methodology is 'Baa1', which speaks to the negative influence of financial risk on the credit analysis.[51] Only an uplift from the perceived relationship with the province

[43] *Id.* at 1.
[44] *Ibid.*
[45] *Id.* at 2.
[46] *Id.* at 5.
[47] *Id.* at 3.
[48] *Id.* at 8.
[49] *Ibid.*
[50] *Id.* at 9.
[51] *Id.* at 8.

spares the company a rating in the lowest investment-grade category. I address in more detail the threat to the current rating immediately below.

The Precariousness of the Stability of the S&P and Moody's Ratings

Given the stable outlook by all of the rating agencies and the generally benign view of the outlook for the whole industry, it may be tempting to dismiss any concerns about the company's ratings as premature. However, I caution that the seeming credit quality stability is hiding real challenges that should be confronted now. I covered the increasing industrywide and company-specific business risks already. The burden of rapidly growing capex, operational risks from wildfire threats, heightened reliability and resiliency expectations, and greater affordability concerns that could raise regulatory risk will create challenges for utility managers and regulators to maintain credit quality and ratings. For HOI, I see signs that its rating cushion is thinner than what should be viewed as desirable.

For the S&P rating, the first warning sign is its relative ranking within its rating category. Among its 'A'-rated peers with stable outlooks, HOL and HOI are ranked near the bottom, making them almost the weakest companies with that rating and *the* weakest T&D utility with that rating.[52] Only two issuers appear lower on the list, both of which are or are part of integrated utilities. The sole 'A'-rated issuer with a negative outlook at the time of the report was downgraded since the March 2026 publication of the rankings.[53] A critical observation from that report is that the cause of the downgrade cited in the headline was "Weak Financial Measures", but in fact it was S&P's "**expectation of weaker financial measures through 2028** [that] **contributed to the downgrade.**"[54] That is a stark reminder that ratings are forward-looking, and rating agencies don't wait for financial deterioration to set in to initiate a downgrade. Also notable is that the projected credit protection

[52] S&P Global Ratings, *Issuer Ranking: North American Electric, Gas, and Water Regulated Utilities, Strongest To Weakest*, March 30, 2026, p. 2

[53] S&P Global Ratings, *Research Update: Baltimore Gas And Electric Co. Downgraded To 'A-'On Weak Financial Measures; Outlook Stable*, April 30, 2026.

[54] *Id*. at 1. (**emphasis in the original**)

measures are expected to weaken "after incorporating the company's high future capital spending."[55]

The second warning sign I detect in the S&P rating is its reliance on the Comparable Rating Analysis (CRA) modifier. Recall that the CRA permits a rating committee to use its discretion to adjust the final rating outcome one notch in either direction.[56] The rating outcome from S&P's fundamental credit analysis, called an anchor score and analogous to the Moody's "indicated rating", is actually one notch lower than the current rating.[57] The necessity to invoke the CRA to justify the 'A' rating in light of its low relative position in the category suggests it would not take much in the way of bad news or expected credit metric deterioration to change the S&P outlook to negative and eventually a ratings downgrade. Dropping the positive CRA adjustment is precisely how the Baltimore Gas & Electric downgrade noted immediately above was accomplished.[58]

The third worrisome element in the S&P rating is the credit metric cushion itself. According to S&P, being less than 100 basis points away from the downgrade trigger in the core FFO-to-Debt metric constitutes a "minimal" financial cushion.[59] Recall that the downgrade trigger is 11% and its projected figure is about 12%, placing it dangerously close to downgrade territory. Incidentally, that trigger is somewhat high, at the midpoint of the "Significant" range for the Low-Volatility metric benchmarks.[60] That reinforces my contention that S&P regards the Hydro One entities as relatively risky on the business risk end of the analysis and is operating with a slim ratings cushion.[61] If S&P ever decides not to

[55] *Ibid.*
[56] S&P, *Corporate Methodology*, p. 10.
[57] S&P, *Hydro One Ltd.*, June 10, 2026, p. 5.
[58] *See* the credit report before the downgrade. S&P Global Ratings, *Baltimore Gas & Electric*, April 4, 2025, p.8.
[59] S&P, *Utility Industry Outlook*, May 11, 2026, p. 8.
[60] S&P, *Corporate Methodology*, p. 34.
[61] On a more speculative note, any perception of greater business risk could lead S&P to decide to judge Hydro One against the stricter medial-volatility financial benchmarks, or somewhere in between, which would almost certainly produce a lower rating. I have seen this happen to other T&D utilities.

apply those generous benchmarks and moves into the Medial-Volatility benchmark group, the slim cushion would vanish.

For the Moody's rating, which is already one notch below the S&P rating, it is more difficult to discern the downgrade risk because they are less transparent in their methodology. The one clue is the Moody's "scorecard-indicated outcome", which for HOI is 'baa1'.[62] Moody's discloses that its 'A3' rating, one notch above the indicated rating outcome, is traced to support from the Province of Ontario.[63] Determining the expected level of extraordinary support of a "Government-related Issuer" (GRI) is governed by a separate methodology that gives the rating committee "wide discretion"[64] when applying the methodology. That alone should give pause to anyone relying on that one-notch uplift from the influence of the province.[65] Where the methodology provides guidance on its application, it shows that HOI could drop along with its indicated rating outcome if it experiences credit quality deterioration.[66]

The Importance of Maintaining Credit Quality and Ratings

Finally, I would like to address why I am emphasizing the vulnerability of the credit ratings and the need to bolster credit quality to lower the risk of negative ratings actions. After all, rating downgrades or changes to negative outlooks or the more serious CreditWatch / Under Review designations may be considered by some as merely possibilities. I urge more cushion in the Hydro One ratings for a very practical reason: it's

[62] Moody's, *Hydro One Inc*, November 7, 2025, p. 8.

[63] *Id*. at 1. "Our baseline credit assessment (BCA) of baa1 with a one notch uplift attributable to the moderate probability of extraordinary support from the Province of Ontario (Aa3 stable), which indirectly owns 47.1% of HOI."

[64] Moody's Ratings, *Cross-Sector Rating Methodology, Government-related Issuers*, May 23, 2025, p. 5.

[65] The influence of the province can have credit downside as well as upside, as Moody's acknowledges. Moody's, *Hydro One Inc*, November 7, 2025, p. 6. There is history with the S&P rating that reveals the mixed track record from a credit rating perspective of the provincial involvement in Hydro One. *See* S&P Global Ratings, *Research Update: Hydro One Ltd. And Subsidiary Downgraded To 'A-' On Lower Governance Assessment; Ratings Remain On CreditWatch*, September 13, 2018.

[66] Moody's, *Government-related Issuers*, May 23, 2025, p. 35 (Exhibit 8).

easier to lose a rating than to regain it. Restoring a rating can be more time-consuming and more "expensive" than keeping it in the first place.

In my experience I have witnessed a conservatism in rating committees that will often affect the outcome. Rating agency receptivity to upgrades and downgrades is facially equal, but overcoming upside ratings inertia can require more effort. The dynamic of rating movements that I have observed over many decades is that downgrades occur much more readily than upgrades. The "stickiness" of a rating after a downgrade is a natural consequence of the mindset of rating committees made up of analysts who are trained to detect risk and tend to have an innate disposition to the downside. This phenomenon is so manifest that investors I interacted over the years with would often refer to a company being "in the penalty box" when discussing ratings downgrades.

As a practical matter, climbing out of credit rating pitfalls can be much more difficult than falling into them. I have observed over the years that ratings restoration can take much more time and effort even in the best cases as a company struggles to convince investors and rating agencies that the risk that caused the downgrade has abated for good. Because of this upside ratings inertia phenomenon, I believe that avoiding a downgrade can be nearly as valuable to utility customers as an upgrade.

VI. Conclusions and Recommendations

Hydro One is a well-run utility with a low-risk credit profile. With the support of a predictable and transparent regulatory regime and a management committed to credit quality, the company's credit ratings offer ample and efficient access to the capital needed to maintain its operations and meet the needs of its customers and the province of Ontario in general. I believe adoption of the requested capital structure to bolster credit quality would provide Hydro One and its customers with the means to withstand the growing risks within the company and the industry. Otherwise I think the company is susceptible to a future downgrade that would impede crucial efforts by Hydro One and the province to promote economic growth through greater market penetration of electricity and improved grid reliability.

APPENDIX 1

TODD A. SHIPMAN, CFA

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857.260.0656

Experience

Utility Credit Consultancy LLC — **Orleans, MA**

Principal — May 2018 - Present

Founded a consulting firm to provide utilities with expert witness services and advice on capital market strategies. Specialize in capital markets issues, credit rating advisory, and hybrid securities.

Boston University — **Boston, MA**

Lecturer — January 2017 – June 2020

Adjunct faculty member in the Questrom School of Business, Department of Finance. Taught advanced undergraduate finance courses covering capital markets, monetary and economic policy, and corporate finance.

S&P Global Ratings — **New York, NY and Boston, MA**

Senior Director — April 2014 - May 2018
Director — April 2000 - April 2014
Associate Director — March 1997 - April 2000

Sector Specialist on the Global Infrastructure Ratings North American Utilities team. Performed credit surveillance of utilities, pipelines, midstream energy, and diversified energy companies. Chaired most team rating committees. Wrote credit reports and commentaries and led outreach efforts to investors and the regulatory community, including speeches and training seminars. Lead analytical role developing global rating criteria for utilities, master limited partnerships, and hybrid capital securities.

Electric Utility Research Inc (defunct), San Francisco, CA

Senior Vice President — May 1996 - March 1997

Edited and contributed to an investor newsletter covering the electric utility industry

Sithe Energies Inc. — **New York, NY**

Manager, Regulatory Affairs — November 1993 - May 1996

Managed state regulatory matters for a major independent power company. Coordinated interventions in regulatory proceedings. Assisted in identifying development opportunities. Participated in investor relations activities.

Regulatory Research Associates — **Jersey City, NJ**

Vice President — October 1993 - November 1993
Senior Analyst — August 1989 - October 1993
Analyst — August 1985 - August 1989

Analyzed and reported on actions by state regulators affecting the financial status of electric, gas, and telephone utilities for a firm that provided research to the Wall St. community. Contributed to the firm's sell-side research.

Education

J.D., Texas Tech University School of Law, Lubbock, TX May 1984

B.B.A., Texas Christian University, Fort Worth, TX May 1981

Professional Affiliations & Other Activities

Executive Advisor, Concentric Energy Advisors, Marlborough MA

Chartered Financial Analyst

APPENDIX 2

Utility
Credit
Consultancy LLC

FILINGS

Unless otherwise noted, the proceeding was a rate case.

Client: Hawaiian Electric Companies
State: Hawaii
Docket/Proceeding: # 2018-0088, *Instituting a Proceeding to Investigate Performance-Based Regulation*
Date: October 25, 2018
Submittal: Regulatory Assessment Brief (Appendix: Effect of Major Regulatory Reform on Credit Quality)

Client: Avista / Hydro One
State: Washington
Docket/Proceeding: #UM 1897, *In the matter of HYDRO ONE LIMITED, Application for Authority to Exercise Substantial Influence over the Policies and Actions of AVISTA CORPORATION*
Date: October 4, 2018
Submittal: Rebuttal Testimony of John R. Reed (Exhibit 2601: Independent Report of Todd A. Shipman)

Client: Wisconsin Electric Power Co. / Wisconsin Gas LLC
State: Wisconsin
Docket/Proceeding: #05-UR-109
Date: March 28, 2019 / September 17, 2019
Submittal: Direct and Rebuttal Testimony

Client Wisconsin Public Service Corp.
State: Wisconsin
Docket/Proceeding: #6690-UR-126
Date: March 28, 2019
Submittal: Direct Testimony

Client: San Diego Gas & Electric Co.
State: California
Docket/Proceeding: #A.19-04-017 (Cost of Capital)
Date: April 2019 / August 1, 2019 / August 21, 2019
Submittal: Direct, Supplemental, and Rebuttal Testimony

Client: Consolidated Edison of New York Co.
State: New York
Docket/Proceeding: #19-E-0065 & 19-G-0066
Date: June 14, 2019
Submittal: Rebuttal Testimony

Client : Roanoke Gas Co.
State: Virginia
Docket/Proceeding: #PUR-2018-00013
Date: July 30, 2019
Submittal: Rebuttal Testimony

Client: Hawaii Electric Light Co.
State: Hawaii
Docket/Proceeding: #2018-0368
Date: October 9, 2019
Submittal: Rebuttal Testimony

Client: Mississippi Power Co.
State: Mississippi
Docket/Proceeding: #2019-UN-219
Date: November 26, 2019
Submittal: Direct Testimony

Client: Southwestern Public Service Co.
State: New Mexico
Docket/Proceeding: #19-00170-UT
Date: December 20, 2019
Submittal: *Rebuttal Testimony*

Client: Southwestern Public Service Co.
State: Texas
Docket/Proceeding: #49831
Date: March 11, 2020
Submittal: Rebuttal Testimony

Client: Southwest Gas Corp
State: Arizona
Docket/Proceeding: #G-01551A-19-0055
Date: March 11, 2020
Submittal: Rebuttal Testimony

Client: Hawaiian Electric Companies
State: Hawaii
Docket/Proceeding: # 2018-0088, *Instituting a Proceeding to Investigate Performance-Based Regulation*
Date: June 18, 2020
Submittal: Phase 2 Statement of Position (Exhibit C2: Financial Integrity and Credit Ratings)

Client : Arizona Public Service Co.
State: Arizona
Docket/Proceeding: #E-01345A-19-0236
Date: November 6, 2020
Submittal: Rebuttal and Rejoinder Testimony

Client: Southwestern Public Service Co.
State: New Mexico
Docket/Proceeding: #20-00238-UT
Date: December 18, 2020
Submittal: Direct Testimony; Rebuttal Testimony

Client: Southwestern Public Service Co.
State: Texas
Docket/Proceeding: #51802
Date: February 8, 2021
Submittal: Direct Testimony, Rebuttal Testimony

Client: Orange and Rockland Utilities Co.
State: New York
Docket/Proceeding: #21-E-0074 & 21-G-0073
Date: January 29, 2021
Submittal: Direct Testimony, Rebuttal Testimony

Client: Puget Sound Energy, Inc.
State: Washington
Docket/Proceeding: #UE-220066 & UG-220067
Date: January 31, 2022
Submittal: Direct Testimony, Testimony In Support of Settlement

Client: Wisconsin Electric Power Co. / Wisconsin Gas LLC
State: Wisconsin
Docket/Proceeding: #5-UR-110
Date: April 28, 2022
Submittal: Direct Testimony

Client Wisconsin Public Service Corp.
State: Wisconsin
Docket/Proceeding: #6690-UR-127
Date: April 28, 2022
Submittal: Direct Testimony

Client: Consolidated Edison of New York Co.
State: New York
Docket/Proceeding: #22-E-0064 & 21-G-0065
Date: June 17, 2022
Submittal: Rebuttal Testimony

Client: Entergy Louisiana LLC
State: Louisiana
Docket/Proceeding: #U-36625, *Application for Approval of the Entergy Future Ready Resilience Plan (Phase I)*
Date: December 21, 2022
Submittal: Direct Testimony

Client: Southwestern Public Service Co.
State: Texas
Docket/Proceeding: Docket #54634
Date: February 8, 2023
Submittal: Direct Testimony, Rebuttal Testimony

Client: Entergy Louisiana LLC
State: Louisiana
Docket/Proceeding: #U-36959
Date: August 29, 2023
Submittal: Direct Testimony

Client: Puget Sound Energy, Inc.
State: Washington
Docket/Proceeding: #UE-240004, UG-240005
Date: February 15, 2024
Submittal: Direct Testimony, Rebuttal Testimony

Client: AEP Texas
State: Texas
Docket/Proceeding: #56165
Date: February 29, 2024
Submittal: Direct Testimony

Client: Puget Sound Energy, Inc.
State: Washington
Docket/Proceeding: #UG-230968, Tariff Revision, Risk-Sharing Mechanism for Climate Commitment Act Compliance Costs
Date: September 12, 2024
Submittal: Rebuttal Testimony

COST OF THIRD-PARTY LONG-TERM DEBT

1.0 HYDRO ONE TRANSMISSION AND DISTRIBUTION LONG-TERM DEBT

The debt portfolios for Hydro One Transmission and Distribution are detailed in Exhibit F-01-04. Hydro One Transmission and Distribution are each allocated a portion of the debt issued by Hydro One Networks Inc. to Hydro One Inc.

Hydro One Networks Inc. issues debt to Hydro One Inc. to reflect debt issued by Hydro One Inc. to third-party public debt investors. The amount of debt issued by Hydro One Inc. to third-party public debt investors includes the debt required by Hydro One Inc.'s subsidiaries. Third-party public debt investors hold all of the long-term debt issued by Hydro One Inc.

Hydro One Inc. has a Medium-Term Note (MTN) Program that provides ready access to issue debt with a term greater than one year into the Canadian debt capital markets. The standard maturity terms of five, ten and thirty years are preferred by debt investors and represent the main financing tenors that Hydro One Inc. utilizes to execute its debt financing strategy and raise the required long-term debt funds. The short form base shelf prospectus for the current MTN Program was filed on March 27, 2026 with the Canadian Security regulators and is provided in Exhibit F-01-06. This enables Hydro One Inc. to issue debt in Canada without filing a new full prospectus for each offering enabling Hydro One to capitalize on opportunistic market access windows to the benefit of electricity customers.

Hydro One Inc. is one of the largest Canadian corporate bond issuers in Canada. To diversify debt funding sources, given elevated borrowing needs over the coming years and to ensure issuance execution is not constrained by capacity in the Canadian bond markets, Hydro One Inc. filed a US Debt Shelf Prospectus with the Ontario Securities Commission (OSC) and the United States Securities and Exchange Commission (SEC) on August 18, 2025. The US bond market provides additional access to funding to support the growing electricity infrastructure needs of Ontario. On May 26, 2026 Hydro One Inc.

completed its inaugural US debt issuance of a $1.0 billion USD, 5-year note, which was swapped to Canadian dollars to ensure no foreign currency exchange risk and had a Canadian swapped equivalent effective interest rate of 3.835%, which includes the cost of the cross currency swap, as included in Exhibit F-01-04. The costs associated with cross currency swaps to convert US debt issuances to Canadian dollar liabilities are considered part of the cost for new US debt issuances. Hydro One expects to access the US bond market on a consistent basis in the future given the large scale of debt financing requirements expected during the 2028 to 2032 period. The exact timing, term and quantum of the actual USD issuances will be subject to the same financing objectives and considerations as Canadian issuances. This would include achieving pricing levels similar to Canadian interest rates on an all-in, swapped equivalent basis. The cost of debt assumptions in the Application are based on actual and forecasted bond issuances in the Canadian market and Canadian swapped equivalent yields of actual US bond issuances.

In addition, to further diversify funding sources and to support Hydro One's credit ratings, subordinated debt, also known as hybrid debt, may be issued by Hydro One Limited in Canada or Hydro One Holdings Limited in the US during the 2028 to 2032 period. Any hybrid debt that is allocated as Hydro One Transmission and Distribution debt would be at the OEB's deemed long-term debt interest rate.

As noted in Exhibit F-01-01, Section 1.0, Hydro One has proposed to update the long-term debt rate for Transmission and Distribution. In this exhibit, Hydro One has updated the Transmission debt rates for 2026 to 2032 and the Distribution debt rates for 2026 to 2032 to reflect the Consensus Forecasts. In 2027, these will be further updated as part of the draft rate order process to include Hydro One's actual 2026 and 2027 debt issuances to such date and forecasted debt issuances to 2032 to reflect the Consensus Forecasts.

Hydro One proposes that costs associated with hedging long-term debt issuances to mitigate the volatility of interest rates and / or foreign exchange be considered reasonable costs for new debt issues in the 2028 to 2032 rate period.

Witness: Kevin Dickinson

2.0 HYDRO ONE INC. CREDIT RATINGS

Maintaining credit ratings is a requirement for Hydro One Inc. to access and issue medium term notes in either the Canadian or the US public debt markets. Table 1 lists the credit ratings of Hydro One Inc.'s debt obligations by S&P Global Ratings Services (S&P), DBRS Limited (DBRS), and Moody's Investors Service (Moody's):

Table 1 - Credit Ratings for Hydro One Inc.

Rating Agency	Short-term Debt	Long-term Debt
S&P	A-1(mid)	A
DBRS	R-1(low)	A(high)
Moody's	Prime-2	A3

The most recent rating agency reports are provided in Exhibit F-01-05 Attachments 1-3 and discussion of credit ratings and their role in capital markets is discussed in Exhibit F-01-01, Attachment 2 (pp. 7-19 of 42).

3.0 HYDRO ONE TRANSMISSION AND DISTRIBUTION COST OF LONG-TERM DEBT

The long-term debt cost rates for Transmission and Distribution are calculated as the weighted average cost on embedded debt, new debt (debt issued after the last OEB-approved rate application), forecasted debt planned to be issued up to 2032 and Treasury OM&A costs and other financing-related fees forecasted to be incurred in 2026 to 2032. The weighted average rates on long-term debt for both Transmission and Distribution for each year are listed below in Table 2. Details of Hydro One's Transmission and Distribution long-term debt cost rate calculations for the 2026 and 2027 bridge years and 2028-2032 test years are provided in Exhibit F-01-04.

Table 2 - Weighted Average Long-Term Debt Cost Rates

	2026	2027	2028	2029	2030	2031	2032
Transmission	4.46%	4.48%	4.52%	4.57%	4.61%	4.70%	4.76%
Distribution	4.42%	4.47%	4.51%	4.57%	4.62%	4.70%	4.75%

The amount of each Hydro One Inc. debt issue that is allocated to the Transmission and Distribution businesses is based on the most recent forecast of borrowing requirements

for each of the businesses. Differences in the annual borrowing requirements for each of the Transmission and Distribution businesses have led to different weighted average long-term debt rates. Borrowing requirements for both businesses are driven mainly by debt repayments, capital expenditures net of internally generated funds, and the maintenance of each business's capital structure. For example, in addition to the USD issuance mentioned above, in November 2025, Hydro One Inc. issued $1,200M of 8-year notes with a 3.90% coupon rate. Hydro One Transmission was allocated $732M as shown on line 55 of Exhibit F-01-04, page 17. Hydro One Distribution was allocated $468M, as shown on line 55 of Exhibit F-01-04, page 5. The coupon rates for debt issues allocated to the Transmission and Distribution businesses, as shown in Exhibit F-01-04, are equal to the actual interest rates on debt issued by Hydro One Networks Inc. to Hydro One Inc., which is the same as the actual interest rates on debt issued by Hydro One Inc. to third-party public debt investors.

3.1 HYDRO ONE TRANSMISSION AND DISTRIBUTION EMBEDDED DEBT

The Board determined in its *2006 Cost of Capital Report* (page 13), and maintained in the recent Generic CoC Decision that, for embedded debt, the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt.

Hydro One Transmission's embedded long-term debt, which was issued during the period from 2000 to 2022, is shown on lines 1 to 43 of Exhibit F-01-04, page 14. The effective interest rates on these embedded debt issues were approved by the Board as part of EB-2021-0110.

Hydro One Distribution's embedded long-term debt, which was issued during the period from 2000 to 2022 is shown on lines 1 to 43 of Exhibit F-01-04, page 2. The effective interest rates on these embedded debt issues were approved by the Board as part of EB-2021-0110.

3.2 HYDRO ONE TRANSMISSION AND DISTRIBUTION NEW DEBT

The Board determined in its *2006 Cost of Capital Report* (page 13), and maintained in the recent Generic CoC Decision, that the rate for new debt that is held by a third-party public debt investor will be the prudently negotiated contract rate. This would include recognition of premiums and discounts.

Since the last Transmission rate filing (EB-2021-0110), Hydro One Transmission's new long-term debt, which was issued during the period from 2023 to 2026 up to filing, is shown on lines 38 to 54 of Exhibit F-01-04, page 18.

Since the last Distribution rate filing (EB-2021-0110), Hydro One Distribution's new long-term debt, which was issued during the period from 2023 to 2026 up to filing, is shown on lines 38 to 54 of Exhibit F-01-04, page 6.

3.3 HYDRO ONE TRANSMISSION AND DISTRIBUTION FORECAST DEBT

Hydro One's forecast Transmission and Distribution borrowing requirements for each test year are equally distributed amongst the 5-, 10- and 30-year terms, as shown in Table 3 below. The coupon interest rates for both Transmission and Distribution are derived in Section 3.4.

Table 3 lists the fixed rate debt that Hydro One Transmission plans to issue in 2026 to 2032 as shown in lines 45 to 64 of Exhibit F-01-04, page 24.

Table 3 - Forecast Transmission Debt Allocation for 2026 to 2032

Year	Principal Amount ($M)	Term (Years)	Coupon
2026	1099.8*	5	3.835%
	150.1	10	4.421%
	150.1	30	5.173%
2027	333.3	5	3.943%
	333.3	10	4.721%
	333.3	30	5.473%
2028	550.0	5	3.943%
	550.0	10	4.721%
	550.0	30	5.473%
2029	550.0	5	3.943%
	550.0	10	4.721%
	550.0	30	5.473%
2030	600.0	5	3.943%
	600.0	10	4.721%
	600.0	30	5.473%
2031	700.0	5	4.043%
	700.0	10	4.821%
	700.0	30	5.573%
2032	700.0	5	4.043%
	700.0	10	4.821%
	700.0	30	5.573%

**USD 5-year note issued on May 26, 2026, principal amount ($CAD) allocated to Transmission*

Table 4 lists the fixed rate debt that Hydro One Distribution plans to issue in 2026 to 2032 as shown in lines 45 to 64 of Exhibit F-01-04, page 12.

Table 4 - Forecast Distribution Debt Allocation for 2026 to 2032

Year	Principal Amount ($M)	Term (Years)	Coupon
2026	274.9*	5	3.835%
	37.5	10	4.421%
	37.5	30	5.173%
2027	333.3	5	3.943%
	333.3	10	4.721%
	333.3	30	5.473%
2028	366.7	5	3.943%
	366.7	10	4.721%
	366.7	30	5.473%
2029	366.7	5	3.943%
	366.7	10	4.721%
	366.7	30	5.473%
2030	400.0	5	3.943%
	400.0	10	4.721%
	400.0	30	5.473%
2031	466.7	5	4.043%
	466.7	10	4.821%
	466.7	30	5.573%
2032	466.7	5	4.043%
	466.7	10	4.821%
	466.7	30	5.573%

**USD 5-year note issued on May 26, 2026, principal amount ($CAD) allocated to Distribution*

3.4 HYDRO ONE TRANSMISSION AND DISTRIBUTION COUPON RATES FOR 2026, 2027 AND 2028 FORECAST DEBT ISSUES

Transmission and Distribution business borrowing will be financed at market rates applicable to Hydro One Inc. As an example, Tables 5, 6 and 7 summarize the derivation of the forecast Hydro One Inc. coupon rates for both Transmission and Distribution for each of the planned issuance terms in 2026 to 2032.

Table 5 - Forecast Coupon Rates (%) for 2026 to 2032 5-Year Term

	2026	2027	2028	2029	2030	2031	2032
Government of Canada Yield	N/A	3.15%	3.15%	3.15%	3.15%	3.25%	3.25%
Hydro One Credit Spread		0.79%	0.79%	0.79%	0.79%	0.79%	0.79%
Hydro One Coupon Rate		3.94%	3.94%	3.94%	3.94%	4.04%	4.04%

Table 6 - Forecast Coupon Rates (%) for 2026 to 2032 10-Year Term

	2026	2027	2028	2029	2030	2031	2032
Government of Canada Yield	3.30%	3.60%	3.60%	3.60%	3.60%	3.70%	3.70%
Hydro One Credit Spread	1.12%	1.12%	1.12%	1.12%	1.12%	1.12%	1.12%
Hydro One Coupon Rate	4.42%	4.72%	4.72%	4.72%	4.72%	4.82%	4.82%

Table 7 - Forecast Coupon Rates (%) for 2026 to 2032 30-Year Term

	2026	2027	2028	2029	2030	2031	2032
Government of Canada Yield	3.75%	4.05%	4.05%	4.05%	4.05%	4.15%	4.15%
Hydro One Credit Spread	1.42%	1.42%	1.42%	1.42%	1.42%	1.42%	1.42%
Hydro One Coupon Rate	5.17%	5.47%	5.47%	5.47%	5.47%	5.57%	5.57%

Each Hydro One coupon rate is comprised of the forecast Government of Canada bond yield plus the Hydro One Inc. credit spread applicable to that term. The ten-year Government of Canada bond yield forecast for 2026 is based on the average of the three-month and 12-month forecast from the Consensus Forecasts[1]. The ten-year Government of Canada bond yield forecast for 2027 to 2032 is based on the Consensus Forecasts. The five-year Government of Canada bond yield forecasts are derived by subtracting the average spread between the five-year and ten-year Government of Canada bond yield for September 2025 from the ten-year Government of Canada bond yield forecast. Similarly, the thirty-year Government of Canada bond yield forecasts are derived by adding the average spread between the 30-year and ten-year Government of Canada bond yield for September 2025 to the ten-year Government of Canada bond yield forecast.

[1] In this section, Consensus Forecasts refers to October 2025 Long-Term Forecast

Table 8 - Government of Canada Bond Yield Derivation (%) for 2028

	2028
Five-year Government of Canada bond yield	3.15%
Average spread between the Five-year and Ten-year Government of Canada bond yields	0.45%
Ten-year Government of Canada bond yield forecast	3.60%
Average spread between the Ten-year to Thirty-year Government of Canada bond yields	0.45%
Thirty-year Government of Canada bond yield	4.05%

Hydro One's credit spreads over the Government of Canada bonds are based on the average of indicative new issue spreads for September 2020 to September 2025 obtained from the Company's MTN dealer group for each planned issuance term. A five-year historical average was used to reflect changes in credit spreads across varying market conditions. The forecast Hydro One Inc. credit spreads assume no changes to the current credit ratings over the 2028 to 2032 period. If credit ratings deteriorate, credit spreads and ultimately interest rates borne by electricity customers would be higher.

Hydro One assumes that, for rates effective January 1, 2028, the forecast interest rate for Hydro One Transmission and Distribution debt issues will be based on the Consensus October 2027 Long-term Forecast and the average of indicative new issue spreads for September 2022 to September 2027 that will be obtained from the Company's MTN dealer group for each planned issuance term. In addition, Hydro One assumes that long-term interest rates will be updated to reflect the actual issuances of debt since the time of the original application and up to the Draft Rate Order, consistent with the OEB's Decision on Hydro One Transmission and Distribution's 2023 to 2027 rate application in EB-2021-0110, and changes in the interest rate forecast.

3.5 HYDRO ONE TRANSMISSION AND DISTRIBUTION TREASURY OM&A COSTS

Treasury OM&A costs are incurred to:

- execute borrowing plans and issue short-term commercial paper and long-term debt;
- ensure compliance with securities regulations, bank and debt covenants;

- manage Hydro One's daily liquidity position, control cash, and manage the company's bank accounts;
- settle all transactions and manage relationships with creditors; and
- communicate with debt investors, banks and credit rating agencies.

Treasury OM&A costs for Transmission are provided in the long-term debt schedules for the 2026-2032 in Exhibit F-01-04 and are summarized in Table 8:

Table 8 - Forecast Transmission Treasury OM&A Costs

Year	Amount ($M)	Line	Page
2026	1.9	58	18
2027	1.9	60	19
2028	2.2	63	20
2029	2.3	65	21
2030	2.4	65	22
2031	2.5	66	23
2032	2.5	66	24

Treasury OM&A costs for Distribution are provided in the long-term debt schedules for the 2026 to 2032 in Exhibit F-01-04 and are summarized in Table 9:

Table 9 - Forecast Distribution Treasury OM&A Costs

Year	Amount ($M)	Line	Page
2026	1.2	58	6
2027	1.3	60	7
2028	1.5	63	8
2029	1.5	65	9
2030	1.6	65	10
2031	1.7	66	11
2032	1.7	66	12

3.6 HYDRO ONE TRANSMISSION AND DISTRIBUTION OTHER FINANCING-RELATED FEES

Column (f) of Exhibit F-01-04 (Premium, Discount and Expenses) presents the costs of issuing debt. These costs are specific to each debt issue and include commissions, legal fees, debt discounts or premiums on issues or re-openings of issues relative to par, and

hedge gains or losses. Other financing-related fees include the Transmission and Distribution allocations of Hydro One Inc.'s standby credit facility, annual credit rating agency fees, filing fees to security regulators, letter of credit, banking, custodial and trustee fees.

The forecasted increase in other financing-related fees in this Custom IR period compared to the previously approved 2023 to 2027 period is mainly driven by an increase in debt financing requirements to fund the elevated capital spending program. Hydro One Inc.'s standby credit facility and credit rating agency fees make up a large portion of the overall financing-related fees and are directly correlated to the increase in debt financing during the period.

The amounts of these fees for Transmission are summarized in Table 10 below and are also provided in the long-term debt schedules for the bridge and test years in Exhibit F-01-04:

Table 10 - Forecast Transmission Other Financing-Related Fees

Year	Amount ($M)	Line	Page
2026	6.8	59	18
2027	7.5	61	19
2028	9.5	64	20
2029	10.0	66	21
2030	10.4	66	22
2031	11.1	67	23
2032	11.3	67	24

The amounts of these fees for Distribution are summarized in Table 11 below and are also provided in the long-term debt schedules for the bridge and test years in Exhibit F-01-04:

Table 11 - Forecast Distribution Other Financing-Related Fees

Year	Amount ($M)	Line	Page
2026	4.5	59	6
2027	5.0	61	7
2028	6.4	64	8
2029	6.6	66	9
2030	6.9	66	10
2031	7.4	67	11
2032	7.6	67	12

DEBT AND EQUITY SUMMARY

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COST OF LONG-TERM DEBT CAPITAL

This exhibit has been filed separately in MS Excel format.

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RATING AGENCY REPORTS

This Exhibit includes copies of the most recent Hydro One Inc. rating agency reports performed by Moody's Investor Service, S&P Global Ratings and DBRS Limited.

- Attachment 1A: Moody's Ratings, Announcement of Periodic Review, dated: July 27, 2026
- Attachment 1B: Moody's Ratings, Credit Opinion, dated: November 7, 2025
- Attachment 2: S&P Global Ratings Research, Tear Sheet, dated: September 17, 2026
- Attachment 3: DBRS Limited Credit Rating Report, dated: November 13, 2025

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MOODY'S
RATINGS

Announcement of Periodic Review: Moody's Ratings announces completion of a periodic review of ratings of Hydro One Inc.

27 Jul 2026

Toronto, July 27, 2026 -- Moody's Ratings (Moody's) has completed a periodic review of the ratings of Hydro One Inc. and other ratings that are associated with this issuer.

The review was conducted through a rating committee held on 23 July 2026 in which we reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), and recent developments.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Please see the Issuer page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key Rating considerations and rationale are summarized below.

Hydro One Inc.'s (HOI) ratings, including its A3 senior unsecured rating, and stable outlook reflect its baseline credit assessment (BCA) of baa1 with a one notch uplift attributable to the moderate probability of extraordinary support from the Province of Ontario (Aa3 stable), which indirectly owns 47.1% of the company. HOI's ratings are analyzed under our Regulated Electric and Gas Utilities rating methodology, and reflects the regulated nature of its operations and its low business risk profile as an electric transmission and distribution (T&D) utility. The utility's rate base consists of roughly 62% transmission and 38% distribution assets, and it operates within a credit supportive regulatory environment under the purview of the Ontario Energy Board (OEB).

We expect HOI's cash flow generation to continue to be predictable and the company to maintain a stable financial profile, including a ratio of cash flow from operations before changes in working capital (CFO-Pre W/C) to debt of 12-14% over the next few years. These relatively weak financial metrics reflect its low authorized equity layer (currently 40%) in the capital structure that is established by the OEB, as well as low depreciation rates that are a function of its long-life T&D assets.

This document summarizes our view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodologies used for this review were Regulated Electric and Gas Utilities published in August 2024 and Government-related Issuers published in May 2025. Please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

This announcement applies only to EU rated, UK rated, EU endorsed and UK endorsed ratings. Non-EU rated, non-UK rated, non-EU endorsed and non-UK endorsed ratings may be referenced herein to the extent necessary, if they are part of the same organization list.

This publication does not announce a credit rating action. For any credit ratings referenced in this

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Filed: 2026-10-07
EB-2026-0164
Exhibit F-1-5
Attachment 1B
Page 1 of 14

CREDIT OPINION
7 November 2025

Update

Send Your Feedback

RATINGS

Hydro One Inc.

Domicile	Toronto, Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Hydro One Inc.

Update to credit analysis

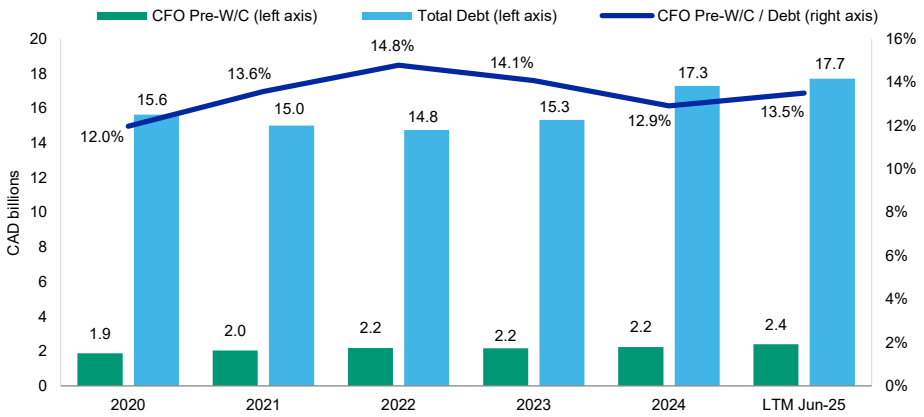
Summary

Hydro One Inc.'s (HOI, A3 stable) credit profile reflects its baseline credit assessment (BCA) of baa1 with a one notch uplift attributable to the moderate probability of extraordinary support from the Province of Ontario (Aa3 stable), which indirectly owns 47.1% of HOI. HOI's credit quality is analyzed under our Regulated Electric and Gas Utilities rating methodology, and reflects the regulated nature of its operations and its low business risk profile. The utility's rate base consists of roughly 62% transmission and 38% distribution assets, and it benefits from a credit supportive regulatory environment under the Ontario Energy Board (OEB).

We expect cash flow from operations to continue to be predictable, and forecast cash flow from operations before changes in working capital (CFO-pre) WC to debt of 11-13% over the next few years, slightly lower than recent years as the benefits from a favorable tax decision have largely expired. These relatively weaker financial metrics are primarily the result of its low authorized equity layer in the capital structure (currently 40%) that is established by the Ontario Energy Board (OEB), as well as low depreciation rates that are a function of long-life transmission and distribution (T&D) assets.

Exhibit 1

Historical CFO Pre-W/C, Total Debt and CFO Pre-W/C to Debt



All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Credit strengths

» Supportive regulatory environment

» Stable, predictable cash flow

» Moderate probability of extraordinary support from the Province

Credit challenges

» Weak financial metrics driven by low authorized equity capital

» Incentive rate regulation marginally increasing risk

Rating outlook

The stable outlook reflects the company's favorable regulatory framework and our expectation of weak but consistent financial metrics including CFO pre-WC to debt in the 11-13% range.

Factors that could lead to an upgrade

» Key financial metrics increase, including CFO pre-WC to debt sustained above 14%

» An improvement in regulatory outcomes

» A strengthening of the relationship with the Province

Factors that could lead to a downgrade

» Key financial metrics decline, including CFO/debt sustained below 11%

» A deterioration in regulatory outcomes

» A lower probability of extraordinary support from the Province

Key indicators

Exhibit 2

Hydro One Inc.

	2020	2021	2022	2023	2024	LTM Jun-25
CFO Pre-W/C + Interest / Interest	4.5x	4.8x	5.0x	4.5x	4.3x	4.4x
CFO Pre-W/C / Debt	12.0%	13.6%	14.8%	14.1%	12.9%	13.5%
CFO Pre-W/C – Dividends / Debt	8.1%	9.4%	10.3%	9.5%	8.5%	9.0%
Debt / Capitalization	58.9%	56.5%	54.5%	54.0%	55.6%	55.3%

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Source: Moody's Financial Metrics™

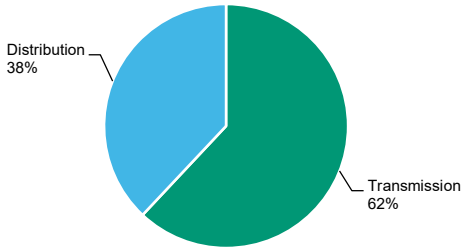
Profile

HOI is an electricity T&D company 47.1% indirectly owned by the Province of Ontario. Hydro One Limited (HOL) is the publicly traded vehicle that owns 100% of HOI. In the past, HOI has had its rates set by the OEB under cost of service and inflation based frameworks. Currently, both segments have rates set using incentive rate frameworks. The transmission business owns and operates virtually all of Ontario's electricity transmission system and represented 60% of HOI's total assets of around CAD38 billion as of 30 June 2025. The distribution business serves about 1.5 million customers and owns a substantial portion of the province's electricity distribution system representing 39% of HOI's total assets with other assets contributing the remaining 1%.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

HOI began operations in 1999, pursuant to the Electricity Act 1998, when the former Ontario Hydro was restructured into five entities: Ontario Power Generation Inc. (OPG, A3 stable), the Independent Electricity System Operator (IESO, Aa3 stable), Ontario Electricity Financial Corporation (OEFC, Aa3 stable), the Electricity Safety Authority and HOI. The Province does not guarantee HOI's debt obligations.

Exhibit 3
HOI's $26.5 billion 2024 rate base by segment



Source: Company filings

Detailed credit considerations

Supportive regulatory environment

The supportive Ontario regulatory environment is a key driver of HOI's credit quality. We expect the regulatory environment to remain relatively transparent, predictable and broadly credit supportive, with legislative and judicial underpinnings that are well developed and we expect them to remain unchanged. HOI has a monopoly position and inherently low business risk as a transmission and distribution (T&D) business compared to the elevated price, volume, operational and environmental risks typically associated with generation activities. HOI does not have any supply obligations.

The company does not have any direct commodity risk exposure since commodity costs are a pass through for the distribution business, although it recovers those costs over a period of as long as two years, a credit negative. However, it does have some modest exposure to volume risk that is typically driven by weather variability and the underlying performance of the economies in its service territories. The distribution business is moving towards full decoupling of its residential customers and the vast majority pay a fixed rate that will cover distribution costs plus a volumetric charge for power consumed.

In Q4 2022, HOI filed a settlement that was subsequently approved by the OEB for new rates effective 1 Jan 2023. The settlement and subsequent decision and rate order cover the period 1 Jan 2023 to 31 Dec 2027. This represents the first time the company has filed a joint rate application for both the distribution and transmission businesses. The company expects to file its next rate application in the fall of 2026.

Under the terms of the settlement, rate making takes the form of custom incentive rate regulation using 2023 as a forward test year. Rates in subsequent years are based on a revenue cap approach. Key drivers of changes in the revenue cap include inflation ("I"), a productivity factor ("X") and a capital factor ("C"). The underlying drivers for each of I, X and C differ somewhat between transmission and distribution companies as shown in the tables below. For example, the OEB has determined that the inflation factors differ between the businesses, and both segments have different operating cost drivers as well as capital programs, which also drive differences between the segments. We see the potential for increased cash flow volatility in the latter years with incentive rate regulation compared to a cost of service regulatory model with frequent rate resets. The company has operated under either incentive rate or cost of service regulation over the past decade although this is the first time both the transmission and distribution businesses have been part of the same rate case.

Exhibit 4
Transmission Revenue requirement

	2023	2024	2025	2026	2027
Inflation Factor (I)		5.40%	3.70%	3.50%	3.80%
Productivity Factor (X)		-0.15%	-0.15%	-0.15%	-0.15%
Capital Factor (C)		1.27%	1.01%	1.61%	0.08%
Custom Revenue Cap Total Index		6.52%	4.56%	4.96%	3.73%
Revenue Requirement (CAD millions)	1,952	2,080	2,175	2,283	2,362
Approved Rate Base (CAD millions)	14,534	15,342	16,271	17,149	17,940

Sources: OEB and Company filings

Exhibit 5
Distribution Revenue requirement

	2023	2024	2025	2026	2027
Inflation Factor (I)		4.80%	3.60%	3.70%	3.70%
Productivity Factor (X)		-0.45%	-0.45%	-0.45%	-0.45%
Capital Factor (C)		1.01%	0.85%	1.96%	1.12%
Custom Revenue Cap Total Index		5.36%	4.00%	5.21%	4.37%
Revenue Requirement (CAD millions)	1,727	1,820	1,893	1,985	2,071
Approved Rate Base (CAD millions)	9,460	9,979	10,573	11,153	11,656

Sources: OEB and Company filings

Significantly, the I and C factors in the tables above are placeholders that are adjusted annually for inflation, providing inflation protection during the term covered by the rate order. In addition, the decision also contains an earnings sharing mechanism that has a 100 bps deadband around the allowed return on equity (ROE). The company shares the excess in performance above that level with customers on a 50/50 basis and has no downside performance sharing. Any earnings sharing mechanism balances for the period 2021-2024 will be adjusted in the annual update for 2026 rates. The company continues to have a Z-factor which gives it the ability to request recovery of material costs associated with unforeseen events that are beyond its ability to effectively manage. The company has filed a Z-factor application to recover about CAD225 million in costs associated with a March 2025 ice storm that led to 600,000 customer outages with some lasting more than a week.

Stable, predictable cash flow but weaker financial metrics

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of HOI's rate base, its deemed capital structure of 40% equity and its allowed ROE currently set at 9.36% for transmission and distribution, all figures that are established by the regulator. HOI's 9.36% ROE is fixed for the period 2024-2027. In March 2025, the OEB published an update to its cost of capital parameters used for rate setting. It left the deemed capital structure unchanged at 40% equity and 60% debt and modified the ROE calculation. The OEB has also left the door open to utilities to argue for a higher ROE than suggested by the formula.

We have assumed that the company continues to perform broadly in line with the levels established by the regulator and forecast CFO pre-WC to debt in the 11-13% range. Financial metrics exceeded this range over the period 2021-2023 primarily based on tax recoveries (discussed below) although we do not expect any significant outperformance above this range to be sustained given the narrow window associated with tax recoveries that has come to an end. We expect the company to continue to pursue acquisitions

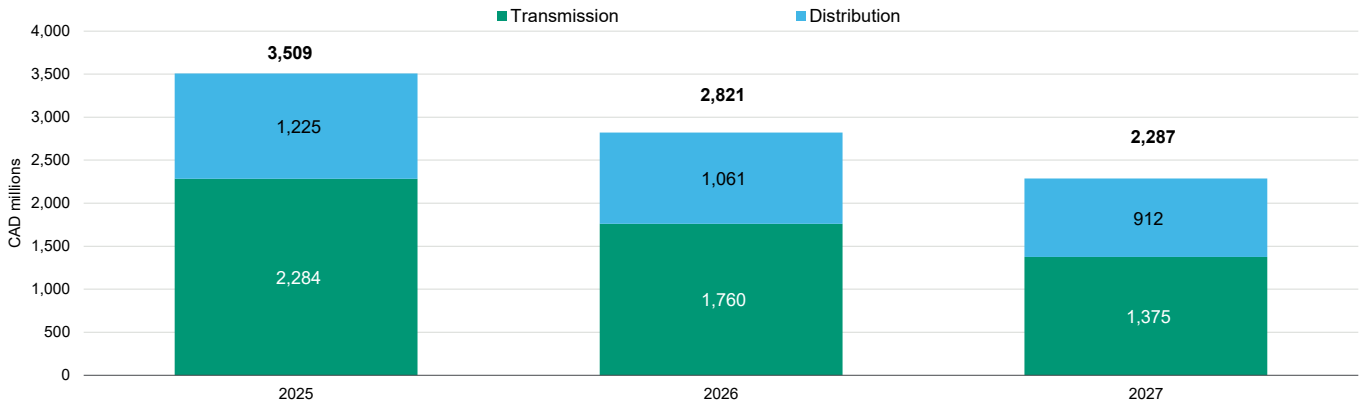
of electricity distribution companies in Ontario, but believe that any acquisitions will be small relative to HOI and have only a modest impact on credit quality.

On 16 July 2020, the company received a favorable decision from the Ontario Divisional Court resolving an ongoing dispute relating to sharing a tax asset with customers that stemmed from the company's IPO in 2015. This led to an income tax recovery during 2020 of CAD783 million compared to an income tax expense of CAD51 million during 2019. On April 8, 2021, a subsequent OEB decision allowed the company to recover the tax benefits shared with customers since 2017, resulting in recoveries of approximately CAD257 million (CAD165 million transmission and CAD95 million distribution) over a 2 year period. This recovery led to increased cashflow of CAD65 million, CAD135 million and CAD65 million during the years 2021, 2022 and 2023, respectively. Rates were adjusted on a prospective basis to eliminate sharing with customers, and this led to an increase in cash flow of CAD50 million per annum starting in 2022 that gradually declines over time.

HOI continues to move forward with a large capital program of about CAD8.6 billion over the period 2025-2027, with about CAD5.4 billion of investment in transmission and about CAD3.2 billion in the distribution business. However this does not include capital investments associated with 7 transmission line projects or the March 2025 ice storm. Both business segments benefit from a capital factor rate adjustment that provides cash flow support to the capital program between rate cases. In the absence of the capital factor, financial metrics would be much weaker as capital expenditures are more than double annual depreciation. The capital investment program generally consists of a series of smaller projects and the company is not exposed to material execution risk that is often associated with larger, more complex projects. However the company is proceeding with a series of transmission line and station expansions which will likely consist of a series of projects with a larger capital spend than typical projects undertaken by the company. The company expects to sell a stake in the transmission line portion of these projects to First Nations partners once they are complete. The company completed the Chatham to Lakeshore Transmission Line Project in December 2024, and has sold a 20% interest to two First Nations partners and expects to sell a further 30%. The figures in the table below are consistent with the company's rate case. However, they under-represent the size of the capital program since they do not include the 7 transmission line projects or costs associated with the March 2025 ice storm.

Exhibit 6

Projected capital expenses by segment



Source: Company filings

Relationship with and support from the Province of Ontario

We expect Hydro One and its parent Hydro One Limited (unrated) to continue to maintain their long-term focus on doing business in the Province of Ontario, which is a key consideration in our determination that Hydro One is a Government Related Issuer (GRI).

In accordance with Moody's GRI methodology, HOI's A3 rating reflects the following:

» Aa3/stable local currency rating of the Province of Ontario.

» Very high default dependence as a result of HOI and the Province deriving the vast majority of their revenues from within the government's territory and sharing some political risks.

» Moderate probability of extraordinary support from the Province reflecting the strategic importance of HOI to the provincial economy as an essential service provider and the current 47.1% indirect ownership interest that the Province has in HOI.

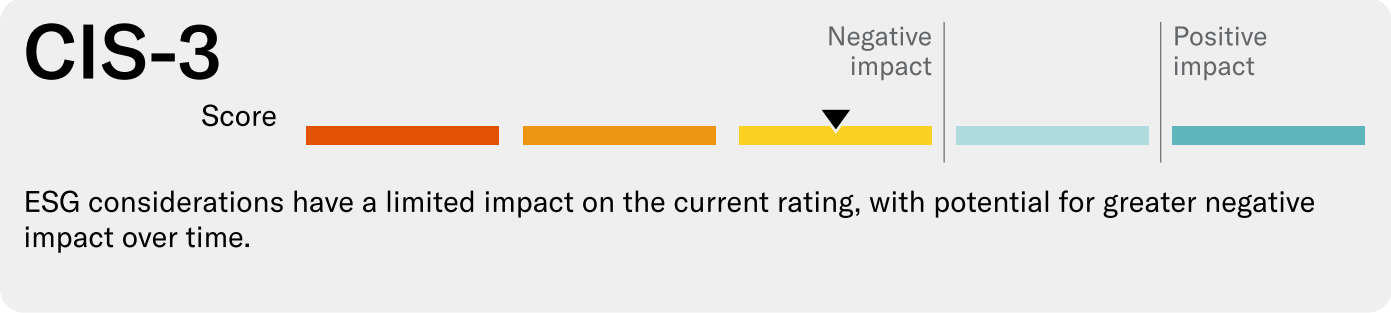
We generally expect HOI to operate in a manner consistent with investor owned utilities and unlike many government owned utilities in other provinces. Nonetheless, we believe the Province will continue to have effective control over HOI. For example, the Province exercised this control when it removed the board and CEO of HOI and HOL in July 2018. Following HOL's partial privatization in 2015, although the Province reduced its stake to 47.1%, it is required by legislation to maintain a 40% equity interest in HOL. In addition, limitations have been placed on other shareholders that restrict their equity interest in HOL to less than 10%. HOI is restricted from selling a large portion of its regulated transmission or distribution business and will continue to be regulated by the OEB.

Mitigating its control somewhat, the government has implemented a predefined set of criteria to promote an independent, professional board with relevant expertise and a commercial orientation. These changes have been made in a stated attempt to improve the efficiency of HOI and they also reduce the government ties to the company. HOL has CAD425 million of term debt outstanding and its own CAD250 million committed credit facility that is typically undrawn and expires in June 2030. HOL's credit profile does not constrain the credit profile of HOI.

ESG considerations

Hydro One Inc.'s ESG credit impact score is CIS-3

Exhibit 7
ESG credit impact score



Source: Moody's Ratings

HOI's **CIS-3** indicates that ESG considerations have a limited impact on the current rating, with potential for greater impact over time. The primary drivers of ESG risk are exposure to physical climate risks and demographic and social trends as they relate to affordability issues.

Exhibit 8
ESG issuer profile scores



Source: Moody's Ratings

Environmental

HOI's **E-3** score reflects exposure to physical climate risks mostly in the form of extreme weather patterns which represents a challenge for the sector.

Social

HOI's **S-3** score reflects the higher risk to demographics and societal trends owing to a risk that public concern over environmental, social or affordability issues could lead to adverse regulatory or political intervention, a common theme in the sector.

Governance

G-2. The influence of governance is neutral to low and is broadly in line with other utilities. Unlike many peers, the company has some exposure to board structure owing to the ability of the government to change the board at its discretion as it has once in the past. This is offset by predictable financial policy, established financial strategy and management's credibility and track record.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

HOI has an adequate liquidity profile because it has strong access to debt capital markets, and we generally expect it to refinance its debt maturities in timely manner. HOI's liquidity is also supported by its internally generated cash flow and available credit facilities.

HOI's sources of capital include estimated operating cash flow of around CAD2.5 billion over the next 12 months and about CAD3.1 billion of total syndicated committed facilities (approximately CAD1.7 billion available as of 30 June 2025). HOI's facilities expire in June 2030 and backstop its commercial paper program which had approximately CAD1.4 billion outstanding at 30 June 2025.

HOI and HOL have a single financial covenant requiring that they maintain a debt to capitalization ratio of no more than 75%. As of 31 March 2025, both companies were in compliance. HOI's credit facility has an affirmative covenant that requires the company to provide lenders notice of a material adverse change but it does not prohibit drawings under the facility.

HOI also had cash of CAD48 million on 30 June 2025. We expect HOI to spend around CAD3.8 billion in capital expenditures and pay dividends of about CAD800 million over the next 12 months. We expect HOI to refinance its upcoming debt maturities as well as issue additional debt on an ongoing basis to cover any shortfalls in cash requirements.

Methodology and scorecard

We use our global Regulated Electric and Gas Utilities rating methodology as the primary methodology for analysing Hydro One Inc.

Exhibit 9

Rating factors

Hydro One Inc.

Regulated Electric and Gas Utilities Industry Scorecard	Current LTM Jun-25		Moody's 12-18 month forward view	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.4x	Baa	3.5x - 4.5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	13.8%	Baa	11.0% - 13.0%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	9.3%	Baa	7.0% - 9.0%	Baa
d) Debt / Capitalization (3 Year Avg)	54.5%	Baa	55.0% - 60.0%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned				A3
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	baa1			
b) Government Local Currency Rating	Aa3			
c) Default Dependence	Very High			
d) Support	Moderate			
e) Actual Rating Assigned	A3			

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 10

Peer comparison

Hydro One Inc.

	Hydro One Inc. A3 Stable			FortisAlberta Inc. Baa1 Stable			FortisBC Inc. Baa1 Stable			Newfoundland Power Inc. Baa1 Negative		
	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM
(in CAD millions)	Dec-23	Dec-24	Jun-25	Dec-23	Dec-24	Jun-25	Dec-23	Dec-24	Jun-25	Dec-23	Dec-24	Jun-25
Revenue	7,799	8,447	8,723	814	901	909	513	527	538	774	789	802
CFO Pre-W/C	2,160	2,235	2,395	419	461	463	120	135	143	99	86	106
Total Debt	15,329	17,309	17,723	2,765	2,939	3,060	1,329	1,344	1,396	782	803	842
CFO Pre-W/C + Interest / Interest	4.5x	4.3x	4.4x	4.3x	4.4x	4.4x	2.5x	2.7x	2.8x	3.6x	3.0x	3.5x
CFO Pre-W/C / Debt	14.1%	12.9%	13.5%	15.2%	15.7%	15.1%	9.0%	10.0%	10.2%	12.6%	10.8%	12.6%
CFO Pre-W/C – Dividends / Debt	9.5%	8.5%	9.0%	11.4%	11.8%	11.2%	5.2%	6.0%	6.2%	11.7%	10.8%	12.6%
Debt / Capitalization	54.0%	55.6%	55.3%	55.8%	55.8%	56.5%	52.4%	51.4%	52.0%	49.6%	48.2%	48.1%

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 11

Moody's–adjusted cash flow reconciliation

Hydro One Inc.

(in CAD millions)	2020	2021	2022	2023	2024	LTM Jun-25
FFO	**1,799.0**	**1,990.7**	**2,136.7**	**2,090.8**	**2,215.4**	**2,393.5**
+/- Other	75.0	48.0	48.0	69.0	20.0	1.0
CFO Pre-WC	**1,874.0**	**2,038.7**	**2,184.7**	**2,159.8**	**2,235.4**	**2,394.5**
+/- ΔWC	84.0	21.0	(54.0)	131.0	283.0	(43.0)
CFO	**1,958.0**	**2,059.7**	**2,130.7**	**2,290.8**	**2,518.4**	**2,351.5**
- Div	610.0	628.0	662.0	703.0	763.0	795.0
- Capex	1,796.0	2,001.7	2,007.7	2,606.8	3,038.4	3,043.5
FCF	**(448.0)**	**(570.0)**	**(539.0)**	**(1,019.0)**	**(1,283.0)**	**(1,487.0)**
(CFO Pre-W/C) / Debt	12.0%	13.6%	14.8%	14.1%	12.9%	13.5%
(CFO Pre-W/C - Dividends) / Debt	8.1%	9.4%	10.3%	9.5%	8.5%	9.0%
Debt / Capitalization	58.9%	56.5%	54.5%	54.0%	55.6%	55.3%
(FFO + Interest) / Interest	4.3x	4.7x	4.9x	4.4x	4.2x	4.4x
Revenue	7,250.0	7,185.0	7,740.0	7,799.0	8,447.0	8,723.0
Interest Expense	538.6	536.6	551.4	618.2	686.6	710.5
Net Income	1,674.6	856.7	862.0	898.7	968.2	1,041.8
Total Assets	30,084.0	30,161.0	31,227.0	32,636.0	36,509.0	37,634.0
Total Liabilities	19,318.7	19,039.8	19,680.5	20,707.2	24,181.4	25,003.4
Total Equity	10,765.3	11,121.2	11,546.5	11,928.8	12,327.6	12,630.6

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 12

Moody's–adjusted debt reconciliation

Hydro One Inc.

(in CAD millions)	2020	2021	2022	2023	2024	LTM Jun-25
As reported debt	**13,908.0**	**14,241.0**	**14,713.0**	**15,282.0**	**17,255.0**	**17,676.0**
Pensions	1,660.0	713.0	-	-	-	-
Operating Leases	76.0	56.0	53.0	47.0	54.0	47.0
Moody's – adjusted debt	**15,644.0**	**15,010.0**	**14,766.0**	**15,329.0**	**17,309.0**	**17,723.0**

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 13

Moody's–adjusted EBITDA reconciliation

Hydro One Inc.

(in CAD millions)	2020	2021	2022	2023	2024	LTM Jun-25
As reported EBITDA	**2,249.0**	**2,418.0**	**2,679.0**	**2,686.0**	**2,878.0**	**3,054.0**
Pensions	(69.0)	(46.0)	(161.0)	(192.0)	(191.0)	(231.0)
Operating Leases	12.0	13.0	10.0	12.0	16.0	16.0
Moody's – adjusted EBITDA	**2,192.0**	**2,385.0**	**2,528.0**	**2,506.0**	**2,703.0**	**2,839.0**

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Ratings

Exhibit 14

Category	Moody's Rating
HYDRO ONE INC.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Commercial Paper -Dom Curr	P-2

Source: Moody's Ratings

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Tear Sheet:

Hydro One Inc. Increases Capital Spending To Support Ontario's Electricity Needs

September 17, 2026

This report does not constitute a rating action.

Hydro One Inc. (HOI) continues to increase capital spending to support Ontario's growing electricity needs. The company plans to bring 15 transmission projects online after 2027, including the Northeast Power Line (C$1.9 billion), Longwood-to-Lakeshore Transmission Line (C$1.2 billion), and Durham Kawartha Power Line (C$0.4 billion). As a result, S&P Global Ratings projects total capital investment of about C$3.7 billion in 2026 and C$4.6 billion in 2027. The higher spending primarily reflects investments to expand transmission capacity, support load growth, and improve system reliability across Ontario.

While HOI's financial measures will likely benefit from these projects coming online, we believe the elevated capital spending will require external funding and pressure credit metrics. However, we expect HOI will fund its cash flow deficits in a credit-supportive manner to maintain its credit quality.

We expect stable financial measures during the joint rate application (JRAP), although we expect Hydro One Networks Inc. (HONI) to increase capital expenditure (capex) in its next JRAP. Hydro One Ltd.'s (HOL) largest regulated utility, HONI, will file its next JRAP with the Ontario Energy Board (OEB) this fall, most likely in October. Under its JRAP, which ends in December 2027, we expect financial measures to be consistent with the high end of the significant financial risk profile category, with funds from operation (FFO) to debt of 11%-13%.

HOL has indicated equity funding in its upcoming JRAP period (2028-2032). More visibility will be provided once HONI files its JRAP and details how it plans to fund its needs. We expect HOL to continue effectively managing its regulatory risk during its upcoming JRAP.

Ratings Score Snapshot

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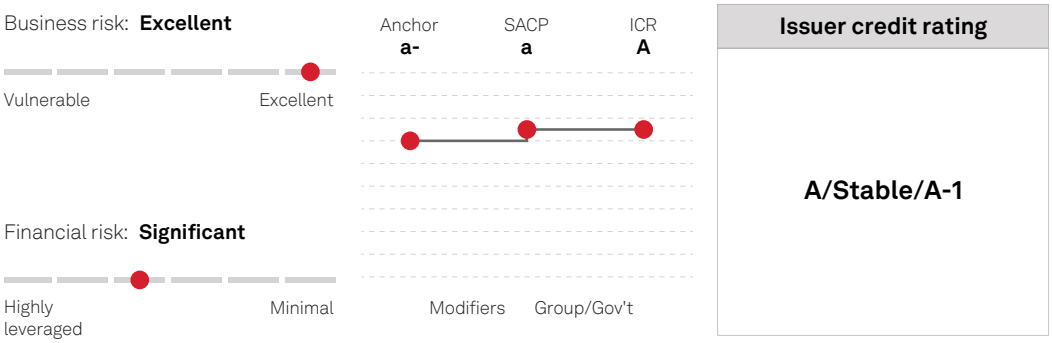

ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Company Description

HOI is an intermediate holding company of HOL and owns operating electricity transmission and distribution utilities in Ontario. Through its operating subsidiary Hydro One Networks Inc., the company owns and operates virtually all of Ontario's electricity transmission network and about 126,000 circuit kilometers of primary low-voltage distribution lines and 30,000 circuit kilometers of high-voltage transmission lines. HOI's utilities deliver electricity to about 1.5 million residential customers, as well as to industrial customers and municipal utilities, in the province.

Outlook

The stable outlook on HOI reflects our stable outlook on HOL. The stable outlook on HOL indicates our expectation that it will continue to operate without any undue influence from the government of Ontario and focus on its growing regulated operations in the province. The outlook also reflects our expectation that the company's FFO to debt will be 11%-13% through 2026.

Downside scenario

We could downgrade HOI over the next 24 months if we downgrade HOL. We could downgrade HOL if its consolidated financial measures weaken, including FFO to debt of consistently below 11%. This could occur if the company experiences adverse regulatory decisions. We could also lower our ratings if we determine that HOL's business risk has increased.

Upside scenario

Although less likely, we could raise our ratings on HOI if we raise our ratings on HOL. We could raise our ratings on HOL over the next 24 months if it improves its financial measures, including FFO to debt consistently of above 16%, without increasing its business risk.

Financial Summary

Hydro One Inc.--Financial Summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
Reporting period	2020a	2021a	2022a	2023a	2024a	2025a
Display currency (mil.)	C$	C$	C$	C$	C$	C$
Revenues	7,250	7,185	7,740	7,799	8,447	8,993
EBITDA	2,377	2,539	2,801	2,844	3,071	3,377

Hydro One Inc.--Financial Summary						
Funds from operations (FFO)	1,837	2,010	2,177	2,142	2,294	2,578
Interest expense	515	515	525	621	690	754
Cash interest paid	507	509	591	659	742	754
Operating cash flow (OCF)	1,946	2,052	2,121	2,285	2,504	2,565
Capital expenditure	1,786	1,990	1,999	2,596	3,024	3,136
Free operating cash flow (FOCF)	160	62	122	(311)	(520)	(571)
Discretionary cash flow (DCF)	(450)	(566)	(540)	(1,014)	(1,283)	(1,375)
Cash and short-term investments	712	499	458	0	690	521
Gross available cash	712	499	458	0	690	521
Debt	15,953	15,779	15,244	16,508	17,418	19,101
Common equity	10,898	11,260	11,682	12,066	12,477	13,056
Adjusted ratios						
EBITDA margin (%)	32.8	35.3	36.2	36.5	36.4	37.6
Return on capital (%)	5.8	6.1	6.4	6.2	6.9	7.3
EBITDA interest coverage (x)	4.6	4.9	5.3	4.6	4.4	4.5
FFO cash interest coverage (x)	4.6	5.0	4.7	4.2	4.1	4.4
Debt/EBITDA (x)	6.7	6.2	5.4	5.8	5.7	5.7
FFO/debt (%)	11.5	12.7	14.3	13.0	13.2	13.5
OCF/debt (%)	12.2	13.0	13.9	13.8	14.4	13.4
FOCF/debt (%)	1.0	0.4	0.8	(1.9)	(3.0)	(3.0)
DCF/debt (%)	(2.8)	(3.6)	(3.5)	(6.1)	(7.4)	(7.2)

Rating Component Scores	
Foreign currency issuer credit rating	**A/Stable/A-1**
Local currency issuer credit rating	**A/Stable/A-1**
Business risk	**Excellent**
Country risk	Very Low
Industry risk	Very Low
Competitive position	Excellent
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**a-**
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	**a**

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology , July 6, 2025
- Criteria | Corporates | General: Corporate Methodology , Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities , Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments , April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings , March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions , March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers , Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions , Nov. 19, 2013
- General Criteria: Methodology: Industry Risk , Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

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MORNINGSTAR | DBRS

Credit Rating Report
Hydro One Inc.

Morningstar DBRS
November 13, 2025

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Credit Ratings

Obligation	Credit Rating	Credit Rating Action	Trend
Issuer Rating	A (high)	Confirmed	Stable
Senior Unsecured Debentures	A (high)	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Credit Rating Drivers

Positive Credit Rating Drivers	Negative Credit Rating Drivers
We may take a positive credit rating action if there were a material improvement in Hydro One Inc.'s (HOI or the Company) Business Risk Assessment, combined with an improvement in its key credit metrics to levels that support a higher credit rating category.	We may consider a negative credit rating action if there were adverse regulatory actions or key metrics weaken to a level that no longer supports the current credit ratings (i.e., if the debt-to-capital ratio is above 60.0% and the cash flow-to-debt ratio is below 11.0% for a sustained period).

Credit Rating Update

On October 31, 2025, we confirmed HOI's Issuer Rating and Senior Unsecured Debentures credit rating at A (high) and its Commercial Paper credit rating at R-1 (low). All trends are Stable.

Key Credit Rating Considerations

The credit rating confirmations reflect HOI's relatively stable operating and financial performance over the last 12 months while considering the moderate pressure on the Company's key credit metrics in the near term from the Company's elevated capital expenditures (capex) required to support its rate base growth, as well as to enable energy transition and grid optimization initiatives.

HOI's credit ratings are based on its regulated electricity transmission (approximately 62.0% of the total rate base) and distribution (approximately 38.0% of the total rate base) operations in the Province of Ontario (the Province or Ontario; rated AA with a Stable trend), which operates under a reasonable regulatory framework established by the Ontario Energy Board (OEB), and its Financial Risk Assessment, with key credit metrics in line with the "A" credit rating category. HOI is in the third year of its five-year Custom Incentive Rate-setting (Custom IR) regime, which covers the 2023–27 period. Therefore, we expect HOI's operations to be stable over the forecast period as the Company has certainty of funding for its substantial capex program (average capex of approximately $3.0 billion annually during the forecast period).

Earnings Outlook

HOI's earnings profile supports the current credit ratings and is expected to remain steady during the forecast period, supported by a reasonable regulatory environment, an extensive franchise area, and a diverse customer base. The Ontario government's first Integrated Energy Plan, released in June 2025, designated three additional transmission lines for HOI and identified the need for reconductoring two existing lines. HOI's capital investment plan, including existing projects and in-service additions, continues to provide rate-base growth opportunities. Overall, we expect the Company's earnings to continue to grow annually at a stable pace in line with the growth in its rate base.

Earnings Profile

	Six Months Ended June 30			Fiscal Year Ended December 31				
(CAD Millions, Unless Otherwise Noted)	**2025**	**2024**	**LTM**	**2024**	**2023**	**2022**	**2021**	**2020**
Net Revenue	4,453	4,177	8,723	8,447	7,799	7,740	7,185	7,250
Gross Profit	2,334	2,141	4,497	4,304	4,147	4,016	3,606	3,396
Gross Margin (%)	52.4	51.3	51.6	51.0	53.2	51.9	50.2	46.8
SG&A Expenses as a % of Net Revenue (%)	16.0	16.6	16.4	16.6	18.5	17.6	16.5	15.7
EBITDA	1,620	1,449	3,070	2,899	2,701	2,655	2,418	2,261
Adjusted EBITDA	1,628	1,455	3,088	2,915	2,713	2,665	2,431	2,273
EBITDA Margin (%)	36.4	34.7	35.2	34.3	34.6	34.3	33.7	31.2
EBIT	1,161	1,010	2,139	1,988	1,845	1,794	1,604	1,486
EBIT Margin (%)	26.1	24.2	24.5	23.5	23.7	23.2	22.3	20.5
Net Income	696	593	1,277	1,174	1,092	1,028	966	1,792
Net Income as Reported	696	593	1,277	1,174	1,092	1,057	972	1,792
EBITDA Return on Assets (%)	8.8	8.7	8.6	8.4	8.5	8.7	8.1	8.0
EBIT Return on Assets (%)	6.2	6.0	6.0	5.7	5.8	5.8	5.3	5.2
EBITDA Return on Capital (%)	10.8	10.4	10.5	10.2	10.1	10.2	9.6	9.6
EBIT Return on Capital (%)	7.7	7.3	7.3	7.0	6.9	6.9	6.4	6.3

Source: Morningstar DBRS.
SG&A = Selling, General, and Administrative; LTM = Last 12 Months.

Financial Outlook

HOI's key credit metrics have been in line with the "A" credit rating category. While we expect the Company's metrics to remain supportive, there may be some pressure on its key credit metrics in the medium term as the Company continues to invest in its capital investment programs. While HOI's dividend target payout ratio is high at approximately 70% to 80% of consolidated net income to support Hydro One Limited's (HOL or the Parent; rated "A" with a Stable trend) dividend policy, we note that the dividend payout ratio in the last five years has remained below this target. Overall, we expect the Company to continue to be prudent in managing its debt and distributions to maintain its leverage in line with the regulatory capital structure of 60% debt and the Company's financial policy.

Financial Profile								
	Six Months Ended June 30			Fiscal Year Ended December 31				
(CAD Millions, Unless Otherwise Noted)	**2025**	**2024**	**LTM**	**2024**	**2023**	**2022**	**2021**	**2020**
Net Income as Reported	696	593	1,277	1,174	1,092	1,057	972	1,792
Depreciation and Amortization	459	439	931	911	856	822	806	775
Distributions From Equity Investments	0	0	0	0	0	0	0	0
Other Operating Items	80	81	123	124	156	268	191	(797)
Cash Flow From Operations	**1,235**	**1,113**	**2,331**	**2,209**	**2,104**	**2,147**	**1,969**	**1,770**
Capital Expenditures	(1,426)	(1,396)	(2,818)	(2,788)	(2,451)	(2,050)	(2,036)	(1,835)
Common Dividends	(401)	(369)	(795)	(763)	(703)	(662)	(628)	(3)
Preferred Dividends	0	0	0	0	0	0	0	0
Free Cash Flow (Before Changes in Working Capital)	**(592)**	**(652)**	**(1,282)**	**(1,342)**	**(1,050)**	**(565)**	**(695)**	**(68)**
Changes in Working Capital	(121)	168	95	384	247	38	139	227
Free Cash Flow	**(713)**	**(484)**	**(1,187)**	**(958)**	**(803)**	**(527)**	**(556)**	**159**
Net Acquisitions and Investments	(355)	(129)	(549)	(323)	(214)	0	0	(117)
Net Lease Principal Payments	0	0	0	0	0	0	0	0
Increase in Debt	3,140	2,395	6,336	5,591	8,942	7,085	5,050	6,370
Decrease in Debt	(2,715)	(1,712)	(4,610)	(3,607)	(8,381)	(6,603)	(4,709)	(5,086)
Share Issuances	0	0	0	0	0	0	0	0
Share Buybacks	0	0	0	0	0	0	0	(607)
Other	1	(6)	(6)	(13)	(2)	4	2	(14)
Change in Cash & Cash Equivalents	**(642)**	**64**	**(16)**	**690**	**(458)**	**(41)**	**(213)**	**705**
Cash Flow-to-Debt Ratio (%)	13.9	13.9	13.2	12.8	13.7	14.5	13.8	12.7
Debt-to-Capital Ratio (%)	58.1	56.6	58.1	58.1	56.0	55.8	55.9	56.2
EBIT-to-Interest Ratio (x)	3.2	3.0	3.0	2.9	3.0	3.4	3.2	3.0

Source: Morningstar DBRS.

Issuer Description

HOI is a fully owned subsidiary of HOL and is the largest electricity transmission and distribution company in Ontario. The Company owns and operates around 30,000 circuit kilometres (km) of high-voltage transmission lines and approximately 126,000 circuit km of low-voltage distribution lines, serving around 1.5 million customers.

Comprehensive Business Risk Assessment (CBRA)

HOI's CBRA score of AH reflects the benefits from stable and predictable cash flows of the regulated business and extensive franchise area. The score also takes into account earnings sensitivity to volume and costs.

Reasonable Regulatory Environment

HOI's earnings are driven by its low-risk regulated transmission and distribution businesses that operate under a reasonable regulatory framework. The regulatory regime under the OEB permits the Company a reasonable opportunity to recover operating and capital costs and earn the approved rates of return. HOI's deemed capital structure (a debt-to-equity ratio of 60%:40%) has remained unchanged for several years. We view the utility regulatory framework in Ontario as transparent and supportive for regulated transmission and distribution operators.

Extensive Franchise Area

HOI owns the largest transmission and distribution businesses in Ontario. The Company operates approximately 94% of the Province's transmission infrastructure, based on revenues approved by the OEB, and is connected to 34 local distribution companies (including HOI's own distribution business) and 87 large, directly connected industrial customers. The Company's transmission system is also interconnected to systems in Manitoba, Michigan, Minnesota, New York, and Québec through interties. The distribution business serves around 1.5 million customers, or approximately 27% of the Province's customers.

Earnings Sensitivity to Volume and Costs

HOI's earnings can be affected by weather patterns, seasonality, and economic conditions. The OEB approves the Company's transmission and distribution rates based on forecast electricity load and consumption levels. Cooler summers and warmer winters could reduce demand for electricity below forecast levels and negatively affect revenues. Furthermore, current revenue requirements are approved based on cost assumptions that could materially differ from actual costs. There is no assurance that the OEB would allow rate increases to offset the financial impacts of unanticipated changes in electricity demand or costs. We expect this risk to be partially mitigated as the OEB has implemented a fixed monthly distribution charge for residential customers; however, some seasonality will remain because a major part of the Company's earnings is generated from transmission revenues.

Comprehensive Financial Risk Assessment (CFRA)

We expect HOI's CFRA score of "A" to remain relatively stable during the forecast period, despite the elevated capex in the near to medium term to support the Company's rate-base growth.

Reasonable Financial Profile

HOI maintains a reasonably healthy balance sheet, and all key credit metrics reasonable for the current credit rating category, with the debt-to-capital ratio at 58.1%, cash flow-to-debt at 13.9%, and EBIT interest coverage at 3.2 times (x) for the 12 months ended June 30, 2025.

High Level of Planned Capex

The Company has planned large capital investments over the next several years, which could exert pressure on the credit metrics. Total capital investments were approximately $3.0 billion for 2024 (approximately $1.8 billion for transmission and approximately $1.2 billion for distribution), with planned capex of $8.6 billion over the next three years. A major part of HOI's capital program is for the essential replacement of aging infrastructure to maintain the reliability of aging transmission and distribution assets.

High Dividend Payouts

HOI's dividend payout ratio (dividends relative to net earnings) is high to support HOL's dividend policy (the target payout is approximately 70% to 80% of consolidated net income). While we note that the dividend payout ratio in the last five years has remained below the Parent's target payout ratio, we expect it to remain above 60% during the forecast period. Consequently, HOI will provide significant

funding to finance the sizable free cash flow deficits because of the dividends and capex commitments expected over the medium term.

Intrinsic Assessment (IA)

The IA of AH is the midpoint of the IA range and is based on the CBRA score having a higher weight in line with the methodology. The IA assignment considers peer comparisons, among other factors.

Additional Considerations

The credit rating assessment includes no further negative or positive adjustments resulting from additional considerations.

Further details on the IA framework can be found below:

Hydro One Inc.

Industry Regulated Utility

(1) Comprehensive BRA

Description	Assessment	Weight
Regulation	A	33.3%
Diversification (Products/Markets)	AAL	25.0%
Franchise and Customer Mix	AH	25.0%
Operating Efficiency (Inputs and Costs)	AH	16.7%
BRA	**AH**	
BRA Adjustment	0.0	
Comprehensive BRA	**AH**	

(2) Comprehensive FRA

Metric	Assessment	Weight
Cash flow-to-debt (%)	BBBH	40.0%
Debt-to-capital (%)	A	30.0%
EBIT-to-interest (x)	AAL	30.0%
FRA	**A**	
FRA Adjustment - Other Financial Considerations	0.0	
FRA Adjustment - Liquidity Considerations	0.0	
Comprehensive FRA	**A**	

(3) IA

Component	Assessment	Weight
(1) Comprehensive BRA	AH	75.0%
(2) Comprehensive FRA	A	25.0%

Intrinsic Assessment Range (IAR)	High	Mid	Low
	AAL	AH	A

Intrinsic Assessment (IA)	AH

(4) Issuer Rating

Additional Considerations	Assessment
Parent-Subsidiary Relationships	0.0
Third Party Support	0.0
Sovereign Constraint	0.0
Issuer Rating	**A (high)**
Trend	**Stable**

Environmental, Social, and Governance (ESG) Checklist

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental	**Overall:**	**N**	**N**
Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuer's financial, operational, and/or reputational standing?	**N**	**N**
Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long-term credit profile?	**N**	**N**
Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore revenues?	**N**	**N**
Land Impact and Biodiversity	Is there a financial risk to the issuer due to the loss of biodiversity and/or the mitigation of such loss, including land conversion and rehabilitation?	**N**	**N**
Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	**N**	**N**
	In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by physical and/or transition risks under key IPCC climate scenarios?	**N**	**N**
	Climate and Weather Risks	**N**	**N**
Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	**N**	**N**
Social	**Overall:**	**N**	**N**
Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services pose a financial or regulatory risk to the issuer?	**N**	**N**
	Do changes in consumer behaviour or secular social trends pose a financial or regulatory risk to the issuer?	**N**	**N**
	Social Impact of Products and Services	**N**	**N**
Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts, that could result in a material financial or operational impact?	**N**	**N**
	Do violations of rights create a potential liability that can negatively affect the issuer's financial wellbeing or reputation?	**N**	**N**
	Human Capital and Human Rights	**N**	**N**
Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	**N**	**N**
Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
Occupational Health and Safety	Would the failure to address workplace hazards have a negative financial impact on the issuer?	**N**	**N**
Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	**N**	**N**
Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	**N**	**N**
Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	**N**	**N**
Governance	**Overall:**	**N**	**N**
Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	**N**	**N**
	Are there any political risks that could affect the issuer's financial position or its reputation?	**N**	**N**
	Bribery, Corruption, and Political Risks	**N**	**N**
Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	**N**	**N**
Corporate / Transaction Governance	Does the issuer's corporate structure allow for appropriate board and audit independence?	**N**	**N**
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	**N**	**N**
	Does the board and/or management lack a formal framework to assess climate related financial risks to the issuer?	**N**	**N**
	Corporate / Transaction Governance	**N**	**N**
Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	**N**	**N**
	Consolidated ESG Criteria Output:	**N**	**N**

* A Relevant Effect means that the impact of the applicable ESG Factors has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG Factors has changed the rating or trend on the issuer.

ESG Considerations

Environmental

There were no Environmental factors that had a relevant or significant effect on the credit analysis. We review both physical and transitional risk for our assessment of environmental factors and usually view transition risk as more material. Utilities may be adversely affected by policy decisions related to energy transition and failure to respond to these transitional risks in an appropriate manner may adversely affect a utility's ability to provide safe, reliable, least-cost electricity to customers. Regulated utilities may also be exposed to severe weather events, but we expect any costs associated with these events to be recovered through rates. HOI is also committed to sustainability and has a Sustainable Financing Framework under which it issues debt.

Social

There were no Social factors that had a relevant or significant effect on the credit analysis. As a regulated utility, HOI is obligated to provide service to its customers. Additionally, as the Company operates 94% of Ontario's transmission grid, any disruptions in its operations may potentially affect the entire Province. We note that HOI's System Average Interruption Duration Index and System Average Interruption Frequency Index are both above the Ontario distributor average (at 7.70x and 2.70x, respectively, versus 4.70x and 2.10x, respectively), but this is not unusual given the significant franchise area the Company's network spans. HOI is also committed to reconciliation; for new transmission line projects valued at more than $100 million, HOI offers to partner with the First Nations communities in which its transmission lines operate.

Governance

There were no Governance factors that had a relevant or significant effect on the credit analysis. HOL's board includes 10 directors, nine of whom are independent. The board has oversight over climate-related issues at the Company. There is no known track record of any material governance failures to date.

A description of how we consider ESG factors within our analytical framework can be found in *Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings* at https://dbrs.morningstar.com/research/454196.

Credit Rating History

	Current	2024	2023	2022	2021	2020
Issuer Rating	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Senior Unsecured Debentures	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $2.3 billion.

Previous Credit Rating Actions

- "Morningstar DBRS Confirms Hydro One Inc.'s Issuer Rating and Senior Unsecured Debentures at A (high) and Commercial Paper at R-1 (low), Stable Trends," November 1, 2024.

Previous Credit Rating Report

- Hydro One Inc.: Rating Report, November 11, 2024.

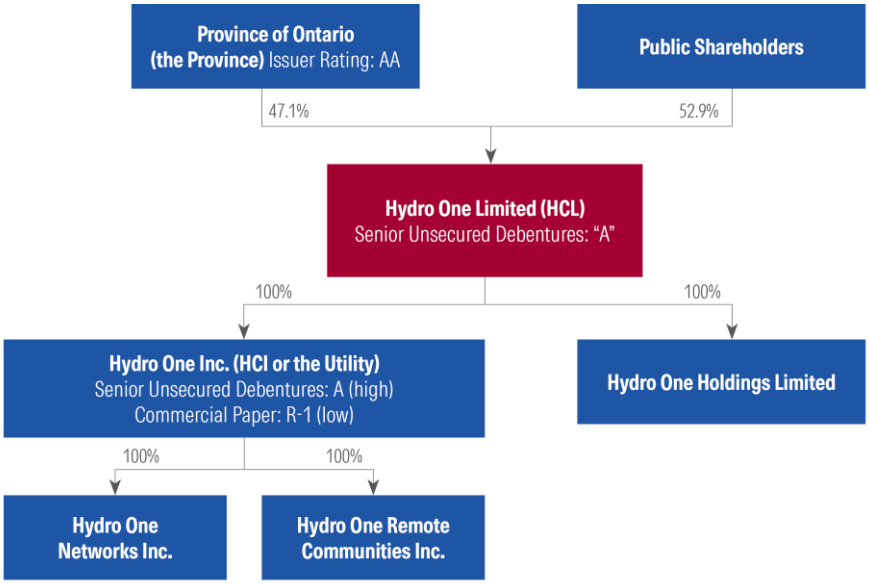
Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on https://dbrs.morningstar.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

Appendix A—Simplified Organizational Chart

Organizational Chart



Source: HOL.

- HOI is 100% owned by HOL, which is in turn 47.1% owned by the Province, with the remainder held by public shareholders.
- HOI's major subsidiaries include two regulated utilities, Hydro One Networks Inc. (HONI) and Hydro One Remote Communities Inc. (Remotes).
    - HONI carries out the rate-regulated transmission and distribution businesses.
    - Remotes generates and supplies electricity to remote communities in Northern Ontario. This segment is 100% debt financed and operates as a breakeven company with no ROE.
- Also, HOI wholly owns Hydro One Sault Ste. Marie Limited Partnership (HOSSM) and has partial interests in Bruce to Milton Limited Partnership (B2M LP), Niagara Reinforcement Limited Partnership (NRLP), Chatham x Lakeshore Limited Partnership (CLLP), and East-West Tie Limited Partnership (EWT LP).
    - HOSSM owns transmission infrastructure in the East Lake Superior area.
    - HOI has a 66% interest in B2M LP, which operates a transmission line that runs from the Bruce Nuclear Generation Station to HOI's Milton Switching Station.
    - HOI has a 55% interest in NRLP, which operates a transmission line in the Niagara area.
    - HOI has an 80% interest in CLLP, which operates a transmission line in Southwestern Ontario.

- HOI has a 48% minority interest in EWT LP, which in turn owns the East-West Tie Line. The East-West Tie Line is a transmission line that runs between Wawa and Thunder Bay, along the North Shore of Lake Superior.

Major Transmission Capital Investment Projects

Project	Estimated Cost (CAD Millions)	Spent as of June 30, 2025 (CAD Millions)	In-Service Target Date
Centennial Transmission Station	229	126	2025
Islington Transmission Station	109	78	2025
Waasigan Transmission Line	1,200	325	2027
Holt Transmission Station	137	11	2027
St. Clair Transmission Line	472	167	2028
Bruce B Switching Station Circuit Breaker Replacement	185	177	2025
Middleport Transmission Station Circuit Breaker Replacement	184	167	2025
Lennox Transmission Station Circuit Breaker Replacement	152	147	2026
Esplanade x Terauley Underground Cable Replacement	117	80	2026
Bridgman Transmission Station Refurbishment	108	87	2026
Bruce A Transmission Station Switchyard Replacement	555	383	2027
Otto Holden Transmission Station Refurbishment	128	45	2028
Merivale Transmission Station Replacement and Upgrades	271	143	2029
Synchronous Optical Network Telecommunication Replacement	137	13	2029
Essa Transmission Station Circuit Breaker Replacement	116	5	2030

Appendix B—Debt and Liquidity Profile

Debt Profile and Liquidity

Long-Term Debt Maturities

(CAD Millions as at June 30, 2025)	2025	2026	2027	2028	2029	Thereafter	Total
Principal Repayments	400	925	0	750	1,100	13,145	**16,320**
% of Total	2	6	0	5	7	81	**100**

- HOI's refinancing risk remains manageable with maturities well spread out.
- HOI has adequate access to debt markets and access to the equity market through the Parent.
    - In 2023, the Company issued $2,375 million under its Medium-Term Notes program and its Sustainable Financing Framework, the proceeds of which were used to finance and/or refinance eligible projects.
    - In 2024, the Company issued $2,000 million under its Medium-Term Notes program and its Sustainable Financing Framework.
    - Since the beginning of F2025, the Company has issued $1.1 billion under its Medium-Term Notes program and its Sustainable Financing Framework.
- HOI has credit covenants limiting the permissible debt to 75% of its total capitalization and limiting the ability to sell assets and impose negative pledge provisions, subject to customary exceptions. As of June 30, 2025, the Company was in compliance with all of the covenants and limitations.

Liquidity

(CAD Millions as at June 30, 2025)	Amount	Draw	Available	Maturity
Cash and Cash Equivalents	48	-	48	
Revolving Standby Credit Facility	3,050	1,371	1,679	June 2030
Total	**3,098**	**1,371**	**1,727**	

- The Company's liquidity profile remains reasonable and adequate for its normal operating requirements.
- HOI has a revolving credit facility of $3,050 million, maturing in June 2030. The commercial paper (CP) program is backstopped by the revolving credit facility. As of June 30, 2025, approximately $1,371 million of CP was outstanding.

Appendix C—Regulation

Regulatory Overview

- HOI is regulated by the OEB and operates under a supportive regulatory environment. The Company has a good track record of prudently managing its regulatory risk.
- Both of HONI's transmission and distribution businesses operate under Custom IR.
    - The Custom IR framework is a hybrid between cost of service (COS) and an incentive rate mechanism (IRM). The rate setting for the term is based on the Company's forecasts and the OEB's incentive rate analysis using productivity benchmarking.
    - The Custom IR framework is suited to utilities with large, broad, multiyear investment needs that require certainty of funding several years in advance.
- In November 2022, the OEB approved HONI's first Joint Rate Application for 2023–27 revenue requirements for its transmission and rates for its distribution businesses.
    - The revenue requirement and rate base for the transmission and distribution businesses will remain separate and be recovered through separate rates.
    - The application was based on a Custom IR approach, where the revenue requirements for 2023 are based on COS, while subsequent years will increase by a revenue cap index (RCI) based on inflation, and custom capital factors (including stretch of 0.20% for both transmission and distribution) less a productivity factor (0.15% for transmission and 0.45% for distribution).
    - The deemed capital structure constitutes 60% of debt (56% long term and 4% short term) and 40% of equity, and ROE of 9.36%.
    - There is an Earnings Sharing Mechanism (ESM) whereby any earnings 100 basis points (bps) above the allowed ROE will be shared 50/50 with customers.
    - The settlement proposal included transmission capex of $6.9 billion and distribution capex of $4.9 billion over the five-year term.

	For the Year Ended December 31				
(CAD Millions)	**2023**	**2024**	**2025**	**2026**	**2027**
HONI Transmission Rate Base	14,534	15,342	16,271	17,148	17,940
HONI Distribution Rate Base	9,460	9,979	10,573	11,153	11,656

Transmission

	For the Year Ended December 31				
(CAD Millions Where Applicable)	2024	2023	2022	2021	2020
Transmission Rate Base[1]	16,335	15,336	14,450	13,745	13,185
Deemed Equity (%)	40.00	40.00	40.00	40.00	40.00
Allowed ROE—Transmission (HONI) (%)	9.36	9.36	8.52	8.52	8.52
Allowed ROE—Transmission (B2M LP) (%)	8.52	8.52	8.52	8.52	8.52
Allowed ROE—Transmission (HOSSM) (%)	9.19	9.19	9.19	9.19	9.19
Allowed ROE—Transmission (NRLP) (%)	8.52	8.52	8.52	8.52	8.52
Actual ROE—Transmission (HONI) (%)	n/a	n/a	n/a	n/a	9.29

1. Includes HONI, B2M LP, HOSSM, and NRLP.

- HOSSM currently operates under a 10-year deferred rebasing period until 2026. Rates are adjusted annually by an RCI based on inflation less a productivity and stretch factor.
    - In September 2025, the OEB approved HOSSM's 2026 revenue requirement of $44.4 million based on an RCI of 3.2% (inflation of 3.5% less a stretch factor of 0.3%).
- In October 2025, the OEB approved HONI's 2026 transmission revenue requirement of $2,161 million based on an RCI of 4.96%, with an inflation factor of 3.50%, and a capital factor of 1.61% less a productivity and stretch factor of 0.15%.
- The OEB approved B2M LP's 2025–29 transmission revenue requirement in December 2024.
    - In October 2025, OEB approved B2M LP's one-time update application for the 2026–29 period to update the cost of B2M LP's long-term debt, based on actual debt issuances in 2025, as well as the revenue requirement for the 2026–29 period.
    - The updated 2026 weighted-average long-term debt rate was calculated at 3.05%, and this rate will remain fixed for the remainder of the rate period.
    - For the 2026–29 period, the total revenue requirement will decrease moderately to $152.7 million from $153.5 million.
    - The table below shows the updated revenue requirement until 2029.

	For the Year Ended December 31				
(CAD Millions)	2025	2026	2027	2028	2029
Revenue Requirement	37.7	37.9	38.9	38.8	37.2
Rate Base	454.7	447.4	440.1	432.8	425.5

- The OEB approved NRLP's 2025–29 transmission revenue requirement in December 2024.
    - In October 2025, the OEB approved NRLP's one-time update application for the 2026–29 period to update the cost of NRLP's long-term debt, based on actual debt issuances in 2025, as well as the revenue requirement for the 2026–29 period.
    - The updated 2026 weighted-average long-term debt rate was calculated at 3.04%, and this rate will remain fixed for the remainder of the rate period.
    - For 2026–29 period, the total revenue requirement will decrease moderately to $35.4 million from $35.6 million.
    - The table below shows the updated revenue requirement until 2029.

	For the Year Ended December 31				
(CAD Millions)	**2025**	**2026**	**2027**	**2028**	**2029**
Revenue Requirement	8.3	8.8	8.7	8.7	9.3
Rate Base	109.9	108.4	106.7	105.1	103.5

- The OEB approved CLLP's 2025–29 transmission revenue requirement in December 2024.
    - Similar to B2M LP's and NRLP's applications, the OEB's decision allows a one-time application in 2025 to update (1) CLLP's cost of long-term debt based on actual issuances in 2025, (2) the rate base in 2025 to reflect actual project expenditures, and (3) the revenue requirement for the 2026–29 period.
    - In August 2025, CLLP filed this one-time application to update the cost of long-term debt and to support and update the 2026–29 transmission revenue requirements; the OEB's order is awaited.
    - The table below shows the revenue requirement approved in December 2024.

	For the Year Ended December 31				
(CAD Millions)	**2025**	**2026**	**2027**	**2028**	**2029**
Revenue Requirement	18.5	16.7	16.6	16.5	16.3
Rate Base	201.2	201.1	198.6	196.0	193.5

Distribution

	For the Year Ended December 31				
(CAD Millions Where Applicable)	**2024**	**2023**	**2022**	**2021**	**2020**
Distribution Rate Base	10,184	9,460	9,155	8,854	8,505
Deemed Equity (%)	40.00	40.00	40.00	40.00	40.00
Allowed ROE—Distribution (%)	9.36	9.36	9.36	9.00	9.00
Actual ROE—Distribution (%)	10.48	10.88	10.10	10.99	10.85

- For 2026, HONI has applied for a distribution base revenue requirement of $1,947 million based on an RCI of 5.21%, with an inflation factor of 3.70% and a custom capital factor of 1.96%, less a productivity and stretch factor of 0.45%.
- In March 2025, the OEB completed a generic cost-of-capital proceeding on its methodology. The deemed capital structure remained unchanged at 40% equity and 60% debt, for electricity transmission and distribution utilities. The OEB confirmed that the new cost-of-capital parameters will take effect at the Utility's next rebasing rate application. As such, the allowed ROE for HOI remains unchanged until 2027.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Weak Poor	The OEB allows HOI's transmission and distribution businesses to have a deemed equity of 40%, which has been consistent historically.
2. Allowed ROE	Excellent **Good** Satisfactory Weak Poor	ROE for the transmission and distribution businesses are set at 9.36% for 2023–27.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Weak Poor	There is no power price risk as HOI is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to ratepayers, and HOI collects the payments from its customers monthly.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Weak Poor	Major capital costs are pre-approved by the OEB and added to the rate base after project completion. In addition, the OEB can approve rate riders to allow for the recovery or disposition of specific regulatory accounts over specified time frames.
5. COS Versus IRM	Excellent Good **Satisfactory** Weak Poor	HONI's transmission and distribution businesses operate under the Custom IR framework for 2023–27.
6. Political Interference	Excellent Good Satisfactory **Weak** Poor	The government of Ontario plays a significant role in the electricity sector in the Province, given that the majority of the utilities are government owned (HOL is 47.1% owned by the Province). Furthermore, stakeholders, such as the Independent Electricity System Operator, are also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Weak Poor	HOI has a limited history of stranded costs. All prudently incurred or budgeted capex are approved by the OEB.
8. Rate Freeze	Excellent **Good** Satisfactory Weak Poor	From 2002 to 2005, because of rising rates during Ontario's experimental utility deregulation phase, a distribution rate freeze was imposed. There have been no subsequent provincewide rate freezes.

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PROSPECTUS FOR MOST RECENT FINANCINGS

This Exhibit includes copies of the prospectus for recent public debt offerings.

Attachment 1: Hydro One Inc. Medium Term Note Short Form Base Shelf Prospectus, dated: March 27, 2026

Attachment 2: Hydro One Inc. US Debt Securities Short Form Base Shelf Prospectus, dated: August 18, 2025

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No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus has been filed under legislation in each of the provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities. All shelf information (as defined in National Instrument 44-102 – Shelf Distributions ("NI 44-102")) permitted under applicable securities legislation, including the WKSI Rules (as defined below), to be omitted from this shelf prospectus will be contained in one or more prospectus supplements that will be delivered to purchasers together with the base shelf prospectus.

This short form base shelf prospectus is filed under Part 9B of NI 44-102. The Company (as defined below) has satisfied the requirements for issuers filing a WKSI base shelf prospectus (within the meaning of NI 44-102) and for a receipt for this prospectus to be deemed to be issued in all jurisdictions in Canada in which this prospectus has been filed. No regulator or securities regulatory authority has reviewed this prospectus.

This short form 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. The securities to be issued hereunder have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and may not be offered, sold or delivered within the United States of America and its territories and possessions or to a U.S. person (as defined by Rule 902(k) of Regulation S) except in certain transactions exempt from the registration requirements of such Act. See "Plan of Distribution".

***Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada**. Each shelf prospectus supplement will be incorporated by reference into this shelf prospectus for the purposes of securities legislation as of the date of the shelf prospectus supplement and only for the purposes of the distribution of the securities to which the shelf prospectus supplement pertains. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Hydro One Inc., 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario, M5G 2P5, (416) 345-6044 and are also available electronically at www.sedarplus.com.*

SHORT FORM BASE SHELF PROSPECTUS

New Issue March 27, 2026

HYDRO ONE INC.
Medium Term Notes
(unsecured)

Hydro One Inc. (the "Company") may offer and issue from time to time medium term notes (the "Notes") during the thirty-seven months from the date hereof that this short form base shelf prospectus, as it may be amended from time to time, remains valid.

The Notes will have a term to maturity of not less than one year and will be issuable in Canadian currency (or in other currencies or currency units) in fully registered definitive or global form, in which case the Notes will be exchangeable only under certain conditions for definitive Notes.

Notes issued hereunder will be direct unsecured obligations of the Company, will be issued under a trust indenture in any number of series or separate issues thereof, and will at their respective dates of issue rank *pari passu* with all other unsecured and unsubordinated Indebtedness (as defined below) of the Company then outstanding, except as to any sinking fund which pertains exclusively to any particular Indebtedness of the Company.

The specific variable terms of an offering of Notes (including the aggregate principal amount of the Notes being offered, the currency or currencies, the issue and delivery date, the form, the maturity date, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof), the issue price, the interest payment date(s), any redemption or repayment provisions, any provisions entitling the Company to extend the maturity date of the Notes, the name(s) of the dealer(s) offering the Notes, the commission payable to such dealer(s), the method of distribution and the net proceeds to the Company) will be set forth in a prospectus supplement or pricing supplement which will accompany this short form prospectus. Unless otherwise indicated in a prospectus supplement or pricing supplement, the Notes will not be listed on any securities exchange.

This short form prospectus does not qualify the issuance of Notes: (i) entitling the holder to exchange or convert the Notes into securities issued by the Company or into securities issued by another entity; or (ii) in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, however, this short form prospectus does qualify for issuance Notes in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate, or to recognized market benchmark interest rates, or to interest rates on Government of Canada bonds.

Investing in the Notes involves risks. See "Risk Factors" in this short form prospectus, which may be amended or supplemented in any prospectus supplement or pricing supplement.

Unless otherwise indicated in a prospectus supplement or pricing supplement, there is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".

The Company has determined that it qualifies as a "well-known seasoned issuer" within the meaning of NI 44-102 because, as of March 26, 2026, the qualifying public debt (as defined in NI 44-102) of the Company was approximately $6,775 million. See "Well-Known Seasoned Issuers".

RATES ON APPLICATION

The Notes may be offered severally by one or more of BMO Nesbitt Burns Inc., Casgrain & Company Limited, Cedar Leaf Capital Inc., CIBC World Markets Inc., Desjardins Securities Inc., Laurentian Bank Securities Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. pursuant to the dealer agreement referred to under the heading "Plan of Distribution" or such other dealers as may be selected from time to time by the Company (the "Dealers"), in each case acting as agent of the Company or as principal. Where the Notes are offered by the Dealer(s) as agent, the commissions payable in connection with sales of such Notes shall be agreed from time to time between the Company and any such Dealers. Where the Notes are purchased by the Dealer(s) as principal, the Notes shall be purchased at such prices and with such commissions as may be agreed from time to time between the Company and any such Dealer(s) for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. In each case, the commissions payable, if any, will be set forth in a prospectus supplement or pricing supplement that will accompany and be incorporated by reference in this short form prospectus. Each Dealer's compensation will increase or decrease by the amount by which the aggregate price paid for Notes by purchasers exceeds or is less than the price paid by the Dealer, acting as principal, to the Company. In connection with any offering of Notes, the Dealers may, when acting as an agent or purchasing as principal, over-allot or effect transactions which stabilize or maintain the market price of the Notes offered. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution". The Company may also offer the Notes directly to potential purchasers at prices and upon terms negotiated between the purchaser and the Company.

BMO Nesbitt Burns Inc., Cedar Leaf Capital Inc., CIBC World Markets Inc., Desjardins Securities Inc., Laurentian Bank Securities Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital

Inc. and TD Securities Inc. are each subsidiaries or affiliates of lenders (the "HOI Lenders") that have made a $3.05 billion unsecured revolving credit facility (the "HOI Credit Facility") available to the Company. In addition, BMO Nesbitt Burns Inc., Cedar Leaf Capital Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. are each subsidiaries or affiliates of lenders (the "HOL Lenders", and together with the HOI Lenders, the "Lenders") that have made a $250 million operating credit facility (the "HOL Credit Facility") available to the Company's sole shareholder, Hydro One Limited ("HOL"). As of March 26, 2026, there is no outstanding indebtedness under the HOI Credit Facility or the HOL Credit Facility. However, if and when there is outstanding indebtedness to any of the HOI Lenders under the HOI Credit Facility, to any of the HOL Lenders under the HOL Credit Facility, or under any future credit facility with one or more of the Lenders, the Company may be considered a connected issuer of those Dealers who are subsidiaries or affiliates of such Lenders for purposes of securities laws in Canada. See "Plan of Distribution". The offering of Notes is subject to the approval of certain legal matters on behalf of the Company by Osler, Hoskin & Harcourt LLP and on behalf of the Dealers by Blake, Cassels & Graydon LLP.

Securities legislation in certain of the provinces of Canada provides purchasers of Notes with the right to withdraw from or rescind an agreement to purchase such Notes. See "Purchasers' Statutory Rights of Withdrawal and Rescission".

The Company's head and registered office is located at 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario, M5G 2P5.

Unless otherwise noted or the context otherwise requires, references herein to "Hydro One" refer to Hydro One Inc. and its subsidiaries taken together as a whole and references to the "Company" refer solely to Hydro One Inc. The Company's consolidated financial statements incorporated by reference in this short form prospectus have been prepared in accordance with U.S. generally accepted accounting principles. Unless otherwise specified or the context otherwise requires, all references herein to currency are references to Canadian dollars.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have been filed with the securities commission or similar regulatory authority in each of the provinces of Canada, are specifically incorporated by reference in this short form prospectus:

(a) the annual information form of the Company dated February 13, 2026 for the year ended December 31, 2025 (the "AIF");

(b) the statement of executive compensation of the Company dated April 28, 2025;

(c) the comparative audited consolidated financial statements of the Company, and the notes thereto, as at and for the fiscal years ended December 31, 2025 and 2024, together with the report of the auditors thereon dated February 12, 2026 (the "Annual Financial Statements");

(d) management's discussion and analysis of financial results in respect of the Annual Financial Statements (the "Annual MD&A"); and

(e) material change report of the Company dated February 26, 2026.

Updated earnings coverage ratios, as required, will be filed quarterly with the appropriate securities regulatory authorities either as prospectus supplements or as part of the Company's unaudited interim and audited annual consolidated financial statements or related management's discussion and analysis, and will be deemed to be incorporated by reference into this short form prospectus for the purposes of the offering of Notes hereunder.

Any documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including documents of the types referred to in paragraphs (a) through (e) above and any interim financial statements and related management's discussion and analysis, and business acquisition reports filed by the Company with the securities regulatory authorities in Canada since the end of the financial year in respect of which its then current annual information form is filed, shall be deemed to be incorporated by reference into this short form prospectus. Upon a new annual information form and new annual financial statements and related management's discussion and analysis being filed by the Company with, and where required, accepted by, the applicable securities regulatory authorities during the currency of this short form prospectus, the previous annual information form (excluding any statement of executive compensation incorporated by reference

therein), previous annual financial statements and related management's discussion and analysis, and all previous interim financial statements and related management's discussion and analysis filed prior to the commencement of the Company's financial year in which the new annual information form, new annual financial statements and related management's discussion and analysis are filed shall be deemed no longer to be incorporated into this short form prospectus for purposes of future offers and sales of Notes hereunder. Upon new interim financial statements and related management's discussion and analysis being filed by the Company with, and where required, accepted by, the applicable securities regulatory authorities during the currency of this short form prospectus, the previously filed interim financial statements and related management's discussion and analysis shall be deemed no longer to be incorporated by reference into this short form prospectus for purposes of future offers and sales of Notes hereunder. Upon a new statement of executive compensation being filed by the Company with, and where required, accepted by, the applicable securities regulatory authorities during the currency of this short form prospectus and incorporated by reference in the Company's then current annual information form, the previous statement of executive compensation shall be deemed no longer to be incorporated into this short form prospectus for purposes of future offers and sales of Notes hereunder.

A pricing supplement or prospectus supplement containing the specific variable terms for an issue of Notes will be delivered to purchasers of such Notes together with this short form prospectus and will be deemed to be incorporated by reference into this short form prospectus as of the date of the pricing supplement or prospectus supplement, solely for the purposes of the Notes issued under that pricing supplement or prospectus supplement. Any template version of marketing materials for an issue of Notes filed by the Company with the securities regulatory authorities in Canada after the date of the pricing supplement or prospectus supplement in respect of such issue of Notes and before the termination of the distribution of such Notes will be deemed to be incorporated by reference into that pricing supplement or prospectus supplement.

Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded and not incorporated by reference, for purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such prior statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This short form prospectus, including the documents incorporated by reference herein, contains "forward-looking information" within the meaning of applicable Canadian securities laws that is based on current expectations, estimates, forecasts and projections about the business of the Company and the industry, regulatory and economic environments in which the Company operates, and includes beliefs and assumptions made by management of the Company. Such information includes, but is not limited to, statements about: the general development of the Company's business; the Company's strategy and goals; future capital expenditures; the Company's transmission and distribution rate applications, including resulting decisions, rates and impacts; expectations regarding future corporate strategies; expected impacts and timing of changes to the electricity industry; the Company's liquidity and capital resources and operational requirements; the Company's standby credit facilities; the Company's maturing debt; expectations regarding the Company's financing activities; the Company's credit ratings; ongoing and planned projects, initiatives and expected capital investments, including expected results, costs and in-service and completion dates; expected future capital investments and capital expenditures, including expected timing and investment plans; contractual obligations and other commercial commitments; collective agreements, including the renewal and expiry thereof; and expectations regarding developments in the statutory and operating framework for electricity distribution and transmission in Ontario. Additional forward-looking information is identified in the various documents incorporated by reference in this short form prospectus, including the section entitled "Forward-Looking Information" in the Company's most recent annual information form and the section entitled "Forward-Looking Statements and Information" in the Company's most recent management's discussion and analysis. Words such as "aim", "could",

"would", "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "target" and variations of such words and similar expressions are intended to identify such forward-looking information. The forward-looking information contained in this short form prospectus, including the documents incorporated by reference herein, are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. In particular, this forward-looking information is based on a variety of factors and assumptions including, but not limited to, the following: the scope of the COVID-19 pandemic and duration thereof as well as the effect and severity of corporate and other mitigation measures on the Company's operations, supply chain or employees; no unforeseen changes in the legislative and operating framework for Ontario's electricity market; favourable decisions from the Ontario Energy Board ("OEB") and other regulatory bodies concerning outstanding and future rate and other applications; no unexpected delays in obtaining required regulatory approvals; no unforeseen changes in rate orders or rate setting methodologies for the Company's distribution and transmission businesses; no unfavourable changes in environmental regulation; the continued use and availability of U.S. GAAP; a stable regulatory environment; no significant changes to the Company's current credit ratings; no unforeseen impacts of new accounting pronouncements; no changes to expectations regarding electricity consumption; no unforeseen changes to economic and market conditions; recoverability of costs and expenses related to the COVID-19 pandemic; completion of operating and capital projects that have been deferred; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to the Company including information obtained by the Company from third-party sources. Actual outcomes and results may differ materially from what is expressed, implied or forecasted in this forward-looking information. While the Company does not know what impact any of these differences may have, the Company's business, results of operations, financial condition and credit stability may be materially adversely affected if 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 discussed in more detail under "Risk Factors" in this short form prospectus and in any prospectus supplement or pricing supplement and in the sections entitled "Forward-Looking Information" and "Risk Factors" in the Company's most recent annual information form and the sections entitled "Risk Management and Risk Factors" and "Forward-Looking Statements and Information" in the Company's most recent management's discussion and analysis. You should carefully consider these and other factors and not place undue reliance on forward-looking information.

The Company does not intend, and the Company disclaims any obligation, to update any forward-looking information, except as required by law.

THE COMPANY

Hydro One is Ontario's largest electricity transmission and distribution utility. Hydro One owns and operates substantially all of Ontario's electricity transmission network, and the Company is the largest electricity distributor in Ontario by number of customers. Hydro One delivers electricity safely and reliably to approximately 1.5 million customers across the province of Ontario, and to large industrial customers and municipal utilities. Through its subsidiaries, the Company owns and operates approximately 30,000 circuit kilometres of high-voltage transmission lines and approximately 126,000 circuit kilometres of primary low-voltage distribution lines.

Hydro One has three segments: (i) transmission business; (ii) distribution business; and (iii) other.

Hydro One's transmission business consists of owning, operating and maintaining its transmission system, which, as of December 31, 2025, accounts for approximately 91% of Ontario's transmission capacity based on the network component of the revenue requirement[1] approved by the OEB.[2] All of Hydro One's transmission business is carried out through its wholly-owned subsidiaries, Hydro One Networks Inc. ("HONI") and Hydro One Sault Ste. Marie LP, as well as through Hydro One's approximately 66% interest in B2M Limited Partnership (a limited partnership with respect to the Bruce-to-Milton transmission line), approximately 55% interest in Niagara Reinforcement Limited Partnership (a limited partnership formed for the purpose of operating a 230 kilovolt transmission line in the Niagara region), and approximately 50% interest in Chatham x Lakeshore Limited Partnership (a limited partnership formed for the purpose of owning a double circuit 230 kilovolt transmission line from the

[1] The network component of the revenue requirement is Hydro One's portion of the transmission revenue requirement attributed to assets that are used for the common benefit of all Hydro One and non-Hydro One customers in the province.

[2] The Company owns and operates approximately 94% of the transmission system in Ontario when based on the total OEB approved revenue requirement.

Chatham Switching Station to the Lakeshore Transformer Station).[3] The transmission segment also includes HONI's approximate 40% minority interest in the East-West Tie Limited Partnership (a limited partnership that owns the East-West Tie Line, a 230 kilovolt double-circuit transmission line spanning from Wawa to Thunder Bay).[4] Hydro One's transmission business is a rate-regulated business that earns revenues mainly from charging transmission rates that are subject to approval by the OEB. Hydro One's transmission business represented approximately 60% of its total assets as at December 31, 2025, and approximately 54% of its total revenues, net of purchased power,[5] in 2025 and approximately 27% of its total revenues in 2025.

Hydro One's distribution business consists of owning, operating and maintaining its distribution system, which the Company owns primarily through HONI, the largest local distribution company in Ontario. Hydro One's distribution system is also the largest in Ontario, and services a predominantly rural territory. Hydro One's distribution business is a rate-regulated business that earns revenues mainly by charging distribution rates that are subject to approval by the OEB. Hydro One's distribution business also includes the business of its wholly-owned subsidiary, Hydro One Remote Communities, which generates and supplies electricity to customers in remote communities in northern Ontario. Hydro One's distribution business represented approximately 38% of its total assets as at December 31, 2025 and approximately 46% of its total revenues, net of purchased power,[5] in 2025 and approximately 73% of its total revenues in 2025.

Hydro One's other segment consists of certain corporate activities, including a deferred tax asset, and is not rate regulated. The deferred tax asset arose from the revaluation of the tax bases of Hydro One's assets to fair market value when Hydro One transitioned from the provincial payments in lieu of tax regime to the federal tax regime at the time of HOL's initial public offering in 2015. The other segment represented approximately 2% of Hydro One's total assets as at December 31, 2025, and approximately 0% of its total revenues, net of purchased power,[5] in 2025 and approximately 0% of its total revenue in 2025.

The Company is a wholly-owned subsidiary of HOL. The address of the head and registered office and principal place of business of the Company is 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario, M5G 2P5.

See the section entitled "Business of Hydro One" in the AIF for further details relating to the Company's business.

CREDIT RATINGS

As of the date of this short form prospectus, the Notes are expected to be rated A by S&P Global Ratings ("S&P"), A (high) with a stable trend by DBRS Limited ("DBRS") and A3 by Moody's Canada Inc. ("Moody's"). The Company also has an issuer credit rating for long term debt of A (stable) from S&P and A (high) with a stable trend from DBRS and a senior unsecured rating of A3 with a stable outlook from Moody's.

The following information relating to credit ratings is based on information made available to the public by the rating agencies.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of payment and of the capacity and willingness of a company to meet its financial commitment on an obligation in accordance with the terms of the obligation.

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[3] Through Hydro One's First Nation equity partnership model, as of February 2, 2026, all five First Nation partners have collectively invested in an approximately 50% equity stake in the transmission line component of the project.

[4] On February 20, 2026, one of the limited partners closed on the exercise of an option to purchase additional interest, which reduced HONI's interest from approximately 48% to approximately 40%.

[5] Revenues, net of purchased power is a non-GAAP financial measure. Non-GAAP financial measures do not have a standardized meaning under U.S. GAAP, which is used to prepare the Company's financial statements, and accordingly, these measures may not be comparable to similar measures used by other companies. Additional disclosure for this non-GAAP financial measure is incorporated by reference herein and can be found in the section titled "Non-GAAP Measures" of the Annual MD&A, which is available on SEDAR+ under the Company's profile at www.sedarplus.com.

The rating agencies rate long-term debt instruments by rating categories ranging from a high of AAA to a low of D (C in the case of Moody's). Long-term debt instruments which are rated in the A category by S&P are in the third highest category and mean the obligor's capacity to meet its financial commitments on the obligation is strong but is considered somewhat more susceptible to adverse economic conditions and changes in circumstances than obligations in higher rated categories. S&P may modify the ratings from AA to CCC using a plus (+) or minus (-) sign to show relative standing within the rating categories. The addition of a rating outlook such as "stable", "positive", "negative" or "developing" assesses the potential direction of a long-term credit rating over the intermediate term (generally up to two years). A positive or negative outlook is not necessarily a precursor of a ratings change. Long-term debt instruments which are rated in the A category by DBRS are in the third highest category and are considered to be of a good credit quality, with substantial capacity for the payment of financial obligations. Entities in the A category may be vulnerable to future events, but qualifying negative factors are considered manageable. The "high" or "low" modifier indicates relative standing within this rating category by DBRS. The assignment of a "positive", "stable" or "negative" trend provides guidance in respect of DBRS' opinion regarding the trend for the rating. The rating trend indicates the direction in which DBRS considers the rating may move if present circumstances continue, or in certain cases, unless challenges are addressed by the issuer. Long-term debt instruments which are rated in the A category by Moody's are in the third highest category and are considered upper-medium grade and are subject to low credit risk. Moody's applies numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates a ranking in the higher end of that generic rating category and a modifier 3 indicates a ranking in the lower end of that generic rating category. The A3 rating assigned to the Notes by Moody's is a provisional rating and a definitive rating will be assigned to each offering of Notes under this short form prospectus only after Moody's reviews the terms and conditions of the drawdown. In some circumstances, no rating may be assigned to a drawdown, and if a definitive rating is issued, it may differ from the provisional rating. The addition of a rating outlook such as "stable", "positive", "negative" or "developing" indicates Moody's opinion regarding the likely rating direction over the medium term.

The ratings accorded to the Notes by these ratings agencies are not a recommendation to purchase, sell or hold the Company's debt securities including the Notes and do not comment as to market price or suitability for a particular investor. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by any or all of S&P, DBRS and Moody's at any time in the future if in their judgment circumstances so warrant.

The Company has made, and anticipates making, payments to each of S&P, DBRS and Moody's pursuant to the ratings agency services agreements entered into with such credit rating organizations with respect to the ratings assigned to the long-term debt and commercial paper of the Company. As Notes are issued, the Company expects to make payments to such credit rating organizations pursuant to the ratings agency services agreements entered into with such credit rating organizations for the ratings they assign to the Notes of a particular series. There have been no other services provided by any of such credit rating organizations to the Company within the last two years.

ELIGIBILITY FOR INVESTMENT

In the opinion of Osler, Hoskin & Harcourt LLP, counsel to the Company, and Blake, Cassels & Graydon LLP, counsel to the Dealers, unless otherwise specified in the applicable prospectus supplement or pricing supplement, the Notes, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) and the regulations thereunder (collectively, the "Tax Act") for a trust governed by a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), registered education savings plan ("RESP"), registered disability savings plan ("RDSP"), deferred profit sharing plan (other than a trust governed by a deferred profit sharing plan for which any employer is the Company or an employer who does not deal with the Company at arm's length, within the meaning of the Tax Act), tax-free savings account ("TFSA") or first home savings account ("FHSA"), each as defined in the Tax Act.

Notwithstanding the foregoing, the holder of a TFSA, FHSA or RDSP, the annuitant under an RRSP or RRIF or the subscriber of an RESP may be subject to a penalty tax under the Tax Act if the Notes are "prohibited investments" (as defined in the Tax Act) for the TFSA, FHSA, RDSP, RRSP, RRIF or RESP, as applicable. The Notes will not be a "prohibited investment" for a TFSA, FHSA, RRSP, RRIF, RDSP or RESP, provided that the holder of the TFSA, FHSA or RDSP, the annuitant under a RRSP or RRIF or the subscriber of the RESP, as the case may be, (i) deals at arm's length with the Company for purposes of the Tax Act, and (ii) does not have a "significant interest", within the meaning of the Tax Act, in the Company. Holders of a TFSA, FHSA or RDSP, annuitants under a RRSP

or RRIF and subscribers of an RESP should consult their own tax advisors as to whether the Notes will be a "prohibited investment" for such TFSA, FHSA, RRSP, RRIF, RDSP or RESP in their particular circumstances.

CONSOLIDATED CAPITALIZATION

There have been no material changes in the Company's share and loan capital, on a consolidated basis, since the date of the Annual Financial Statements which have not been disclosed in this shelf prospectus or the documents incorporated by reference herein.

EARNINGS COVERAGE RATIOS

For the twelve months ended December 31, 2025, the Company's consolidated income attributable to shareholder before provision for corporate income taxes and financing charges was $2,238 million. Financing charges for this period were $671 million, and including capitalized interest, were $781 million.

The following table sets forth the earnings coverage ratio for the Company for the twelve month period ended December 31, 2025, based on audited information, without giving effect to any Notes to be issued under this short form prospectus:

	December 31, 2025
Earnings coverage on long-term debt obligations[(1)(2)]	2.9

(1) Earnings coverage ratio is defined as earnings before income taxes and financing charges attributable to shareholder, divided by the sum of financing charges and capitalized interest.

(2) The earnings coverage ratio has not been adjusted for issuances or repayments of the Company's commercial paper subsequent to December 31, 2025 as they would not materially affect the earnings coverage ratio.

The information in this "Earnings Coverage Ratios" section is disclosed in accordance with Item 6 of Form 44-101F1 – *Short Form Prospectus*.

DESCRIPTION OF THE NOTES

General

The following is a summary of the material attributes and characteristics of the Notes, and does not purport to be complete and is qualified in its entirety by reference to the Notes and the Trust Indenture (as defined below).

The terms and conditions set forth in this section "Description of the Notes" will apply to each Note unless otherwise specified in the applicable prospectus supplement or pricing supplement. The Company reserves the right to set forth in a prospectus supplement or pricing supplement specific variable terms of or amendments to the Notes which are not within the options and parameters set forth in this short form prospectus. References in this section "Description of the Notes" refer to all medium term notes of the Company which have previously been or are to be issued under the Trust Indenture.

This short form prospectus qualifies the distribution of Notes which have been authorized for issue under the Trust Indenture under applicable Canadian securities laws. The Company previously issued $4,650 million aggregate principal amount of medium term notes under its short form base shelf prospectus dated February 28, 2024 (the "2024 Prospectus"), which was qualified under applicable Canadian securities laws. Upon the filing of, and deemed issuance of a receipt for, this short form prospectus, we will not qualify for distribution any additional Notes under the 2024 Prospectus.

Notes issued hereunder will have a term to maturity of not less than one year and will be issuable in Canadian currency (or in other currencies or currency units at the time of issue) in fully registered definitive or global form, in which case the Notes will be exchangeable only under certain conditions for definitive Notes (as described under the heading "Global Notes" below). Each interest-bearing Note will bear interest at either a fixed rate (a "Fixed Rate Note") or a floating rate (a "Floating Rate Note"). Notes will be issued from time to time at such rates of interest and

at par, at a premium or at a discount, may be subject to redemption or repayment prior to maturity, or may include terms entitling the Company to extend the maturity dates of the Notes, which terms shall be determined by the Company based on a number of factors, including advice from the Dealers. The Notes will be unsecured and will, at their respective dates of issue, rank *pari passu* with all other unsecured and unsubordinated Indebtedness and obligations of the Company then outstanding, except as to any sinking fund which pertains exclusively to any particular Indebtedness of the Company. The Company may also, from time to time, issue debt securities and incur additional debt otherwise than through the issuance of Notes pursuant to this short form prospectus.

Neither the aggregate principal amount of Notes which will be issued and sold nor the issue price to the public of the Notes has been established as the Notes will be issued at such times, in such amounts and at such prices as the Company determines from time to time. Notes issued hereunder will be offered and sold during the thirty-seven months from the date a receipt has been deemed to be issued for this short form prospectus pursuant to the WKSI Rules at prices negotiated with the purchasers, and the prices at which the Notes will be offered and sold may vary as between purchasers and during the distribution period.

The specific variable terms of any offering of Notes, including, in the case of Floating Rate Notes, the information necessary for the calculation of interest thereon, will be set forth in a prospectus supplement or pricing supplement to this short form prospectus. Where Notes are offered and sold in currencies other than Canadian dollars, the Canadian dollar equivalent of the offering price and the rate of exchange at the last feasible date will be included in the applicable prospectus supplement or pricing supplement.

Trust Indenture

The Notes will be issued under a trust indenture dated as of June 4, 2001, as supplemented or modified from time to time (collectively, the "Trust Indenture") between the Company and Computershare Trust Company of Canada, as trustee (the "Trustee", which term shall include, unless the context otherwise requires, its successors and assigns). The following is a brief summary of the material attributes and characteristics of the Trust Indenture. This summary does not purport to be complete and reference should be made to the Trust Indenture for more detailed information.

The Trust Indenture permits the issuance from time to time of additional unsecured medium term notes without limitation as to aggregate principal amount, subject to compliance with the covenants contained therein.

The Notes will be direct obligations of the Company and will rank *pari passu* with all other medium term notes from time to time issued and outstanding under the Trust Indenture and with other present and future unsubordinated and unsecured Indebtedness of the Company, except as to any sinking fund which pertains exclusively to any particular Indebtedness of the Company. The Notes will not be secured by any mortgage, pledge or charge, except in the circumstances referred to under the subheading "Negative Pledge".

Negative Pledge

The Trust Indenture contains provisions to the effect that the Company will not, nor will it permit any Designated Subsidiary (as defined below) to, create, assume or suffer to exist any Security Interest (as defined below) on any of the Company's or the Designated Subsidiary's assets to secure any Obligation (as defined below) unless at the same time it shall secure all the Notes then outstanding on an equal basis. This covenant is, however, subject to the following exceptions:

- any Security Interest that secures the Obligations of a Designated Subsidiary which exists prior to the date on which it becomes a Designated Subsidiary and which (a) was not incurred in contemplation of that person becoming a Designated Subsidiary and (b) was not applicable to the Company or any other Designated Subsidiary or the properties or assets of the Company or any other Designated Subsidiary;

- any Security Interest granted by the Company or a Designated Subsidiary to secure the Notes;

- any Purchase Money Mortgage (as defined below) or Capital Lease Obligation (as defined below) of the Company or any Designated Subsidiary;

- any Security Interest on a property or asset acquired by the Company or a Designated Subsidiary that secures the Obligations of a person, whether or not that Obligation is assumed by the acquiring person, which Security Interest exists at the time that property or asset is acquired and which (a) was not incurred in contemplation of that property or asset being acquired and (b) was not applicable to the Company or any other Designated Subsidiary or the properties or assets of the Company or any other Designated Subsidiary;

- any Security Interest given in the ordinary course of business by the Company or a Designated Subsidiary to any bank or banks or other lenders to secure any Indebtedness payable on demand or maturing within 18 months of the date that Indebtedness is incurred or of the date of any renewal or extension of that Indebtedness;

- any Security Interest granted by any Designated Subsidiary in favour of the Company or any Wholly-Owned Designated Subsidiary (as defined below);

- any Security Interest on or against cash or marketable debt securities pledged to secure any non-speculative Financial Instrument Obligation (as defined below) which hedges Indebtedness of the Company or of a Designated Subsidiary;

- any Security Interest for taxes, assessments, government charges or claims that are being contested in good faith and in respect of which appropriate provision is made in the Company's consolidated financial statements in accordance with GAAP;

- Security Interests securing appeal bonds or other similar Security Interests arising in connection with contracts, bids, tenders or court proceedings, including, without limitation, surety bonds, security for costs of litigation where required by law and letters of credit, or any other instruments serving a similar purpose;

- a Security Interest in cash or marketable debt securities in a sinking fund account established by the Company in support of a series of Notes;

- a lien or deposit under workers' compensation, social security or similar legislation or good faith deposits in connection with bids, tenders, leases, contracts or expropriation proceedings, or deposits to secure public or statutory obligations or deposits of cash or obligations to secure surety and appeal bonds;

- any lien or privilege imposed by law, such as builders', carriers', warehousemen's, landlords', mechanics' and material men's liens and privileges, and any lien or privilege arising out of judgments or awards with respect to which the Company or a Designated Subsidiary at the time is prosecuting an appeal or proceedings for review and with respect to which it has secured a stay of execution pending that appeal or proceedings for review; or any liens for taxes, assessments or governmental charges or levies not at the time due and delinquent or the validity of which is being contested at the time by the Company or a Designated Subsidiary in good faith; or undetermined or inchoate lien privileges and charges incidental to current operations which have not at such time been filed pursuant to law against the Company or a Designated Subsidiary or which relate to obligations not due or delinquent; or the deposit of cash or securities in connection with any lien or privilege referred to in this clause;

- any minor encumbrance, such as easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other persons, rights-of-way for sewers, electric lines, telegraph and telephone lines, oil and natural gas pipelines and other similar purposes, or zoning or other restrictions as to the Company's use of real property, which do not in the aggregate materially detract from the value of that property or materially impair its use in the operation of the business of the Company or a Designated Subsidiary;

- any right reserved to or vested in any municipality or governmental or other public authority by the terms of any lease, license, franchise, grant or permit acquired by the Company or any Designated

Subsidiary, or by any statutory provision, to terminate any such lease, license, franchise, grant or permit or to purchase assets used in connection therewith or to require annual or other periodic payments as a condition to the continuance thereof;

- any lien or right of distress reserved in or exercisable under any lease for rent and for compliance with the terms of that lease;

- any Security Interest granted by the Company or a Designated Subsidiary to a public utility or any municipality or governmental or other public authority when required by that utility, municipality or other authority in connection with the operations of the Company or a Designated Subsidiary;

- any reservation, limitation, proviso or condition, if any, expressed in any original grants to the Company or a Designated Subsidiary from the Crown; and

- any extension, renewal, alteration, substitution or replacement, in whole or in part, of any Security Interest referred to in the foregoing clauses, provided that the extension, renewal, alteration, substitution or replacement of such Security Interest is limited to all or part of the same property that secured the Security Interest, the principal amount of the secured Obligations is not increased by that action, the term of the secured Indebtedness is not shortened and the terms and conditions are no more restrictive in any material respect than the Security Interest so extended.

In addition to the Security Interests permitted above, the Company or any Designated Subsidiary may create, assume or suffer to exist any Security Interest on any of its assets if, after giving effect to that Security Interest, the aggregate amount of Indebtedness secured by the Security Interests permitted only by this paragraph does not at that time exceed 5% of the Consolidated Net Worth (as defined below) of the Company.

Limitation on Funded Obligations

So long as any of the Notes issued under the Trust Indenture remain outstanding, neither the Company nor any of its Designated Subsidiaries will, directly or indirectly, guarantee, incur, issue or become liable for or in respect of any Funded Obligations (as defined below) unless after giving pro forma effect to that guarantee, incurrence, issuance or liability, including the application or use of the resulting net proceeds, the aggregate principal amount of Consolidated Funded Obligations (as defined below) does not exceed 75% of the Total Consolidated Capitalization (as defined below). This covenant, however, will not prevent the incurrence of Capital Lease Obligations, Purchase Money Obligations and non-speculative Financial Instrument Obligations.

Ceasing to be a Designated Subsidiary

The Board of Directors of the Company may elect that any Designated Subsidiary cease to be a Designated Subsidiary, except that an election may not be made in respect of any Designated Subsidiary:

- if the Designated Subsidiary owns any Funded Obligations of the Company or any shares, voting interests or Funded Obligations of any other Designated Subsidiary;

- if the Designated Subsidiary owns or has any ownership interest in any Principal Property (as defined below); or

- if, after giving effect to the election, the Company would not be entitled to issue Funded Obligations in the principal amount of at least $1.00.

Mergers, Consolidations and Sales of Assets

The Company will not enter into any transaction in which all or substantially all of its undertaking, property and assets would become the property of any other person (except any of its subsidiaries), whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless:

- the Company shall be the surviving person, or the person, if other than the Company, formed by the amalgamation, consolidation or into which the Company is merged or that acquires by disposition all or substantially all of the property or assets of the Company, shall be a company organized and validly existing under the federal laws of Canada or any of its provinces or territories and shall expressly assume, by a supplemental indenture executed and delivered to the Trustee in form satisfactory to the Trustee, all of the Company's obligations under the Trust Indenture;

- immediately before and after giving effect to the transaction, no Event of Default (as defined below) or event that with the passing of time or the giving of notice, or both, would constitute an Event of Default shall have occurred and be continuing; and

- neither the Company nor any successor, either at the time of or immediately after the consummation of any such transaction, will be insolvent or generally fail to meet, or admit in writing its inability or unwillingness to meet, its obligations as they generally become due.

Events of Default

Each of the following is an Event of Default under the Trust Indenture with respect to Notes of any series:

(1) failure to pay any principal or premium, if any, on any Notes when due, at maturity, upon redemption or otherwise and the continuance of such default for a period of five days;

(2) failure to pay any interest on any Notes when due and the continuance of that default for a period of 45 days;

(3) the sale, transfer or other disposition of all or substantially all of the Company's undertaking or assets other than in accordance with the covenant described above under the subheading "Mergers, Consolidations and Sales of Assets";

(4) default in the performance or breach of any other covenant or agreement of the Company under the Trust Indenture, any supplemental indenture or the Notes and the continuance of that default for a period of 60 days after written notice to the Company by the Trustee or by holders of at least 25% of all Notes issued under the Trust Indenture;

(5) default by the Company or any Material Subsidiary (as defined below), whether as primary obligor, guarantor or surety, on any payment of principal, premium, if any, or interest on any Indebtedness, the outstanding principal amount of which Indebtedness exceeds $100 million in the aggregate, beyond any applicable grace period or failure to perform or observe any other agreement, term or condition contained in any agreement under which that Indebtedness is created, or if any default, failure or other event under that agreement shall occur and be continuing, and the effect of that default, failure or other event is to cause $100 million or more of that Indebtedness to become due or to be required to be repurchased prior to any stated maturity;

(6) the rendering of a judgment or judgments, not subject to appeal, against the Company or any Material Subsidiary in an aggregate amount in excess of $100 million by a court or courts of competent jurisdiction, which judgment or judgments remain undischarged and unstayed for a period of 60 days; and

(7) specified events of bankruptcy, insolvency or reorganization affecting the Company or any Material Subsidiary.

If an Event of Default applicable only to the issued and outstanding Notes of a series occurs and is continuing, either the Trustee or the holders of not less than 25% in principal amount of Notes of that series then outstanding may declare the principal of, and interest and premium, if any, on all Notes of that series to be due and payable immediately.

If, however, an Event of Default applicable to all Notes issued and outstanding under the Trust Indenture, or an Event of Default described in clause (5), (6), or (7) above occurs and is continuing, either the Trustee or the holders of not less than 25% in principal amount of all issued and outstanding Notes, treated as one class, may declare the principal amount of all the Notes then outstanding to be due and payable immediately.

Subject to the provisions of the Trust Indenture relating to the duties of the Trustee, in case an Event of Default applicable to any Notes shall occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Trust Indenture at the request or direction of any of the holders of those Notes, unless those holders shall have offered to the Trustee reasonable indemnity. Subject to such provisions for the indemnification of the Trustee, the holders of not less than 25% in principal amount of Notes of a series or all series affected by an Event of Default will have the right to direct the time, method and place of conducting any proceedings for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee in respect of the Notes of a series or all series affected by that Event of Default.

Defeasance

The Trust Indenture requires the Trustee to release the Company from its obligations under the Trust Indenture relating to a particular series of Notes if specified conditions are satisfied. Among other things, the Company must deposit money or securities for the payment of all principal of and interest and any other amounts due or to become due on that series of Notes as well as for the payment of the expenses of the Trustee. The deposited money or securities must be denominated in the currency in which principal of these Notes is payable and, in the case of deposited securities, must constitute direct obligations of Canada or a province of Canada or an agency or instrumentality of Canada.

Amendments and Waivers

The Trust Indenture provides that the Company and the Trustee may enter into supplemental indentures ("Supplemental Indentures") without the consent of the holders of the Notes of any or all series to:

- add limitations or restrictions to be observed upon the amount or issue of Notes, provided that such limitations or restrictions shall not be materially adverse to the interests of the holders of the Notes;
- add covenants for the protection of the holders of Notes;
- provide for any additional Event of Default;
- make such provisions not inconsistent with the Trust Indenture as may be necessary or desirable with respect to matters or questions arising thereunder, including the making of any modifications in the form of the Notes which do not affect the substance thereof and which it may be expedient to make, provided that such provisions and modifications will not adversely affect the holders of Notes;
- provide for the issue of Notes of any one or more series and establish the form and terms of any series of Notes;
- evidence the succession, or successive successions, of successors to the Company and the covenants and obligations assumed by any such successor, in accordance with the provisions of the Trust Indenture; and
- giving effect to any extraordinary resolution or ordinary resolution of the holders of Notes in accordance with the Trust Indenture.

Other amendments and modifications of the Trust Indenture, Supplemental Indentures and Notes may be made by the Company and the Trustee with the consent of the holders of not less than 66⅔% (and in certain circumstances, a majority) in principal amount of Notes of all series voting on such amendment or modification and, if the rights of holders of Notes of a particular series of Notes would be affected differently than rights of holders of Notes of other series, not less than 66⅔% (and, in certain circumstances, a majority) in principal amount of Notes of

the series so affected by that modification or amendment voting on such amendment or modification, in each case, voting as one class. However, no modification or amendment may, without the consent of the holder of each outstanding Note of the affected series,

- reduce the principal amount at maturity of, extend the fixed maturity of, or alter the redemption provisions of, those Notes;
- change the currency in which those Notes or any premium or accrued interest is payable;
- reduce the percentage in principal amount at maturity outstanding of those Notes that must consent to an amendment, supplement or waiver or consent to take any action under the Trust Indenture, Supplemental Indenture or those Notes;
- impair the right to institute suit for the enforcement of any payment on or with respect to those Notes;
- waive a default in payment with respect to those Notes;
- reduce the rate or extend the time for payment of interest on those Notes;
- affect the ranking of those Notes in a manner adverse to the holders; or
- make any changes to the Trust Indenture, Supplemental Indentures or those Notes that would result in the Company being required to make any withholding or deduction from payments made under or with respect to those Notes.

The holders of 66⅔% in principal amount of the Notes of all series with respect to which an Event of Default shall have occurred and be continuing, voting as one class, may waive any Event of Default, except in the case of a default in payment of principal with respect to the Notes or except, further, in respect of a covenant or provision which cannot be modified or amended without the consent of the holder of each outstanding Note affected.

Definitions

In addition to the definitions set out above, the Trust Indenture contains definitions substantially to the following effect:

"Capital Lease Obligation" means any monetary obligation of the Company or a Designated Subsidiary under any leasing or similar arrangement which, in accordance with GAAP, would be classified as a capital lease and for the purposes of the Trust Indenture, the amount of Capital Lease Obligations will be the capitalized amount thereof, determined in accordance with GAAP;

"Consolidated Funded Obligations" means the aggregate amount of all Funded Obligations of the Company and its Designated Subsidiaries determined on a consolidated basis in accordance with GAAP;

"Consolidated Net Worth" means, as at any date, the consolidated shareholders' equity of the Company and its Designated Subsidiaries as at that date determined in accordance with GAAP;

"Contingent Liability" means any agreement, undertaking or arrangement by which any person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the Obligation of any other person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other person. The amount of any person's obligation under any Contingent Liability will, subject to any limitation contained in that Contingent Liability, be deemed to be the outstanding principal amount (or maximum principal amount, if larger) of the debt, obligation or other liability guaranteed thereby;

"Designated Subsidiary" means any subsidiary which is designated as such by the directors of the Company, provided that any such subsidiary may only be so designated if, after giving effect thereto, the Company would be entitled under the Trust Indenture to issue Funded Obligations in the principal amount of at least $1.00 and further provided that a subsidiary cannot be so designated if any of its shares are owned by a subsidiary which is not itself a Designated Subsidiary;

"Financial Instrument Obligations" means, with respect to any person at any time, the obligations of that person under any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, commodity future, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other similar transaction, including any option to enter into any of the foregoing, or any combination of the foregoing to the extent of the net amount due to or accruing due by the person under that obligation, determined by marking that obligation to market at that time in accordance with its terms;

"Funded Obligations" means all Indebtedness created, assumed or guaranteed, which matures by its terms on, or is renewable at the option of the obligor to, a date more than 18 months after the date of the original creation, assumption or guarantee thereof;

"GAAP" means as at any date of determination:

(1) accounting principles which are recognized as being generally accepted in Canada, if the Company is then preparing its financial statements in accordance with such principles; or

(2) accounting principles which are recognized as being generally accepted in the United States, if the Company is then preparing its financial statements in accordance with such principles;

"Indebtedness" means, without duplication, with respect to any person,

(1) all obligations of that person for borrowed money, including obligations with respect to bankers' acceptances and contingent reimbursement obligations, excluding Preferred Securities issued by that person;

(2) all obligations issued or assumed by that person in connection with its acquisition of property in respect of the deferred purchase price of that property;

(3) all Capital Lease Obligations and Purchase Money Obligations of that person; and

(4) all Contingent Liabilities of that person in respect of any of the foregoing;

"Material Subsidiary" means, as at any date, a Designated Subsidiary,

(1) the total assets of which represent more than 10% of the total assets of the Company determined on a consolidated basis as shown in the most recently publicly released consolidated financial statements of the Company; or

(2) the total revenues of which represent more than 10% of the total revenues of the Company determined on a consolidated basis as shown in the most recently publicly released consolidated financial statements of the Company;

"Obligations" means, without duplication, with respect to any person, all items which, in accordance with GAAP, would be included as liabilities on the liability side of the balance sheet of that person as of the date at which Obligations are to be determined, other than Preferred Securities issued by that person; and all Contingent Liabilities of that person in respect of any of the foregoing;

"Preferred Securities" means:

(1) securities which on the date of issue by a person (a) have a term to maturity of more than 30 years, (b) are unsecured and rank subordinate to the unsecured and unsubordinated Indebtedness of that person outstanding on that date, (c) entitle that person to satisfy the obligation to pay the principal or face amount by issuing common shares, (d) entitle that person to defer the payment of interest for more than four years without causing an event of default to occur, and (e) entitle that person to satisfy the obligation to make payments of interest by issuing common shares; and

(2) shares of any class in the capital of a corporation or securities representing ownership interests in any person other than a corporation which, in either case, are not common shares;

"Principal Property" means any of the Company's and its subsidiaries' fixed assets used for the transmission, transformation and distribution of electricity in Ontario as of June 4, 2001 (the date of the Trust Indenture);

"Purchase Money Mortgage" means any security interest, mortgage, pledge, charge or other encumbrance created, issued or assumed by the Company or a Designated Subsidiary to secure a Purchase Money Obligation; provided that the security interest, mortgage, pledge, charge or other encumbrance is limited to the property (including associated rights) acquired, constructed, installed or improved using the funds advanced to the Company or a Designated Subsidiary in connection with that Purchase Money Obligation;

"Purchase Money Obligation" means Indebtedness of the Company or a Designated Subsidiary incurred or assumed to finance the purchase price, in whole or in part, of any property (except any Indebtedness which constitutes a Funded Obligation and which was incurred or assumed to finance the purchase price, in whole or in part, of any shares, bonds or other securities) or incurred to finance the cost, in whole or in part, of construction or installation of or improvements to any real property or fixtures provided that such Indebtedness is incurred or assumed within 24 months after the purchase of such real property or fixtures or the completion of such construction, installation or improvements, as the case may be, and includes any extension, renewal or refunding of any such Indebtedness, so long as the principal amount thereof outstanding on the date of such extension, renewal or refunding is not increased;

"Security Interest" means any assignment, mortgage, charge (whether fixed or floating), hypothec, pledge, lien, or other encumbrance on or interest in property or assets that secures payment of Indebtedness or Obligation;

"Total Consolidated Capitalization" means, at any time and from time to time, without duplication, the sum of (1) the principal amount of all Consolidated Funded Obligations at the time outstanding, and (2) the total share capital of the Company at the time outstanding, based upon the stated capital on the books of the Company, and (3) the principal amount of all outstanding Preferred Securities referred to in clause (1) of the definition of "Preferred Securities" plus the total amount of (or less the amount of any net deficits in) the contributed or capital surplus of the Company and the retained earnings of the Company and all Designated Subsidiaries in accordance with GAAP after adding back the amount shown on the consolidated balance sheet of the Company and its Designated Subsidiaries for minority interests applicable to Designated Subsidiaries and eliminating all intercorporate items, plus the amount of any premium on capital of the Company not included in its surplus, and less the amount, if any, by which the capital account of the Company or the consolidated capital surplus account of the Company and all Designated Subsidiaries (determined in the manner described above) has at any time been increased as a result of any write-up in the value of the shares of a subsidiary which is not a Designated Subsidiary to reflect the equity of the Company in its retained earnings or otherwise, or as a result of a restatement of the amount at which any other assets of the Company or any Designated Subsidiary are recorded on its books. The amount of Total Consolidated Capitalization of the Company and all Designated Subsidiaries at any time shall be ascertained in Canadian dollars; and

"Wholly-Owned Designated Subsidiary" means a Designated Subsidiary, all of the outstanding shares in the capital of which are owned, directly or indirectly, by or for the Company and/or by or for one or more other Wholly-Owned Designated Subsidiaries.

Global Notes

Notes may be issued in the form of fully registered global notes ("Global Notes") held by, or on behalf of, CDS Clearing and Depository Services Inc. ("CDS") or another corporation performing similar services that is acceptable to the Trustee (the "Depository") as custodian of the Global Notes and, in such event, Notes will be registered in the name of the Depository or its nominee (a "Nominee"). Where CDS acts as Depository for a series of Notes, The Depository Trust Company ("DTC"), Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), in each case as direct or indirect participants in CDS, will record beneficial ownership of such series of Notes on behalf of their respective accountholders or participants, to the extent the Company makes such series of Notes eligible with DTC, Euroclear or Clearstream, Luxembourg, as applicable (and the Company specifies as such in the prospectus supplement or pricing supplement with respect to the particular series of Notes).

Purchasers of Notes represented by Global Notes will not receive Notes in definitive form ("Definitive Notes"). Instead, ownership of such Notes will be constituted through beneficial interests in the Global Notes, and will be represented through book-entry accounts of institutions (including the Dealers), as direct and indirect participants of the Depository ("participants") which, to the extent the Depository is CDS, may include DTC, Euroclear and Clearstream, Luxembourg to the extent applicable as noted above, acting on behalf of the beneficial owners of such Notes. Each purchaser of a Note represented by a Global Note will receive a customer confirmation of purchase from the Dealer or other person from or through whom the Note is purchased in accordance with the practices and procedures of such Dealer or other person. The Depository will be responsible for establishing and maintaining book-entry accounts for its participants having interests in Global Notes.

If Global Note(s) are issued and the Depository notifies the Company that it is unwilling or unable to continue as depository in connection with the Global Notes, or if at any time the Depository ceases to be a clearing agency or otherwise ceases to be depository and the Company and the Trustee are unable to locate a qualified replacement, or if the Company elects to terminate the book-entry system, beneficial owners of Notes represented by Global Notes will receive Definitive Notes.

DTC, Euroclear and Clearstream, Luxembourg

Where CDS acts as Depository for a series of Notes, to the extent the Company makes such series of Notes eligible with DTC, Euroclear or Clearstream, Luxembourg (and the Company specifies as such in the prospectus supplement or pricing supplement with respect to such series of Notes), holders may hold such series of Notes through the accounts maintained by DTC, Euroclear or Clearstream, Luxembourg, as applicable, as participants in CDS only if they are participants of those systems, or indirectly through organizations which are participants of those systems.

In such case, DTC, Euroclear and Clearstream, Luxembourg will hold omnibus book-entry positions on behalf of their participants through customers' securities accounts in their respective depositaries which in turn will hold such positions in customers' securities accounts in the names of the nominees of the depositaries on the books of CDS. All securities in DTC, Euroclear and Clearstream, Luxembourg are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts.

Transfers of such Notes by persons holding through Euroclear or Clearstream, Luxembourg participants, as applicable, will be effected through CDS, in accordance with CDS rules, on behalf of the relevant European international clearing system by its depositaries; however, such transactions will require delivery of transfer instructions to the relevant European international clearing system by the participant in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transfer meets its requirements, deliver instructions to its depositaries to take action to effect the transfer of the Notes on its behalf by delivering Notes through CDS and receiving payment in accordance with its normal procedures for next-day funds settlement. Payments with respect to the Notes held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of Euroclear participants or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures, to the extent received by its depositaries.

All information in this short form prospectus concerning CDS, DTC, Euroclear and Clearstream, Luxembourg, reflects the Company's understanding of the policies of such organizations which may change at any time without notice.

Fixed Rate Notes

Each Fixed Rate Note will bear interest from its original issue date at the rate per annum on the face thereof until the principal amount thereof is paid or made available for payment. Interest on a Fixed Rate Note will be calculated and payable monthly, quarterly, semi-annually or annually in arrears on the dates specified in such Fixed Rate Note, or other such dates as may be agreed to between the purchaser of the Note and the Company (each, an "Interest Payment Date") and at maturity or upon earlier redemption or repayment. Interest Payment Dates will be set forth in the applicable prospectus supplement or pricing supplement for the Fixed Rate Note. Each payment of interest in respect of an Interest Payment Date will include interest accrued to but excluding such Interest Payment Date.

Floating Rate Notes

Each Floating Rate Note will bear interest from its original issue date at rates described in the Floating Rate Note and specified in the applicable prospectus supplement or pricing supplement.

The rate of interest on each Floating Rate Note will be reset monthly, quarterly, or as otherwise specified in the Floating Rate Note and applicable prospectus supplement or pricing supplement. Interest on each Floating Rate Note will be payable monthly, quarterly or as otherwise specified in the Floating Rate Note and applicable prospectus supplement or pricing supplement. Unless otherwise specified in the Floating Rate Note and applicable prospectus supplement or pricing supplement, the Company will be the calculation agent with respect to the Floating Rate Notes. Upon request of the holder of any Floating Rate Note, the Company will provide the interest rate then in effect where capable of being determined at the time of such request.

Payment of Interest and Principal

Interest on each interest bearing Note will be payable on such periodic basis or at maturity and on such date or dates as may be agreed upon by the Company and the purchaser of the Note. Payments of interest on each interest bearing Definitive Note will be made by cheque payable on the interest payment date and mailed to the address of, or if so directed by the holder, funds representing the interest payable will be forwarded by electronic funds transfer on the interest payment date to the account of, the holder appearing on the registers maintained by Computershare Trust Company of Canada, as registrar and transfer agent (the "Transfer Agent", which term shall include such other registrar or transfer agent as may from time to time be appointed by the Company) at the close of business in the City of Toronto on the tenth business day (with "business day" being a day other than Saturday, Sunday, or a day on which financial institutions in Toronto, Ontario are authorized or obligated by law or regulation to close) prior to the interest payment date or such other day specified to the Trustee by the Company and reflected in a Supplemental Indenture for a particular series of Notes. Payment of principal will be made at any branch in Canada of the bank designated in a Definitive Note against surrender of the Note.

Payment of interest and principal on each Global Note will be made to the Depository or the Nominee, as the case may be, as the registered holder of the Global Note. Interest payments on Global Notes will be made by wire transfer no later than the date interest is payable. Principal payments on Global Notes will be made by wire transfer on the maturity date delivered to the Depository or the Nominee, as the case may be, at maturity against receipt of the Global Note. As long as the Depository or the Nominee is the registered owner of a Global Note, the Depository or the Nominee, as the case may be, will be considered the sole owner of the Global Note for the purposes of receiving payment on the Note and for all other purposes under the Trust Indenture and the Note.

The Company expects that the Depository or Nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts, on the date principal or interest is payable, with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of the Depository or the Nominee. The Company also expects that such payments of principal and interest by participants to the owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of

customers in bearer form or registered in "street name" and will be the responsibility of such participants. The responsibility and liability of the Company and the Trustee in respect of Notes represented by Global Notes is limited to making payment of any principal and interest due on such Global Notes to the Depository or the Nominee.

Payments of interest and principal will be made in the currency in which the Note is denominated unless otherwise specified in the applicable prospectus supplement or pricing supplement.

If the payment date for any amount of principal or interest on any Note is not, at the place of payment, a business day such payment will be made on the next business day and the holder of such Note shall not be entitled to any further interest or other payment in respect of such delay.

Transfers

The registered holder of a Definitive Note may transfer such Note upon payment of taxes incidental thereto, if any, by executing the form of transfer provided on the reverse side of the Note and surrendering the Note to the Transfer Agent at its principal office in the City of Toronto, upon which one or more new Definitive Notes will be issued in authorized denominations in the same aggregate principal amount as the Note so transferred, registered in the name or names of the transferee or transferees.

Transfers of beneficial ownership in Notes represented by Global Notes will be effected through records maintained by the Depository for such Global Notes or the Nominee (with respect to the interest of participants) and on the records of participants (with respect to the interest of beneficial owners other than participants). Beneficial owners of an interest in a Note represented by a Global Note who are not participants in the Depository's book-entry system, but who desire to purchase, sell or otherwise transfer ownership of or other interests in Global Notes, may do so only through participants in the Depository's book-entry system. A purchaser's interest in a Note represented by a Global Note will only be exchangeable for Definitive Notes in the limited circumstances set forth under the heading "Global Notes" above and in accordance with the procedures established by the Depository or the Nominee.

The ability of a beneficial owner of an interest in a Note represented by a Global Note to pledge the Note or otherwise take action with respect to such owner's interest therein other than through a participant may be limited due to the lack of a physical certificate.

No transfer of a Note will be registered during the 10 business days immediately preceding any date fixed for payment of interest on such Note or payment of the principal amount thereof.

PLAN OF DISTRIBUTION

The Notes may be offered for sale severally and on a continuous basis by one or more of BMO Nesbitt Burns Inc., Casgrain & Company Limited, Cedar Leaf Capital Inc., CIBC World Markets Inc., Desjardins Securities Inc., Laurentian Bank Securities Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. pursuant to an agreement dated March 27, 2026, among such Dealers and the Company (the "Dealer Agreement") or such other Dealers as may be selected from time to time by the Company, in each case acting as agent of the Company or as principal. Where the Notes are offered by the Dealer(s) as agent(s), the commission payable by the Company shall be agreed from time to time between the Company and any such Dealer(s). Where the Notes are purchased by the Dealer(s) as principal, the Notes shall be purchased at such prices and with such commissions as may be agreed from time to time between the Company and any such Dealer(s) for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. Each Dealer's compensation will increase or decrease by the amount by which the aggregate price paid for Notes by purchasers exceeds or is less than the price paid by the Dealer, acting as principal, to the Company. The commission payable in connection with sales of Notes shall be no higher than 1.5% and shall be set forth in a prospectus supplement or pricing supplement that shall accompany this short form prospectus. The Company has agreed to reimburse the Dealers for certain expenses and to indemnify each Dealer against certain liabilities including liabilities under applicable Canadian securities laws.

The Company may also offer the Notes directly to potential purchasers at prices and upon terms negotiated between the purchaser and the Company.

The Company and, if applicable, the Dealers, reserve the right to reject any offer to purchase the Notes in whole or in part. The Company also reserves the right to withdraw, cancel or modify the offering of the Notes under this short form prospectus without notice. In addition, the obligations of a Dealer to purchase any particular issue of Notes as principal may be terminated at the discretion of the Dealer upon the occurrence of certain stated events as set out in detail in the Dealer Agreement, including (i) any investigation or proceeding is commenced or order is issued under a statute of Canada or the United States (other than investigations or proceedings based solely on the activities of the Dealer), or there is a change of law, that operates to prevent or restrict trading in or distribution of the Notes, (ii) any material change in the business, affairs, operations, assets, liabilities, capital or control of the Company and its subsidiaries which, in the reasonable opinion of the Dealer, could be expected to have a significant adverse effect on the market price or value of the Notes; (iii) certain events affecting the state of the financial markets or the business, operations or affairs of the Company and its subsidiaries; and (iv) certain events of downgrade or potential downgrade of credit ratings on the Company's long-term debt securities. However, the Dealers are obligated to take up and pay for all Notes of a particular issue if any of the Notes of that issue are purchased under the Dealer Agreement by the Dealers as principal.

In connection with any offering of Notes, the Dealers may, when acting as an agent or purchasing as principal, over-allot or effect transactions which stabilize or maintain the market price of the Notes offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Dealers may from time to time purchase and sell the Notes in the secondary market but are not obliged to do so. Unless otherwise indicated in a prospectus supplement or pricing supplement, there is no market through which Notes may be resold and purchasers may not be able to resell Notes purchased under this short form prospectus. The offering price and other selling terms for any sales in the secondary market may, from time to time, be varied by the Dealers.

The offering of Notes hereunder is directed only to residents of the provinces of Canada and in the United States in certain transactions exempt from the provisions of the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to a U.S. person (as defined by Rule 902(k) of Regulation S) except to "qualified institutional buyers" in reliance upon Rule 144A under the Securities Act. In addition, until 40 days after the commencement of the offering of an issue of Notes, an offer or sale of that issue within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption under the Securities Act.

BMO Nesbitt Burns Inc., Cedar Leaf Capital Inc., CIBC World Markets Inc., Desjardins Securities Inc., Laurentian Bank Securities Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. are each subsidiaries or affiliates of the HOI Lenders which are lenders to the Company under the HOI Credit Facility, and BMO Nesbitt Burns Inc., Cedar Leaf Capital Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. are each subsidiaries or affiliates of the HOL Lenders which are lenders to HOL under the HOL Credit Facility. As of March 26, 2026, there is no outstanding indebtedness under the HOI Credit Facility or the HOL Credit Facility. Proceeds from the sale of particular series or issues of Notes in which such Dealers are acting as principals or agents may be used to repay indebtedness under the HOI Credit Facility or any future credit facility to which the Company may be a party with one or more of the Lenders and may be indirectly used to repay indebtedness under the HOL Credit Facility. Consequently, if and when there is outstanding indebtedness to any of the Lenders under such facilities, the Company may be considered a connected issuer of those Dealers who are affiliates of such Lenders for purposes of Canadian securities laws. The decision to distribute the Notes will be made by the Company and the terms and conditions of distribution will be determined through negotiations between the Company and the Dealers. The Lenders will not have any involvement in such decision or determination. As of the date hereof, the Company is in compliance with the terms of the HOI Credit Facility. Other than payment of their portion of the commissions, if applicable, or as set forth above in respect of the HOI Credit Facility and/or the HOL Credit Facility, none of the proceeds of such offerings of Notes will be applied, directly or indirectly, for the benefit of BMO Nesbitt Burns Inc., Cedar Leaf Capital Inc., CIBC World Markets Inc., Desjardins Securities Inc., Laurentian Bank Securities Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. or their affiliates. See "Use of Proceeds".

USE OF PROCEEDS

The net proceeds from the sale of Notes will be added to the general funds of the Company and, together with funding from other sources, including internally generated funds and other external financings, will be used to finance the Company's working capital requirements, to repay outstanding bank loans (which may include indebtedness under the HOI Credit Facility), debentures, notes or other Indebtedness, to make advances to subsidiaries of the Company, to finance the Company's capital expenditure program, to make acquisitions and for other general corporate purposes. Where appropriate, a prospectus supplement or pricing supplement will contain more specific information about the use of proceeds from each sale of Notes. All expenses relating to an offering of Notes, including any compensation paid to the Dealers, will be paid out of the Company's general funds or netted out of the proceeds of the particular offering of Notes. The Company may from time to time issue debt instruments and incur additional Indebtedness otherwise than through the issue of Notes pursuant to this short form prospectus.

PRIOR SALES

In the 12-month period prior to the date hereof, the Company has issued the following tranches of medium term notes under the 2024 Prospectus:

Notes	Date of Issuance	Principal Amount	Sale Price (per $100 principal amount)	Gross Proceeds
3.94% Notes due 2032 (Series 61)	August 25, 2025	$450,000,000	$99.988	$449,946,000
4.30% Notes due 2035 (Series 62)	August 25, 2025	$300,000,000	$99.928	$299,784,000
4.95% Notes due 2055 (Series 63)	August 25, 2025	$350,000,000	$99.907	$349,674,500
3.90% Notes due 2033 (Series 64)	November 21, 2025	$1,200,000,000	$99.939	$1,199,268,000
4.80% Notes due 2056 (Series 65)	November 21, 2025	$400,000,000	$99.888	$399,552,000

TRADING PRICE AND VOLUME

The Company's 4.59% Notes due 2043 (Series 29) (the "Series 29 Notes") are listed on the New York Stock Exchange under the symbol "HYDO43". There have been no reported trades of the Series 29 Notes on the New York Stock Exchange since their date of issuance.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

General

The following summary describes the principal Canadian federal income tax considerations under the Tax Act generally applicable to a purchaser who acquires Notes, including entitlement to all payments thereunder, as a beneficial owner pursuant to this short form prospectus and who, at all relevant times, for purposes of the application of the Tax Act, is, or is deemed to be, resident in Canada, deals at arm's length with the Company and the Dealers, is not affiliated with the Company or any of the Dealers, and holds Notes as capital property (a "Holder").

Generally, Notes will be capital property to a purchaser provided the purchaser does not acquire or hold those Notes in the course of carrying on a business or as part of an adventure or concern in the nature of trade. Certain purchasers whose Notes would not otherwise qualify as capital property may, in certain circumstance, be entitled to make or may have already made the irrevocable election permitted by subsection 39(4) of the Tax Act the effect of which may be to deem to be capital property any Notes (and all other "Canadian securities", as defined in the Tax Act) owned by such purchasers in the taxation year in which the election is made and in all subsequent taxation years. Purchasers whose Notes might not otherwise be considered to be capital property should consult their own tax advisors concerning this election.

This summary is not applicable to a purchaser (i) an interest in which is a "tax shelter investment", (ii) that is, for purposes of certain rules (referred to as the mark-to-market rules) applicable to securities held by financial institutions, a "financial institution", (iii) that reports its "Canadian tax results" in a currency other than Canadian currency, or (iv) that has entered into a "derivative forward agreement" with respect to the Notes, each as defined in the Tax Act. Such purchasers should consult their own tax advisors. In addition, this summary does not address the deductibility of interest by a Holder who has borrowed money or otherwise incurred debt in connection with the acquisition of the Notes. Holders should consult their own tax advisors in that regard.

This summary is based on the current provisions of the Tax Act and counsel's understanding of the current administrative policies and assessing practices of the Canada Revenue Agency published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "Proposed Amendments") and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurances can be given that the Proposed Amendments will be enacted as proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative policy or assessing practice, whether by legislative, regulatory, administrative or judicial action, nor does it take into account any tax legislation or considerations of any province, territory or foreign jurisdiction, which may differ from the Canadian federal income tax consequences discussed herein.

Depending upon the terms of any offering of the Notes as set forth in an applicable prospectus supplement or pricing supplement, the Canadian federal income tax considerations applicable to a Holder of the Notes at the time of such offering may be different from those described below. Such considerations may be described more particularly when such Notes are offered (and then only to the extent material) in the prospectus supplement or pricing supplement related thereto. In the event the Canadian federal income tax considerations are described in such prospectus supplement or pricing supplement, the description below will be superseded by the description in the prospectus supplement or pricing supplement to the extent indicated therein.

This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular purchaser. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, prospective purchasers of Notes should consult their own tax advisors having regard to their own particular circumstances.

Currency Conversion

For purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of the Notes issued in a non-Canadian currency must be converted into Canadian dollars based on exchange rates as determined in accordance with the Tax Act. The amount of interest required to be included in the income of, and capital gains or capital losses realized by, a Holder may be affected by fluctuations in the applicable exchange rate.

Taxation of Interest and other Amounts

A Holder that is a corporation, partnership, unit trust or any trust of which a corporation or partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on a Note that accrues or is deemed to accrue to such Holder to the end of that taxation year, or becomes receivable or is received by the Holder before the end of such taxation year, to the extent that such interest was not included in computing the Holder's income for a preceding taxation year.

Any other Holder, including an individual and a trust of which neither a partnership nor a corporation is a beneficiary, will be required to include in computing its income for a taxation year any interest on a Note that is received or receivable by such Holder in that taxation year (depending on the method regularly followed by the Holder in computing its income) to the extent that such interest was not included in computing the Holder's income for a preceding taxation year. In addition, if at any time a Note should become an "investment contract" (as defined in the Tax Act) in relation to a Holder, such Holder will also be required to include in the Holder's income, for any taxation year that includes an "anniversary day" (as defined in the Tax Act) of the Note, any interest, or amount that is considered for the purposes of the Tax Act to be interest, on the Note which accrues to the Holder to the end of such day, to the extent that such interest was not otherwise included in computing the Holder's income for the taxation year or a preceding taxation year. For this purpose, an "anniversary day" means the day that is one year after the day immediately preceding the date of issue of a Note, the day that occurs at every successive one year interval from that day and the day on which a Note is disposed of.

Where a Holder is required to include an amount on account of interest on a Note that accrued in respect of the period prior to its date of acquisition, the Holder will be entitled to a deduction in computing income of an equivalent amount. The adjusted cost base to the Holder of the Note will be reduced by the amount which is so deducted.

Any amount paid by the Company to a Holder as a premium, penalty or bonus because of repayment of all or part of the principal amount of a Note before its maturity will be deemed to be received by the Holder as interest on the Note at that time and will be required to be included in computing the Holder's income as described above, to the extent such amount can reasonably be considered to relate to, and does not exceed the value at the time of payment of, interest that, but for the repayment, would have been paid or payable by the Company on the Note for a taxation year of the Company ending after that time.

In the event the Notes are issued at a discount from their face value, and generally depending on the amount of such discount, a Holder may be required to include an additional amount in computing income, either in accordance with the deemed interest accrual rules contained in the Tax Act or in the taxation year in which the discount is received or receivable by the Holder. A Holder should consult its tax advisor in these circumstances, as the treatment of the discount will vary with the facts and circumstances giving rise to the discount.

Disposition of Notes

On a disposition or deemed disposition of a Note, including a redemption, repayment prior to or on maturity or repurchase, a Holder will generally be required to include in computing its income for the taxation year in which the disposition occurs the amount of interest that has accrued, or that has been deemed to have accrued, on the Note to that time except to the extent that such amount has otherwise been included in the Holder's income for the taxation year or a preceding taxation year.

Generally, on a disposition or deemed disposition of a Note, including a redemption, payment on maturity or repurchase, a Holder will realize a capital gain (or capital loss) equal to the amount, if any, by which the proceeds of disposition, net of any amount included in the Holder's income as interest (as described above) and any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the Holder of the Note immediately before the disposition or deemed disposition. Generally, a Holder is required to include in computing its income for a taxation year one-half of the amount of any capital gain (a "taxable capital gain") realized in that taxation year. Subject to and in accordance with the provisions of the Tax Act, a Holder is required to deduct one-half of the amount of any capital loss (an "allowable capital loss") realized in a taxation year from taxable capital gains realized by the Holder in that taxation year and allowable capital losses in excess of taxable capital gains for the taxation year may be carried back

and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such taxation years.

Additional Refundable Tax

A Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) throughout a taxation year or a "substantive CCPC" (as defined in the Tax Act) at any time in a taxation year may be liable to pay an additional refundable tax on its "aggregate investment income" (as defined in the Tax Act), which generally includes interest income and taxable capital gains.

RISK FACTORS

In addition to the other information contained and incorporated by reference in this short form prospectus, a purchaser should consult its own financial and legal advisors and should carefully consider the following risk factors before investing in the Notes. Notes will not be an appropriate investment for a purchaser if the purchaser does not understand the terms of the Notes or financial matters in general. A purchaser should not purchase Notes unless the purchaser understands, and can bear, all of the investment risks involving the Notes. For a discussion of the risks to which the Company's business and industry are subject, please see the section entitled "Risk Factors" in the Company's most recent annual information form and the section entitled "Risk Management and Risk Factors" in the Company's most recent management's discussion and analysis. In addition to those risks, an investment in the Notes is subject to the following additional risks:

The Company Must Receive Dividends and Other Payments from Its Subsidiaries in Order to Make Payments to Holders of Notes

The Company is a holding company that has no significant assets or operations other than the debt and equity of its subsidiaries. The Company's most significant subsidiary is HONI, a regulated wholly-owned subsidiary which owns and operates the Company's transmission and distribution assets. The Company is dependent on dividends, interest, loans and other payments from this and other subsidiaries to meet its debt service and other obligations.

The Company's subsidiaries are separate legal entities and have no obligation to pay any amounts due under the Notes and, except for their respective obligations under existing intercompany debt obligations owing to the Company, have no obligation to make funds available to the Company, whether by dividends, interest, loans or other payments. In addition, these subsidiaries have not guaranteed the Notes. In the event of bankruptcy, liquidation or reorganization of any of the Company's subsidiaries, the creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to the Company, except to the extent that the Company is recognized as a creditor of those subsidiaries.

The Company's subsidiaries currently are not restricted in terms of their ability to pay dividends or make other payments to the Company, other than by solvency provisions under generally applicable Ontario corporate law or partnership law, as applicable. However, they could become so restricted in the future by, among other things, other laws as well as agreements to which they may become parties in the future.

The Notes Are Not Secured

The Notes will not be secured by any of the assets of the Company. If the Company were involved in any bankruptcy, dissolution, liquidation or reorganization, the holders of secured indebtedness of the Company would have a claim on the assets securing such indebtedness that would rank prior to the claim of holders of Notes on such assets. In such circumstances, it is possible that there would be insufficient assets remaining from which claims of the holders could be satisfied. Holders of secured indebtedness of the Company also would have a claim that ranks *pari*

passu with the claim of holders of Notes on the remaining assets of the Company to the extent that such security did not satisfy such secured indebtedness in full.

There May Be No Trading Market for the Notes and if One Develops, the Notes May Be Subject to Trading Price Fluctuations

The Notes are new issues of securities for which, unless otherwise indicated in a prospectus supplement or pricing supplement, there is no existing trading market. The Company cannot predict whether any active trading market will develop for the Notes, even if the Notes are listed on a stock exchange. If a trading market does not develop or is not maintained, it may be difficult or impossible to resell the Notes. Further, there can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of any holder to sell the Notes or the price at which a holder will be able to sell the Notes.

Even if an active trading market develops for the Notes, the Notes could trade at prices that may be higher or lower than their initial offering prices, depending on many factors, including prevailing interest rates, the Company's results of operations and financial position, the ratings assigned to the Notes and the Company's other debt securities, and the markets for similar debt securities.

If a holder of Notes sells any Notes before their maturity, such holder may have to do so at a substantial discount from the issue price, and as a result such holder may suffer substantial losses.

Investors May Be Subject to the Risk of Exchange Rate Fluctuations

An investment in Notes that are denominated or payable in a currency other than the functional currency of the investor entails significant risks that are not associated with a similar investment in a security denominated in the functional currency of the investor. Such risks include, without limitation, the possibility of significant changes in rates of exchange between the two currencies, the possibility of the imposition or modification of foreign exchange controls in respect of one or both of the currencies, and potential illiquidity in the secondary market. These risks generally depend on circumstances over which the Company has no control including political events, government policy and macroeconomic conditions. These risks will vary depending upon the currency or currencies involved and, where appropriate, will be more fully described in a prospectus supplement or pricing supplement.

In certain circumstances, investors may receive payments in currencies other than the currency in which the Notes are denominated. This may subject investors to exchange rate risk in respect of the conversion of principal and interest payments on the Notes from the currency in which the Notes are denominated to the currency of the payment which they receive, and they may also bear any costs of conversion incurred in connection therewith. For example, to the extent the Company makes a series of Notes eligible with DTC, investors who hold such Notes through DTC where CDS acts as Depository and who do not elect to receive principal and interest payments in Canadian dollars will be subject to exchange rate risk in respect of the conversion of Canadian dollar principal and interest payments to U.S. dollars, and will also bear any costs of conversion incurred in connection therewith.

The Notes will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. A judgment by a Canadian court relating to any Note may be awarded only in Canadian currency and such judgment may be based on a rate of exchange in existence on a day other than the day of payment.

This short form prospectus does not describe all the risks of an investment in the Notes denominated or payable in a currency other than an investor's functional currency, and prospective investors should consult their own financial and legal advisor as to the risks entailed with respect thereto. Notes denominated in currencies other than an investor's functional currency are not appropriate investments for investors who are unfamiliar with foreign currency transactions.

Changes in Interest Rates and Prevailing Yields on Similar Securities Will Affect the Market Price or Value of the Notes

Generally, the market price or value of the Notes will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline. Fluctuations in

interest rates may also impact borrowing costs of the Company which may adversely affect its creditworthiness. It is impossible to predict whether interest rates will rise or fall.

The prevailing yield on debt securities with comparable maturities will affect the market value of the Notes. Assuming all other factors remain unchanged, the market value of the Notes will decline as prevailing yields for similar securities rise and will increase as prevailing yields for similar securities decline. Fluctuations in prevailing yields may also impact borrowing costs of the Company which may adversely affect its creditworthiness. It is impossible to predict whether prevailing yields will rise or fall.

Changes in Creditworthiness or Credit Ratings May Affect the Market Price or Value of the Notes

The perceived creditworthiness of the Company and real or anticipated changes in credit ratings of the Notes may affect the market price or value and the liquidity of the Notes. The Company cannot predict what actions rating agencies may take in the future, positive or negative, including in response to government action or inaction relating to or impacting the Company. In addition, negative changes in the Company's credit rating may affect the credit ratings of the Notes and can affect the cost at which the Company can access the debt market and increase the Company's cost of debt.

Floating Rate Notes Are, By Their Nature, Uncertain

Investments in Floating Rate Notes entail risks not associated with investments in Fixed Rate Notes. The resetting of the applicable rate on a Floating Rate Note may result in a lower interest rate as compared to a Fixed Rate Note issued at the same time. The applicable rate on a Floating Rate Note will fluctuate in accordance with fluctuations in the instrument or obligation or other measure on which the applicable rate is based, which in turn may fluctuate and be affected by a number of interrelated factors, including economic, financial and political events over which the Company has no control.

The Notes May Be Subject to Early Redemption

Depending on the terms of the Notes, the Company may have the right to redeem them, or the Notes may be automatically redeemable under some circumstances. If the Notes are redeemed, depending on the market conditions at the time of redemption, a holder of Notes may not be able to reinvest the redemption proceeds in a security with a comparable return. Potential purchasers should consider reinvestment risk in light of other investments available at that time.

In addition, any optional redemption feature giving the Company the right to redeem Notes may limit their market value. Where the Notes include such a feature, during any period when the Company may elect to redeem Notes prior to the stated maturity date, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed.

LEGAL MATTERS

Certain legal matters in connection with any offering hereunder will be passed upon by Osler, Hoskin & Harcourt LLP for the Company and by Blake, Cassels & Graydon LLP for the Dealers. The partners and associates of Osler, Hoskin & Harcourt LLP and Blake, Cassels & Graydon LLP beneficially own, directly or indirectly, less than one percent of the securities of the Company or any associate or affiliate of the Company.

WELL-KNOWN SEASONED ISSUERS

The Company has filed this prospectus in reliance upon Part 9B of NI 44-102 (the "**WKSI Rules**"), which allows "well-known seasoned issuers", or "WKSIs", to file a base shelf prospectus prepared in accordance with the WKSI Rules (a "**WSKI base shelf prospectus**") as the first public step in an offering, and to omit certain disclosure from such WKSI base shelf prospectus. As of March 26, 2026, the Company determined that it qualified as a "well-known seasoned issuer" under the WKSI Rules because its qualifying public debt (as defined in NI 44-102) was approximately $6,775 million, which exceeded the amount referred to in subparagraph (a)(ii) of the definition of "well-known seasoned issuer", under Part 9B of NI 44-102.

AUDITORS, REGISTRAR AND TRANSFER AGENT

KPMG LLP, Chartered Professional Accountants, located at 333 Bay Street, Suite 4600, Bay Adelaide Centre, Toronto, Ontario M5H 2S5, are the auditors of the Company and have confirmed with respect to the Company, that they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

Registers for the registration and transfer of the Notes issued in registered form are kept at the principal offices of the Transfer Agent in the City of Toronto.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revision of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

CERTIFICATE OF HYDRO ONE INC.

Dated: March 27, 2026

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all of the provinces of Canada.

(Signed) David Lebeter
President and Chief Executive Officer

(Signed) Harry P. Taylor
Executive Vice President, Chief Financial and Regulatory Officer

On behalf of the Board of Directors:

(Signed) Melissa Sonberg
Director

(Signed) Helga Reidel
Director

CERTIFICATE OF DEALERS

Dated: March 27, 2026

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated in this prospectus by reference will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all the provinces of Canada.

BMO NESBITT BURNS INC.	**CASGRAIN & COMPANY LIMITED**	**CEDAR LEAF CAPITAL INC.**
By: (Signed) Andrew Macpherson	By: (Signed) Roger Casgrain	By: (Signed) Dean Begley
CIBC WORLD MARKETS INC.	**DESJARDINS SECURITIES INC.**	**LAURENTIAN BANK SECURITIES INC.**
By: (Signed) Brian Pong	By: (Signed) Ryan Godfrey	By: (Signed) Benoit Lalonde
NATIONAL BANK FINANCIAL INC.	**RBC DOMINION SECURITIES INC.**	**SCOTIA CAPITAL INC.**
By: (Signed) John Carrique	By: (Signed) Robert Brown	By: (Signed) Patrick Breithaupt

TD SECURITIES INC.

By: (Signed) Mark Laing

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus has been filed under legislation in the Province of Ontario that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities. This short form base shelf prospectus has been filed in reliance on an exemption from the preliminary base shelf prospectus requirement for a well-known seasoned issuer.

This short form 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. A registration statement relating to these securities has been filed with the United States Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This short form prospectus shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Hydro One Inc. at 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario M5G 2P5, (416) 345-6044 and are also available electronically at www.sedarplus.com.*

SHORT FORM BASE SHELF PROSPECTUS

New Issue August 18, 2025

HYDRO ONE INC.

Debt Securities

Hydro One Inc. (the "**Issuer**") may from time to time issue, offer and sell debentures, notes or other evidence of indebtedness of any kind, nature or description (collectively, "**Debt Securities**") under this short form base shelf prospectus (the "**Prospectus**"). The Debt Securities offered hereby may be offered or sold separately or together, in separate series, as senior, or subordinated or junior subordinated indebtedness, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more prospectus supplements to this Prospectus (each, a "**Prospectus Supplement**" and together, the "**Prospectus Supplements**").

All shelf information permitted under applicable laws to be omitted from this Prospectus, including as permitted under the WKSI Blanket Order (as defined below), will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of such Prospectus Supplement and only for the purposes of the distribution of the Debt Securities to which such Prospectus Supplement pertains.

Unless otherwise specified in the applicable Prospectus Supplement, the Debt Securities will not be listed on any securities exchange. **There is currently no market through which the Debt Securities may be sold, and purchasers may not be able to resell such Debt Securities purchased under this Prospectus and any applicable Prospectus Supplement. This may affect the pricing of such Debt Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Debt Securities and the extent of issuer regulation. See "Risk Factors" and "Underwriting".**

The Debt Securities offered hereby have not been qualified for sale under the securities laws of any province or territory of Canada (other than the Province of Ontario) and, unless otherwise provided in the Prospectus Supplement relating to a particular offering of Debt Securities, will not be offered or sold, directly or indirectly, in Canada or to any resident of Canada.

Unless otherwise indicated in the Prospectus Supplement relating to an offering of Debt Securities, the particular offering of Debt Securities will be subject to approval of certain legal matters on behalf of the Issuer by Osler, Hoskin & Harcourt LLP, with respect to Canadian law and by Skadden, Arps, Slate, Meagher & Flom LLP, with respect to United States ("**U.S.**") law.

Investing in the Debt Securities involves significant risks. Prospective investors should carefully read and consider the risk factors described or referenced under the heading "Cautionary Note Regarding Forward-Looking Information" and "Risk Factors" in this Prospectus, in any applicable Prospectus Supplement and in the documents incorporated by reference herein and therein before purchasing Debt Securities.

The Issuer is permitted, under the multi-jurisdictional disclosure system adopted by the U.S. and Canada, to prepare this Prospectus in accordance with Canadian disclosure requirements. Prospective investors should be aware that such requirements are different from those of the U.S.

Unless otherwise stated therein, all financial statements incorporated by reference in this Prospectus have been prepared in accordance with generally accepted accounting principles in the U.S. ("U.S. GAAP").

A purchaser's ability to enforce civil liabilities under U.S. federal securities laws may be affected adversely by the fact that the Issuer is organized under the laws of the Province of Ontario, all of the officers and directors of the Issuer and the majority of the experts named in this Prospectus are non-U.S. residents and that all or a substantial portion of the assets of the Issuer and said persons are located outside of the U.S.

THE DEBT SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SEC OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The specific terms of the Debt Securities will be set forth in an accompanying Prospectus Supplement and may include the designation of the particular series, the aggregate principal amount of Debt Securities being offered, whether such Debt Securities are senior, subordinated or junior subordinated, any limit on the aggregate principal amount of the Debt Securities of any series being offered, the issue and delivery date, the maturity date, the offering price, the interest rate or method of determining the interest rate, the interest payment date(s), any redemption provisions, any repayment provisions and any other material terms and conditions of the Debt Securities.

The Issuer reserves the right to include in a Prospectus Supplement specific variable terms pertaining to the Debt Securities that are not within the descriptions set forth in this Prospectus.

Prospective investors should be aware that an acquisition of the Debt Securities described herein may have tax consequences both in Canada and the U.S. This Prospectus does not, and any applicable Prospectus Supplement may not, fully describe these tax consequences. Prospective investors should read the tax discussion (if any) in any applicable Prospectus Supplement, but note that such discussion may be only a general summary that does not cover all tax matters that may be of importance to a prospective investor. Each prospective investor is urged to consult its own tax advisors about the tax consequences relating to the purchase, ownership and disposition of the Debt Securities in light of the investor's own circumstances.

No underwriter, dealer or agent has been involved in the preparation of this Prospectus or has performed any review of the contents of this Prospectus.

This Prospectus constitutes a public offering of Debt Securities in only those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell the Debt Securities. The Issuer may offer and sell the Debt Securities to, or through, underwriters or dealers purchasing as principals and may also sell the Debt Securities to one or more purchasers directly or through agents. See "Underwriting".

A Prospectus Supplement relating to a particular offering of Debt Securities will identify each underwriter, dealer or agent, as the case may be, engaged by the Issuer in connection with the offering and sale of the Debt Securities, and will set forth the terms of the offering of the Debt Securities, including the public offering price of such Debt Securities

(or the manner of determination thereof if offered on a non-fixed price basis), the method of distribution of such Debt Securities, including, to the extent applicable, the proceeds to, and the portion of expenses borne by, the Issuer from such sale, any underwriting fees, discounts or commissions and any discounts or concessions allowed, re-allowed or paid by any underwriter to other dealers and other material terms of the plan of distribution. If offered on a non-fixed price basis, Debt Securities may be offered at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at prices to be negotiated with purchasers at the time of sale, which prices may vary between purchasers and during the period of distribution. If Debt Securities are offered on a non-fixed price basis, the underwriters', dealers' or agents' compensation, as applicable, will be increased or decreased by the amount by which the aggregate price paid for Debt Securities by the purchasers exceeds or is less than the gross proceeds paid by the underwriters, dealers or agents to the Issuer. See "Underwriting".

In connection with any offering of Debt Securities (unless otherwise specified in a Prospectus Supplement), the underwriters, dealers or agents may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Debt Securities offered at levels other than those which might otherwise prevail on the open market. These transactions may be commenced, interrupted or discontinued at any time. See "Underwriting".

Securities legislation in the Province of Ontario provides purchasers with the right to withdraw from an agreement to purchase Debt Securities. See "*Statutory Rights of Withdrawal and Rescission*".

As of the date hereof, the Issuer has determined that it qualifies as a "well-known seasoned issuer" under the WKSI Blanket Order. See "*Exemptions – Well-Known Seasoned Issuers*".

The head and registered office of the Issuer is located at 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario, M5G 2P5.

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ABOUT THIS PROSPECTUS

In this Prospectus and in any Prospectus Supplement, unless otherwise noted or the context otherwise requires, references to "**Hydro One**" refer to Hydro One Inc. and its subsidiaries taken together as a whole and references to the "**Issuer**" refer solely to Hydro One Inc. The board of directors of Hydro One Inc. are comprised of the same directors as the board of directors of Hydro One Limited and as a result, references to the "**Board of Directors**" mean collectively the board of directors of Hydro One Limited and the board of directors of Hydro One Inc.

Unless otherwise expressly stated therein, the financial information of the Issuer contained in the documents incorporated by reference herein are presented in Canadian dollars. The Issuer prepares and presents its financial statements in accordance with U.S. GAAP. Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement is prepared in accordance with U.S. GAAP.

This Prospectus provides a general description of Debt Securities that the Issuer may offer. Each time the Issuer sells Debt Securities under this Prospectus, the Issuer will file a Prospectus Supplement that will contain specific information about the terms of that offering. The Prospectus Supplement may also add, update or change information contained in this Prospectus. Before investing in any Debt Securities, a prospective investor should read both this Prospectus and any applicable Prospectus Supplement, together with the additional information described below and in the applicable Prospectus Supplement under "Documents Incorporated by Reference".

This Prospectus includes, or the documents incorporated by reference herein include, a summary of certain material agreements of the Issuer. The summary descriptions are not complete and are qualified by reference to the terms of the material agreements, which have been filed with the Canadian securities regulatory authorities and are available on SEDAR+ under the Issuer's profile at www.sedarplus.com. Investors are encouraged to read the full text of such material agreements.

The Issuer is responsible for the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement. The Issuer has not authorized anyone to provide you with different or additional information. Investors should only rely on the information contained in this Prospectus or any Prospectus Supplement and in the documents incorporated by reference herein and therein and investors are not entitled to rely on parts of such information to the exclusion of others. The Issuer is not making an offer of Debt Securities in any jurisdiction where the offer is not permitted by law. You should not assume that the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement is accurate as of any date other than the date of the applicable document.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This Prospectus, including the documents incorporated by reference herein, contains "forward-looking information" within the meaning of applicable Canadian securities laws and "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 (collectively, "**forward-looking information**") that is based on current expectations, estimates, forecasts and projections about Hydro One's business and the industry, regulatory and economic environments in which Hydro One operates and includes beliefs and assumptions made by management. Such information includes, but is not limited to, statements related to: the general development of Hydro One's business; Hydro One's strategy and goals; the terms of an offering of Debt Securities under this Prospectus; future sales of Debt Securities; and statements concerning the content of future Prospectus Supplements and the terms of the Indenture (as defined below). Additional forward-looking information is identified in the various documents incorporated by reference in this Prospectus, including in the section entitled "Forward-Looking Information" in the Issuer's most recent annual information form and the section entitled "Forward-Looking Statements and Information" in the Issuer's most recent annual and interim management's discussion and analysis of the financial condition and results of operations of the Issuer. Words such as "aim", "could", "would", "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "target" and variations of such words and similar expressions are intended to identify such forward-looking information. The forward-looking information contained or incorporated by reference in this Prospectus is not a guarantee of future performance and involves assumptions and risks and uncertainties that are difficult to predict. In particular, this forward-looking information is based on a variety of factors and assumptions including, but not limited to: no unforeseen changes in the legislative and operating

framework for Ontario's electricity market or for Hydro One specifically; favourable decisions from the Ontario Energy Board ("**OEB**") and other regulatory bodies concerning outstanding and future rate and other applications; no unexpected delays in obtaining required regulatory approvals; no unforeseen changes in rate orders or rate setting methodologies for Hydro One's distribution and transmission businesses; no unfavourable changes in environmental regulation; continued use of U.S. GAAP; a stable regulatory environment; no significant changes to the Issuer's current credit ratings; no unforeseen impacts of new accounting pronouncements; no changes to expectations regarding electricity consumption; no unforeseen changes to economic and market conditions; completion of operating and capital projects that have been deferred; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to Hydro One including information obtained by Hydro One from third-party sources. Actual results may differ materially from those expressed, implied or forecasted 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, financial condition and credit stability 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 discussed in more detail under "Risk Factors" in this Prospectus or in any Prospectus Supplement and in the various documents incorporated by reference in this Prospectus, including in the sections entitled "Forward-Looking Information" and "Risk Factors" in the Issuer's most recent annual information form, the sections entitled "Risk Management and Risk Factors" and "Forward-Looking Statements and Information" in the Issuer's most recent annual management's discussion and analysis of the financial condition and results of operations of the Issuer and the section entitled "Forward-Looking Statements and Information" in the Issuer's most recent interim management's discussion and analysis of the financial condition and results of operations of the Issuer. You should carefully consider these and other factors and not place undue reliance on forward-looking information.

The Issuer does not undertake or assume any obligation to update or revise any forward-looking information for any reason, except as required by applicable securities laws.

WHERE TO FIND ADDITIONAL INFORMATION

The Issuer has filed with the SEC, under the U.S. Securities Act of 1933, as amended, a registration statement on Form F-10 relating to the Debt Securities qualified by this Prospectus (the "**Registration Statement**"). This Prospectus, which constitutes a part of the Registration Statement, does not contain all of the information contained in the Registration Statement, certain items of which are contained in the exhibits to the Registration Statement as permitted by the rules and regulations of the SEC. For further information with respect to the Issuer and the Debt Securities offered pursuant to this Prospectus and any Prospectus Supplement, reference is made to the Registration Statement and to the exhibits filed therewith. Statements included or incorporated by reference in this Prospectus about the contents of certain documents are not necessarily complete, and in each instance, reference is made to the copy of the document filed as an exhibit to the Registration Statement. Each such statement is qualified in its entirety by such reference.

Under the multi-jurisdictional disclosure system adopted by the U.S. and Canada, documents and other information that the Issuer files with the SEC may be prepared in accordance with the disclosure requirements of Canada, which are different from those of the U.S. You may read and download any public document that the Issuer has filed with the Canadian securities regulatory authorities on SEDAR+ at www.sedarplus.com.

DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the SEC as part of the Registration Statement: (i) the documents referred to under the heading "Documents Incorporated by Reference"; (ii) the consent of KPMG LLP; (iii) the powers of attorney from the directors and officers of the Issuer (included on the signature page to the Registration Statement); and (iv) a form of indenture between the Issuer, as issuer, a U.S. trustee to be identified in the future (the "**U.S. Trustee**"), and a Canadian co-trustee to be identified in the future (the "**Canadian Co-Trustee**", and together with the U.S. Trustee, the "**Trustees**") (as it may be amended, restated, supplemented or replaced from time to time, the "**Indenture**").

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed by the Issuer with the Ontario Securities Commission, are specifically incorporated by reference into, and form an integral part of, this Prospectus (except that any description of our credit ratings in any of the following documents shall not be incorporated by reference in this Prospectus or any Prospectus Supplement):

(a) the annual information form of the Issuer dated February 20, 2025 for the year ended December 31, 2024 (the "**AIF**");

(b) the statement of executive compensation of the Issuer dated April 28, 2025 incorporated by reference in the AIF;

(c) the comparative audited consolidated financial statements of the Issuer as at and for the years ended December 31, 2024 and December 31, 2023, together with the related notes thereto and the report of the independent registered public accounting firm thereon (the "**Annual Financial Statements**");

(d) management's discussion and analysis in respect of the Annual Financial Statements;

(e) the comparative unaudited condensed interim consolidated financial statements of the Issuer as at June 30, 2025 and for the three and six month periods ended June 30, 2025 and June 30, 2024, together with the related notes thereto (the "**Interim Financial Statements**"); and

(f) management's discussion and analysis in respect of the Interim Financial Statements.

Except as otherwise stated below, any documents of the type referred to above, any material change report (excluding confidential material change reports), any business acquisition report or other disclosure document required to be incorporated by reference into a prospectus filed under National Instrument 44-101 – *Short Form Prospectus Distributions* filed by the Issuer with the Ontario Securities Commission after the date of this Prospectus and prior to 25 months from the date hereof shall be deemed to be incorporated by reference into this Prospectus (except that any description of our credit ratings in any such document shall not be incorporated by reference in this Prospectus or any Prospectus Supplement). To the extent that any document or information incorporated by reference in this Prospectus is included in a report that is filed with or furnished to the SEC, such document or information shall be deemed to be incorporated by reference as an exhibit to the Registration Statement (in the case of any report on Form 6-K, if and to the extent expressly set forth in such report).

Upon new annual audited consolidated financial statements and accompanying management's discussion and analysis being filed by the Issuer with and, where required, accepted by, the Ontario Securities Commission during the term of this Prospectus, the previous annual audited consolidated financial statements and accompanying management's discussion and analysis and all interim financial statements and accompanying management's discussion and analysis shall be deemed no longer to be incorporated into this Prospectus for the purposes of future offers and sales of Debt Securities hereunder. Upon a new annual information form being filed by the Issuer with and, where required, accepted by, the Ontario Securities Commission during the term of this Prospectus, the previous annual information form, all material change reports filed by the Issuer prior to the end of the financial year of the Issuer in respect of which the new annual information form is filed and any business acquisition report for acquisitions completed since the beginning of such financial year (unless such report is incorporated by reference into the new annual information form filed or less than nine months of the acquired business' or related businesses' operations are incorporated into the Issuer's most recent annual audited consolidated financial statements), shall be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Debt Securities hereunder. Upon new interim financial statements and accompanying management's discussion and analysis being filed by the Issuer with and, where required, accepted by, the Ontario Securities Commission during the currency of this Prospectus, all interim financial statements and accompanying management's discussion and analysis filed prior to the new interim financial statements shall be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Debt Securities hereunder. Upon a new statement of executive compensation being filed by the Issuer with and, where required, accepted by, the Ontario Securities Commission during the term of this Prospectus, the previous statement of executive compensation of the Issuer shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Debt Securities hereunder.

Certain marketing materials (as that term is defined in applicable securities legislation in Canada) may be provided to Canadian investors in connection with a distribution of Debt Securities under this Prospectus and any applicable Prospectus Supplement. Any "template version" of any such "marketing materials" (as those terms are defined in National Instrument 41-101 – *General Prospectus Requirements*) pertaining to a distribution of Debt Securities, and filed by the Issuer after the date of the applicable Prospectus Supplement for the offering and before termination of the distribution of such Debt Securities, will be deemed to be incorporated by reference in such Prospectus Supplement for the purposes of the distribution of Debt Securities to which the Prospectus Supplement pertains.

A Prospectus Supplement containing the specific terms of any offering of Debt Securities will be delivered to purchasers of such Debt Securities together with this Prospectus and will be deemed to be incorporated by reference in this Prospectus as of the date of the Prospectus Supplement solely for the purposes of the offering of Debt Securities thereunder.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for the purposes of this Prospectus, to the extent that a statement contained herein, or in any other subsequently filed document that also is, or is deemed to be, incorporated by reference herein, modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that was required to be stated or that was necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this Prospectus, except as so modified or superseded.

Copies of the documents incorporated by reference herein may be obtained on request without charge from the Secretary of the Issuer at 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario, M5G 2P5, telephone (416) 345-6044, and are also available electronically under the Issuer's profile at www.sedarplus.com.

CURRENCY

In this Prospectus, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars" or "$" are to lawful currency of Canada. References to "U.S. dollars" or "U.S.$" are to lawful currency of the United States of America. The following table sets forth, for the periods noted, the daily exchange rate and the high, low and average exchange rates of one U.S. dollar in exchange for Canadian dollars as reported by the Bank of Canada.

	Year ended December 31,			Six months ended June 30,	
	2024	2023	2022	2025	2024
High	1.4416	1.3875	1.3856	1.4603	1.3821
Low	1.3316	1.3128	1.2451	1.3558	1.3316
Average	1.3698	1.3497	1.3011	1.4094	1.3586
Period End	1.4389	1.3226	1.3544	1.3643	1.3687

As of August 15, 2025, the daily exchange rate as reported by the Bank of Canada was U.S.$1.00 = $1.3806.

HYDRO ONE INC.

Hydro One is Ontario's largest electricity transmission and distribution utility. 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. Hydro One delivers electricity safely and reliably to approximately 1.5 million customers across the Province of Ontario, and to large industrial customers and municipal utilities. Through its subsidiaries, Hydro One owns and operates approximately 30,000 circuit kilometres of high-voltage transmission lines and approximately 126,000 circuit kilometres of primary low-voltage distribution lines.

Hydro One has three segments: (i) transmission business; (ii) distribution business; and (iii) other.

Hydro One's transmission business consists of owning and operating its transmission system, which, as of December 31, 2024, accounted for approximately 90% of Ontario's transmission capacity based on the network component of the revenue requirement[1] approved by the OEB.[2] All of Hydro One's transmission business is carried out through its wholly-owned subsidiaries, Hydro One Networks Inc. ("**HONI**") and Hydro One Sault Ste. Marie LP, as well as through Hydro One's approximately 66% interest in B2M Limited Partnership (a limited partnership with respect to the Bruce-to-Milton transmission line), approximately 55% interest in Niagara Reinforcement Limited Partnership (a limited partnership formed for the purpose of owning a 230 kilovolt transmission line in the Niagara region), and approximately 80% interest in Chatham x Lakeshore Limited Partnership (a limited partnership formed to own and operate a double circuit 230 kilovolt transmission line from the Chatham Switching Station to the Lakeshore Transformer Station).[3] Hydro One's transmission business is a rate-regulated business that earns revenues mainly from charging transmission rates that are subject to approval by the OEB. Hydro One's transmission business represented approximately 59% of its total assets as at December 31, 2024, approximately 53% of its total revenues, net of purchased power,[4] in 2024, and approximately 27% of its total revenues in 2024.

Hydro One's distribution business consists of owning, operating and maintaining its distribution system, which the Issuer owns primarily through its wholly-owned subsidiary, HONI, the largest local distribution company in Ontario. Hydro One's distribution system is also the largest in Ontario. Hydro One's distribution business is a rate-regulated business that earns revenues mainly by charging distribution rates that are subject to approval by the OEB. Hydro One's distribution business also includes the business of its wholly-owned subsidiary, Hydro One Remote Communities, which supplies electricity to customers in remote communities in northern Ontario. Hydro One's distribution business represented approximately 38% of its total assets as at December 31, 2024, approximately 47% of its total revenues, net of purchased power[4], in 2024, and approximately 73% of its total revenues in 2024.

Hydro One's other segment consists of certain corporate activities, including a deferred tax asset, and is not rate-regulated. The deferred tax asset arose from the revaluation of the tax bases of Hydro One's assets to fair market value when Hydro One transitioned from the provincial payments in lieu of tax regime to the federal tax regime at the time of Hydro One Limited's initial public offering in 2015. The other segment represented approximately 3% of Hydro One's total assets as at December 31, 2024, approximately 0% of its total revenues, net of purchased power[4], in 2024, and approximately 0% of its total revenues in 2024.

The Issuer is a wholly-owned subsidiary of Hydro One Limited. The address of the head and registered office of the Issuer is 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario, M5G 2P5.

See the section entitled "Business of Hydro One" in the AIF for further details relating to the Issuer's business.

RECENT DEVELOPMENTS

Appointment of Interim President and Chief Executive Officer

On August 14, 2025, Hydro One announced that David Lebeter, President and Chief Executive Officer, will take a temporary compassionate care leave, effective August 25, 2025, to care for a family member. Mr. Lebeter will

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1 The network component of the revenue requirement is Hydro One's portion of the transmission revenue requirement attributed to assets that are used for the common benefit of all Hydro One and non-Hydro One customers in Ontario.

2 Hydro One owns and operates approximately 94% of the transmission system in Ontario when based on the total OEB approved revenue requirement.

3 Through Hydro One's equity partnership model, five First Nation partners have been offered the opportunity to collectively invest in a 50% equity stake in the transmission line component of the project.

4 Revenues, net of purchased power, is a non-GAAP financial measure. Non-GAAP financial measures do not have a standardized meaning under U.S. GAAP, which is used to prepare the Issuer's financial statements, and accordingly, these measures may not be comparable to similar measures used by other companies. Additional disclosure for this non-GAAP financial measure is incorporated by reference herein and can be found in the sections titled "Non-GAAP Financial Measures" of the Issuer's most recent annual and interim management's discussion and analysis of the financial condition and results of operations, each of which is available on SEDAR+ under the Issuer's profile at www.sedarplus.com.

continue to support the company on an advisory basis until his return. The Board of Directors has appointed Harry Taylor as Interim President and Chief Executive Officer effective August 25, 2025. Mr. Taylor will also continue to serve as Executive Vice President, Chief Financial and Regulatory Officer.

Appointment of New Director

The Board of Directors has also appointed Michael W. Rencheck to the company's Board of Directors effective August 14, 2025.

RISK FACTORS

Prospective investors in a particular offering of Debt Securities should carefully consider the risks presented in this Prospectus, as well as the information and risk factors contained in the Prospectus Supplement relating to that offering and any and all other information incorporated by reference in this Prospectus. Discussions of certain risks affecting the Issuer are generally provided and described in documents filed by the Issuer with the Canadian securities regulatory authorities from time to time and which are incorporated by reference into this Prospectus, including the Issuer's annual information form and annual and interim management's discussion and analysis. In particular, see the sections entitled "Forward-Looking Information" and "Risk Factors" in the Issuer's most recent annual information form and the sections entitled "Risk Management and Risk Factors" and "Forward-Looking Statements and Information" in the Issuer's most recent annual management's discussion and analysis of the financial condition and results of operations of the Issuer. If any event arising from these or any other risks occurs, the Issuer's business, prospects, financial condition, results of operations or cash flows could be materially adversely affected.

In addition, the following additional risk factors will be relevant to prospective investors of Debt Securities.

The Issuer must receive dividends and other payments from its subsidiaries in order to make payments to holders of Debt Securities

The Issuer is a holding company that has no significant assets or operations other than the debt and equity of its subsidiaries. The Issuer's most significant subsidiary is HONI. The Issuer is dependent on dividends, interest, loans and other payments from this and other subsidiaries to meet its debt service and other obligations.

The Issuer's subsidiaries are separate legal entities and have no obligation to pay any amounts due under the Debt Securities and, except for their respective obligations under existing intercompany debt obligations owing to the Issuer, have no obligation to make funds available to the Issuer, whether by dividends, interest, loans or other payments. In addition, unless otherwise specified in a Prospectus Supplement, these subsidiaries will not guarantee the Debt Securities. In the event of bankruptcy, liquidation or reorganization of any of the Issuer's subsidiaries, the creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to the Issuer, except to the extent that the Issuer is recognized as a creditor of those subsidiaries.

The Issuer's subsidiaries currently are not restricted in terms of their ability to pay dividends or make other payments to the Issuer, other than by solvency provisions under generally applicable Ontario corporate law or partnership law, as applicable. However, they could become so restricted in the future by, among other things, other laws as well as agreements to which they may become parties in the future.

The Indenture is not expected to limit the amount of debt that the Issuer or any of its subsidiaries may incur or restrict their ability to engage in other transactions that may adversely affect holders of the Debt Securities

Unless otherwise specified in a Prospectus Supplement, the Indenture will not: (i) limit the amount of debt that the Issuer may incur; (ii) contain any financial covenants or other provisions that would afford the holders of Debt Securities any substantial protection if the Issuer participates in a highly leveraged transaction; or (iii) limit the ability of the Issuer to pay dividends, make distributions, repurchase outstanding shares or mortgage, pledge, encumber or charge any of their assets to secure any indebtedness or other financing. As a result of the foregoing, when evaluating the terms of the Debt Securities, a prospective investor should be aware that the terms of the Indenture and the Debt

Securities are not expected to restrict the ability of the Issuer to engage in, or otherwise be a party to, various corporate transactions that could have an adverse impact on a purchaser's investment in the Debt Securities.

The Debt Securities are not secured by any assets of the Issuer and any secured creditors will have a prior claim on the assets of the Issuer

Unless otherwise specified in a Prospectus Supplement, the Debt Securities will not be secured by any assets of the Issuer. If the Issuer has outstanding secured debt at a particular time, its assets would be subject to prior claims of its respective secured creditors. In such circumstances, it is possible that there would be insufficient assets remaining from which claims of the holders of any Debt Securities could be satisfied.

Priority

The Debt Securities will be senior, subordinated or junior subordinated indebtedness of the Issuer as described in the relevant Prospectus Supplement. In the event of the insolvency or winding-up of the Issuer or other specified default with respect to the senior Debt Securities, payment of the subordinated Debt Securities will be postponed in right of payment to the prior payment in full of all other liabilities and indebtedness of the Issuer other than indebtedness that, by its terms, ranks equally with, or subordinate to, such subordinated Debt Securities and payment of the junior subordinated Debt Securities will be postponed in right of payment to the prior payment in full of all other senior indebtedness and all subordinated indebtedness (other than junior subordinated indebtedness) of the Issuer.

The Issuer may be unable to generate the cash flow to service their debt obligations

There is no guarantee that the Issuer will generate sufficient cash flow to enable it to service its indebtedness, including the Debt Securities. The ability of the Issuer to pay its expenses and satisfy its debt obligations will depend on its future performance, which will be affected by general economic, financial, competitive, legislative, regulatory and other factors outside its control. The Issuer believes that cash flow from operations and available cash will be adequate for the foreseeable future. However, if the Issuer is unable to generate sufficient cash flow to service its debt, the Issuer may be required to sell assets, reduce capital expenditures, refinance all or a portion of any outstanding debt, including the Debt Securities, or obtain additional financing. There is no guarantee that the Issuer will be able to refinance its debt, sell assets or incur additional indebtedness on terms acceptable to it, or at all.

Changes in creditworthiness or credit ratings may adversely affect the value of the Debt Securities

In connection with any offering of Debt Securities, unless otherwise specified in a Prospectus Supplement, the Issuer expects to receive a credit rating for the Debt Securities being offered from one or more credit rating agencies. Such ratings are limited in scope and may not address all material risks related to the structure of, market for, or other factors related to the value of, the Debt Securities, but rather reflect only the view of each rating agency at the time the rating is issued. There can be no assurance that the credit ratings assigned to the Debt Securities of any series will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by one or more of the rating agencies if, in such rating agency's judgment, circumstances so warrant.

In addition, credit rating agencies evaluate the industry in which the Issuer operates as a whole and may change their credit rating for the Issuer based on their overall view of such industry. The Issuer cannot predict what actions rating agencies may take in the future, positive or negative, including in response to government action or inaction relating to or impacting the Issuer. Actual or anticipated changes or downgrades in the Issuer's credit ratings, including any announcement that the Issuer's ratings are under further review for a downgrade, could affect the market value of the Debt Securities and increase corporate borrowing costs for the Issuer.

The rights of holders of Debt Securities may change

Holders of Debt Securities will be bound by the terms and conditions of the Indenture. The terms and conditions of the Indenture may, however, be amended, restated or supplemented from time to time. See "Description of Debt Securities – Modification of the Indenture".

No existing trading market

The Debt Securities will constitute a new issue of securities for which, unless otherwise indicated in a Prospectus Supplement, there is no existing trading market. Unless otherwise specified in a Prospectus Supplement, the Issuer does not intend to list the Debt Securities on any securities exchange or any automated quotation system. Accordingly, there can be no assurance that a trading market for the Debt Securities will ever develop or will be maintained. If a trading market does not develop or is not maintained, it may be difficult or impossible to resell the Debt Securities. Further, there can be no assurance as to the liquidity of any market that may develop for the Debt Securities, the ability of any purchaser to sell the Debt Securities or the price at which a purchaser will be able to sell the Debt Securities.

Further, even if an active trading market develops for the Debt Securities, the trading prices of the Debt Securities will depend on many factors, including prevailing interest rates, the financial condition and results of operations of the Issuer, the then-current credit ratings assigned to the Debt Securities and the markets for similar securities. If a holder of Debt Securities sells any Debt Securities before their maturity, such holder may have to do so at a substantial discount from the issue price, and as a result such holder may suffer substantial losses.

Changes in interest rates may affect the market price or value of the Debt Securities

Generally, the market price or value of the Debt Securities will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline. Fluctuations in interest rates may also impact borrowing costs of the Issuer, which may adversely affect the Issuer's creditworthiness. It is impossible to predict whether interest rates will rise or fall.

Prevailing yields on similar securities

The prevailing yield on debt securities with comparable maturities will affect the market value of the Debt Securities. Assuming all other factors remain unchanged, the market value of the Debt Securities will decline as prevailing yields for similar securities rise and will increase as prevailing yields for similar securities decline. Fluctuations in prevailing yields may also impact borrowing costs of the Issuer which may adversely affect its creditworthiness. It is impossible to predict whether prevailing yields will rise or fall.

Risk of optional redemption

The Issuer may elect to redeem the Debt Securities prior to their maturity (to the extent the terms of the Debt Securities provide for optional redemption prior to maturity), in whole or in part, at any time or from time to time, especially when prevailing interest rates are lower than the rate borne by the Debt Securities. If prevailing interest rates are lower than the interest rate borne by the Debt Securities at the time of redemption, a purchaser may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate that is at least equal to the interest rate on the Debt Securities being redeemed. See "Description of Debt Securities – Optional Redemption".

In addition, any optional redemption feature giving the Issuer the right to redeem Debt Securities may limit their market value. During any period when the Issuer may elect to redeem the Debt Securities prior to the stated maturity date, the market value of those Debt Securities generally will not rise substantially above the price at which they can be redeemed.

Potential difficulties in enforcing civil liabilities outside Canada

The Issuer is incorporated under the laws of Ontario, Canada and substantially all of Hydro One's assets are currently located in Canada. All of the directors and officers of the Issuer, and the experts named in this Prospectus, are non-U.S. residents, and a substantial portion of the assets of the Issuer and such experts named in this Prospectus are located outside of the U.S. The Issuer agrees or will agree, as applicable, in accordance with the terms of the Indenture, to accept service of process in any suit, action or proceeding with respect to the Indenture or any Debt Securities brought in any federal or state court located in New York City by an agent designated for such purpose, and to submit to the jurisdiction of such courts in connection with such suits, actions or proceedings. Nevertheless, it may be difficult for holders of Debt Securities to effect service of process within the U.S. upon directors, officers and experts who are

not residents of the U.S. or to realize in Canada upon judgments of courts of the U.S. predicated upon civil liability under U.S. federal or state securities laws or other laws of the U.S.

Canadian bankruptcy and insolvency laws may impair the Trustees' ability to enforce remedies under the Indenture or the Debt Securities

The right of the Trustees to enforce remedies under the Indenture and the Debt Securities could be delayed by the provisions of applicable Canadian federal bankruptcy, insolvency and other restructuring legislation (including certain provisions of corporate statutes) if the benefit of such legislation is sought with respect to the Issuer. Canadian bankruptcy, insolvency and other restructuring legislation (including certain provisions of corporate statutes) contain provisions enabling an obligor to prepare and file a restructuring proposal for consideration by all or some of its creditors, to be voted on by the various classes of creditors affected thereby. A restructuring proposal may have the effect of compromising the obligations under the outstanding Debt Securities. A restructuring proposal, if accepted by the requisite majorities of each affected class of creditors, and if approved by the relevant Canadian court, would be binding on all creditors within each affected class of securities, including those creditors that did not vote to accept the proposal. Moreover, such legislation, in certain circumstances, permits the debtor to retain possession and administration of its property, subject to court oversight, even though it may be in default under the applicable debt instrument, during the period that the stay against proceedings remains in place. Canadian bankruptcy, insolvency and other restructuring legislation also contemplates the granting of super priority security interests or charges on the assets of the debtor company to secure the repayment of any amounts to be borrowed to facilitate the insolvency proceeding, any amounts owing for the fees and costs of professionals involved in the insolvency proceeding, obligations of directors of the company with respect to their statutory liabilities and sometimes other amounts.

The powers of the court under the *Bankruptcy and Insolvency Act* (Canada), the *Companies Creditors Arrangement Act* (Canada) and the provisions of certain Canadian corporate statutes have been interpreted and exercised broadly so as to protect a restructuring entity from actions taken by creditors and other parties. Accordingly, the Issuer cannot predict whether payments under the outstanding Debt Securities would be made during any such bankruptcy, insolvency or other restructuring proceeding, whether or when the Trustees could exercise their rights under the Indenture or whether and to what extent holders of the Debt Securities would be compensated for any compromise of obligations or any delays in payment, if any, of principal, premium, Additional Amounts (as defined below) or interest.

CONSOLIDATED CAPITALIZATION

There have been no material changes in the Issuer's share and loan capital, on a consolidated basis, since the date of the Interim Financial Statements.

USE OF PROCEEDS

Specific information regarding the use of proceeds from the sale of Debt Securities will be described in the applicable Prospectus Supplement. The Issuer may, from time to time, issue Debt Securities other than pursuant to this Prospectus.

EARNINGS COVERAGE RATIO

Earnings coverage ratios will be provided as required in the applicable Prospectus Supplement with respect to any offering and sale of Debt Securities pursuant to this Prospectus.

UNDERWRITING

The Debt Securities offered hereby may be sold by the Issuer: (i) to, or through, underwriters, dealers or agents purchasing as principal or acting as agent; (ii) directly to one or more purchasers; or (iii) through a combination of any of these methods of sale. The Debt Securities may be sold at fixed prices or non-fixed prices, such as prices determined by reference to the prevailing price of the Debt Securities in a specified market, at market prices prevailing at the time of sale or at prices to be negotiated with purchasers, which prices may vary as between purchasers and during the period of distribution of the Debt Securities.

A Prospectus Supplement relating to a particular offering of Debt Securities will identify each underwriter, dealer or agent, as the case may be, engaged by the Issuer in connection with the offering and sale of the Debt Securities, and will set forth the terms of the offering of the Debt Securities, including the public offering price of such Debt Securities (or the manner of determination thereof if offered on a non-fixed price basis), the method of distribution of such Debt Securities, including, to the extent applicable, the proceeds to, and the portion of expenses borne by, the Issuer from such sale, any underwriting fees, discounts or commissions and any discounts or concessions allowed, re-allowed or paid by any underwriter to other dealers and other material terms of the plan of distribution. Only underwriters, dealers or agents so named in the applicable Prospectus Supplement are deemed to be underwriters, dealers or agents, as the case may be, in connection with the Debt Securities offered thereby. Unless otherwise indicated in a Prospectus Supplement, any agent is acting on a best efforts basis for the period of its appointment.

The Debt Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The prices at which the Debt Securities may be offered may vary between purchasers and during the period of distribution. If, in connection with the offering of Debt Securities at a fixed price or prices, the underwriters have made a bona fide effort to sell all of the Debt Securities at the initial offering price fixed in the applicable Prospectus Supplement, the public offering price may be decreased and thereafter further changed, from time to time, to an amount not greater than the initial public offering price fixed in such Prospectus Supplement, in which case the compensation realized by the underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Debt Securities is less than the gross proceeds paid by the underwriters to the Issuer.

If underwriters or dealers purchase Debt Securities as principal, the Debt Securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters or dealers to purchase such Debt Securities will be subject to certain conditions precedent, and the underwriters or dealers will be obligated to purchase all of the Debt Securities offered pursuant to any Prospectus Supplement if any of such Debt Securities are purchased. Any public offering price and any discounts or concessions allowed, re-allowed or paid to dealers may be changed from time to time.

Underwriters, dealers and agents who participate in the distribution of the Debt Securities may be entitled under agreements which may be entered into with the Issuer to indemnification by the Issuer against certain liabilities, including liabilities under securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Those underwriters, dealers and agents may be customers of, engage in transactions with, or perform services for, the Issuer in the ordinary course of business.

The Debt Securities offered hereby have not been qualified for sale under the securities laws of any province or territory of Canada (other than the Province of Ontario) and, unless otherwise provided in the Prospectus Supplement relating to a particular issue of Debt Securities, will not be offered or sold, directly or indirectly, in Canada or to any resident of Canada.

Unless otherwise specified in a Prospectus Supplement, each issue by the Issuer of Debt Securities will be a new issue of securities with no established trading market. Unless otherwise specified in a Prospectus Supplement relating to an offering of Debt Securities, such Debt Securities will not be listed on any securities or stock exchange. Any underwriters, dealers or agents to or through whom such Debt Securities are sold may make a market in such Debt Securities, but they will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given that a trading market in any such Debt Securities will develop or as to the liquidity of any trading market for such Debt Securities. See “Risk Factors”.

Unless otherwise specified in a Prospectus Supplement relating to an offering of Debt Securities, in connection with any offering of Debt Securities, the underwriters, dealers or agents may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Debt Securities offered at levels other than those which might otherwise prevail on the open market. These transactions may be commenced, interrupted or discontinued at any time.

DESCRIPTION OF DEBT SECURITIES

The following description sets forth certain general terms and provisions of the Debt Securities. The particular terms and provisions of Debt Securities offered pursuant to any Prospectus Supplement, and the extent to which the general terms and provisions described below may apply to them, will be described in the Prospectus Supplement filed in respect of such Debt Securities. No convertible, exchangeable or exercisable securities will be offered pursuant to this Prospectus or any Prospectus Supplement.

Unless otherwise specified in a Prospectus Supplement, the Debt Securities will be issued under the Indenture, as the same may be amended, restated, supplemented or replaced from time to time. A copy of the Indenture has been filed with the SEC as an exhibit to the Registration Statement of which this Prospectus is a part. If and when executed and entered into by the Issuer and the Trustees, a copy of the Indenture, as executed, will be filed with the Ontario Securities Commission and made available on SEDAR+ under the Issuer's profile at www.sedarplus.com. Selected provisions of the Debt Securities and the Indenture under which such Debt Securities will be issued are summarized below. This summary is not complete. The statements made in this Prospectus relating to the Indenture and Debt Securities to be issued thereunder are summaries of certain provisions and anticipated provisions thereof and are subject to, and are qualified in their entirety by reference to, all provisions of the Indenture, as the same may be amended, supplemented, restated or replaced from time to time.

Terms of the Debt Securities

The Debt Securities may be issued in one or more separate series and will be either senior, subordinated or junior subordinated indebtedness of the Issuer.

If the Debt Securities are senior indebtedness, they will rank equally and rateably with all other unsubordinated indebtedness of the Issuer, from time to time issued and outstanding.

Except as otherwise specified in a Prospectus Supplement, if the Debt Securities are subordinated indebtedness, they will rank equally and rateably with all other subordinated Debt Securities from time to time issued and outstanding. In the event of the insolvency or winding-up of the Issuer or other specified default with respect to the senior Debt Securities, payment of the subordinated Debt Securities will be postponed in right of payment to the prior payment in full of all other liabilities and indebtedness of the Issuer, other than indebtedness that, by its terms, ranks equally with, or subordinate to, such subordinated Debt Securities and payment of the junior subordinated Debt Securities will be postponed in right of payment to the prior payment in full of all other senior indebtedness and all subordinated indebtedness (other than junior subordinated indebtedness) of the Issuer. The Prospectus Supplement for a particular series of Debt Securities will disclose the specific terms of such Debt Securities for such series. Those terms may include some or all of the following:

- the title or designation of such series;
- any limit on the aggregate principal amount of the Debt Securities of such series;
- whether the Debt Securities are senior, subordinated or junior subordinated and, if subordinated or junior subordinated, the terms of such subordination and any related provisions;
- the person to whom any interest shall be payable if other than the person in whose names the Debt Securities of such series are registered on the regular record date for such interest payment;
- the date or dates on which principal is payable or the method for determining such date or dates, and any right to change the date on which principal is payable;
- the interest rate or rates (which may be fixed or variable), if any, or the method for determining the interest rate or rates;
- the date or dates from which interest will accrue, or the method for determining such date or dates, and the dates on which interest will be payable and the manner of determination of record dates for such payments;

- the right to extend the interest payment periods and, if so, the terms of any such extension;
- the terms, if any, upon which the obligations of the Issuer under the Debt Securities of any series may be guaranteed by any other person;
- the terms, if any, upon which the obligations of the Issuer under the Debt Securities of any series may be secured;
- the place or places where payments will be made, if other than the corporate trust office of a Trustee;
- any right of the Issuer to redeem the Debt Securities, and, if so, the terms of such redemption option;
- any obligation to redeem the Debt Securities through a sinking fund or to purchase the Debt Securities through a purchase fund or at the option of the holders of such Debt Securities;
- the denominations in which any Debt Securities will be issued, if other than denominations of U.S.$2,000 and any integral multiple of U.S.$1,000 in excess thereof;
- the identity of each registrar, authenticating agent and/or paying agent, if not the U.S. Trustee;
- any index or formula used for determining principal, premium, Additional Amounts or interest;
- the currency or currency units for which the Debt Securities may be purchased and the currency or currency units in which the principal and any premium, Additional Amounts and interest is payable, in each case, if other than U.S. dollars;
- if the principal of, or any premium, Additional Amounts or interest on, any Debt Securities of such series is to be payable, at the election of the Issuer or the holder thereof, in one or more currencies or currency units other than U.S. dollars, the currency or currency units in which the principal of, or any premium, Additional Amounts or interest on, such Debt Securities as to which such election is made shall be payable, the periods within which and the terms and conditions upon which such election is to be made and the amount so payable (or the manner in which such amount shall be determined);
- the portion of the principal payable upon acceleration of maturity, if other than the entire principal amount thereof;
- the circumstances in which the Issuer will be required to pay Additional Amounts in respect of any tax, assessment or government charge in respect of the Debt Securities;
- if the principal payable on the maturity date will not be determinable on one or more dates prior to the maturity date, the amount which will be deemed to be such principal amount or the manner of determining it;
- whether the Debt Securities will be issuable as global securities and, if so, the depositary for such Debt Securities;
- any transfer and exchange provisions of the Debt Securities of such series;
- any addition, modification or deletion of any events of default provided with respect to the Debt Securities of the series and any change in the right of the U.S. Trustee or the requisite holders of such Debt Securities to declare the principal amount thereof due and payable, with respect to such Debt Securities;
- any addition, modification or deletion in the covenants which apply to the Debt Securities of such series; and
- any other terms and conditions of the Debt Securities which are not inconsistent with applicable trust indenture legislation.

Amount Unlimited

Unless otherwise specified in a Prospectus Supplement, the aggregate principal amount of Debt Securities which may be authenticated and delivered under the Indenture will be unlimited.

Specified Denominations

Except as otherwise specified in a Prospectus Supplement, the Debt Securities will be issuable in denominations of U.S.$2,000 and any integral multiple of U.S.$1,000 in excess thereof.

Subordination of Subordinated Debt Securities

The Prospectus Supplement relating to any subordinated or junior subordinated Debt Securities will summarize the subordination provisions of the Indenture applicable to that series, including:

- the applicability and effect of such provisions upon any payment or distribution respecting that series following any liquidation, dissolution or other winding-up, or any assignment for the benefit of creditors or other marshalling of assets or any bankruptcy, insolvency or similar proceedings;

- the applicability and effect of such provisions in the event of specified defaults with respect to any senior debt, including the circumstances under which and the periods during which the Issuer will be prohibited from making payments on the subordinated or junior subordinated Debt Securities;

- the definition of senior debt applicable to the subordinated Debt Securities of that series and, if the series is issued on a senior subordinated basis, the definition of subordinated debt applicable to that series; and

- any other material terms and conditions of the subordinated or junior subordinated Debt Securities.

Global Securities

The Issuer may issue some or all of the Debt Securities as book-entry securities. The Issuer will register each global security with or on behalf of a securities depositary. Each global security will be deposited with the securities depositary or its nominee or a custodian for the securities depositary.

As long as the securities depositary or its nominee is the registered holder of a global security representing Debt Securities, that person will be considered the sole owner and holder of the global security and the Debt Securities it represents for all purposes. Except in limited circumstances, owners of beneficial interests in a global security: (i) may not have the global security or any Debt Securities registered in their names; (ii) may not receive or be entitled to receive physical delivery of certificated Debt Securities in exchange for the global security; and (iii) will not be considered the owners or holders of the global security or any Debt Securities for any purposes under the applicable Debt Securities, Indenture and any related supplemental indenture. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in a global security.

The Issuer will make all payments of principal of, and any premium, Additional Amounts and interest on, a global security to the securities depositary or its nominee as the holder of the global security.

Ownership of beneficial interests in a global security will be limited to institutions having accounts with the securities depositary or its nominee ("**participants**"), and to persons that hold beneficial interests through participants. When a global security representing Debt Securities is issued, the securities depositary will credit on its book-entry, registration and transfer system the principal amounts of Debt Securities the global security represents to the accounts of its participants. Ownership of beneficial interests in a global security will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by: (i) the securities depositary, with respect to participants' interests; and (ii) any participant, with respect to interests the participant holds on behalf of other persons.

Payments participants make to owners of beneficial interests held through those participants will be the responsibility of those participants. The securities depositary may from time to time adopt various policies and procedures governing

payments, transfers, exchanges and other matters relating to beneficial interests in a global security. None of the Issuer, the Trustees or any agent of the Issuer or the Trustees will have any responsibility or liability for any aspect of the securities depositary's or any participant's records relating to beneficial interests in a global security representing Debt Securities, for payments made on account of those beneficial interests or for maintaining, supervising or reviewing any records relating to those beneficial interests.

Events of Default

Except as otherwise specified in a Prospectus Supplement, with respect to any series of Debt Securities, any of the following events will constitute an event of default:

- the Issuer defaults in the payment of any interest (including Additional Amounts) on any Debt Securities of that series that becomes due and payable and the default continues for 30 days;
- the Issuer defaults in the payment of the principal of, or any premium or Additional Amounts, if any, on any Debt Securities of that series when due at its maturity and the default continues for three business days;
- the Issuer defaults in the deposit of any sinking fund payment, when it becomes due by the terms of the Debt Securities of that series, and the default continues for a period of 30 days; or
- the Issuer defaults in the performance of or breaches any covenant in the Indenture and such default or breach continues for a period of 90 days after written notice of such default or breach has been given to the Issuer by either Trustee (with a copy to the other Trustee) or to the Issuer and the Trustees from the holders of at least 25% in principal amount of the outstanding Debt Securities of that series;
- certain events of bankruptcy, insolvency or reorganization of the Issuer;
- any other event of default provided in a Prospectus Supplement with respect to Debt Securities of that series.

Except as otherwise specified in a Prospectus Supplement, if an event of default occurs and is continuing with respect to a series of Debt Securities, the U.S. Trustee or the holders of at least 25% in principal amount of the outstanding Debt Securities of that series may declare the principal amount of, or any premium, Additional Amounts or interest on, the Debt Securities of such series to be due and payable immediately. However, except as otherwise specified in a Prospectus Supplement, any time after an acceleration with respect to the Debt Securities of any series has occurred, but before a judgment or decree based on such acceleration has been obtained, the event of default giving rise to such acceleration shall, without further action, be deemed to have been waived, rescinded and annulled if: (i) the Issuer has paid or deposited with the U.S. Trustee a sum sufficient to pay: (a) all overdue interest on all Debt Securities of that series; (b) the principal of, and any premium, Additional Amounts and interest on, the Debt Securities of such series which have become due otherwise than by such acceleration; (c) interest on all overdue interest; and (d) all sums paid or advanced by the Trustees under the Indenture; and (ii) all other events of default with respect to Debt Securities of such series which have become due solely by such acceleration have been cured or waived.

Certain Covenants

Additional Amounts

Except as otherwise specified in a Prospectus Supplement, all payments that the Issuer makes under or with respect to the Debt Securities of any series will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charges, including penalties, interest and other similar liabilities related thereto, of whatever nature (collectively, "**Taxes**") imposed or levied by or on behalf of Canada or any other jurisdiction in which the Issuer is incorporated, organized or otherwise resident or engaged in or carrying on business for tax purposes or from or through which the Issuer makes any payment on the Debt Securities of such series, or by any political subdivision or taxing authority or agency thereof or therein (each, a "**Relevant Taxing Jurisdiction**"), unless withholding or deduction is then required by law. If the Issuer or any other applicable withholding agent is required to withhold or deduct any amount for or on account of Taxes of a Relevant Taxing Jurisdiction from any payment made under or with respect to the Debt Securities of any series, the Issuer will pay to each holder of such Debt Securities as additional interest such additional amounts ("**Additional Amounts**") as

may be necessary to ensure that the net amount received by each holder or beneficial owner of the Debt Securities of such series after such withholding or deduction, including any withholding or deduction attributable to the Additional Amounts, will be not less than the amount the holder or beneficial owner would have received if such Taxes had not been required to be withheld or deducted.

However, except as otherwise specified in a Prospectus Supplement, no Additional Amounts will be payable in respect or on account of:

- any Taxes that would not have been imposed or levied but for a present or former connection, including citizenship, nationality, residence, domicile, incorporation, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within such Relevant Taxing Jurisdiction, between such holder or beneficial owner, or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, such holder or beneficial owner, if such holder or beneficial owner is an estate, trust, partnership, limited liability company or corporation, and the Relevant Taxing Jurisdiction, other than any connection arising solely from the acquisition, ownership or disposition of the Debt Securities of any series, the receipt of payments under or with respect to the Debt Securities of any series, or the exercise or enforcement of rights under or with respect to the Debt Securities of any series or the provisions of the Indenture;

- any Taxes that are imposed or withheld by reason of the failure of the holder or beneficial owner of Debt Securities of any series, following the Issuer's reasonable written request addressed to the holder, and made at a time that would enable the holder or beneficial owner acting reasonably to comply with that request, and in all events at least 30 calendar days before the relevant date on which payment under or with respect to the Debt Securities of such series is due and payable, to comply with any certification or identification requirements, whether required or imposed by statute, regulation or administrative practice of a Relevant Taxing Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Relevant Taxing Jurisdiction, including a certification that the holder or beneficial owner is not resident in the Relevant Taxing Jurisdiction, but, in each case, only to the extent that the holder or beneficial owner, as the case may be, is legally eligible to provide such certification;

- any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

- any Tax which is payable otherwise than by deduction or withholding from payments made under or with respect to the Debt Securities of any series;

- any Canadian withholding Taxes paid or payable by reason of (i) the holder, beneficial owner or other recipient of the amount not dealing at arm's length with the Issuer for the purposes of the Income Tax Act (Canada) (the "**ITA**"), (ii) the holder or beneficial owner being, or not dealing at arm's length with, a "specified shareholder" of the Issuer for the purposes of subsection 18(5) of ITA, or (iii) the holder or beneficial owner being an entity in respect of which the Issuer is a "specified entity" as defined in subsection 18.4(1) of the ITA;

- any Tax imposed on or with respect to any payment by the Issuer to the holder if such holder is a fiduciary or partnership or person other than the sole beneficial owner of such payment to the extent that Taxes would not have been imposed on such payment had the beneficiary, partner or other beneficial owner directly held the Debt Securities of any series;

- any Tax that is imposed or levied by reason of the presentation, where presentation is required in order to receive payment, of the Debt Securities of a series for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever is later, except to the extent that the beneficial owner or holder thereof would have been entitled to Additional Amounts had the Debt Securities been presented for payment on any date during such 30 day period;

- any Tax that is imposed or levied on or with respect to a Debt Security of a series presented for payment on behalf of a holder or beneficial owner who would have been able to avoid such withholding or deduction by

presenting the relevant Debt Security of such series to another paying agent in a member state of the European Union;

- any Taxes to the extent such Taxes are directly attributable to the failure of the holder or beneficial owner to qualify for an exemption from U.S. federal withholding tax with respect to payments of interest pursuant to an applicable income tax treaty to which the United States is a party or pursuant to the "portfolio interest" exemption as defined in Section 871(h) or 881(c), as applicable, of the Internal Revenue Code, in each case, as such treaty or section was in effect on the issuance date (determined without regard to the requirement that such holder or beneficial owner provide the applicable Internal Revenue Service Form W-8);

- any Taxes imposed pursuant to Sections 1471 through 1474 of the Internal Revenue Code as of the issuance date (and any amended or successor version that is substantially comparable), any regulations or other official guidance thereunder or agreements (including any intergovernmental agreements or any laws, rules or practices implementing such intergovernmental agreements) entered into in connection therewith; or

- any U.S. backup withholding Tax imposed pursuant to Section 3406 of the Internal Revenue Code.

In addition, except as otherwise specified in a Prospectus Supplement, Additional Amounts will not be payable with respect to any Taxes that are imposed in respect of any combination of the above items.

Except as otherwise specified in a Prospectus Supplement, where Tax is payable pursuant to Section 803 of the Regulations under the ITA by a holder or beneficial owner of the Debt Securities in respect of any amount payable under the Debt Securities to the holder, other than by reason of a transfer of the Debt Securities to a person resident in Canada with whom the transferor does not deal at arm's length for the purposes of the ITA, but no Additional Amount is paid in respect of such Tax, the Issuer will pay to such holder an amount equal to such Tax within 45 days after receiving from the holder a notice containing reasonable particulars of the Tax so payable; provided, that such holder or beneficial owner would have been entitled to receive Additional Amounts on account of such Tax but for the fact that it is payable otherwise than by deduction or withholding from payments made under or with respect to the Debt Securities.

The Issuer, if the Issuer is an applicable withholding agent, or is otherwise required to withhold amounts under applicable law, will (i) make such withholding or deduction required by applicable law and (ii) remit the full amount deducted or withheld to the relevant taxing authority in accordance with applicable law.

Except as otherwise specified in a Prospectus Supplement, at least 30 calendar days prior to each date on which any payment under or with respect to the Debt Securities of any series is due and payable, if the Issuer will be obligated to pay Additional Amounts with respect to such payment, unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Debt Securities of such series is due and payable, in which case it will be promptly thereafter, the Issuer will deliver to the U.S. Trustee an officer's certificate stating that such Additional Amounts will be payable and the amounts so payable and will set forth such other information, other than the identities of holders and beneficial owners of Debt Securities, necessary to enable the U.S. Trustee or a paying agent to pay such Additional Amounts to holders and beneficial owners of Debt Securities on the relevant payment date. Except as otherwise specified in a Prospectus Supplement, the U.S. Trustee will make such payments in the same manner as any other payments on the Debt Securities of such series and the Issuer will provide the U.S. Trustee with documentation reasonably satisfactory to the U.S. Trustee evidencing payment of such Additional Amounts.

Except as otherwise specified in a Prospectus Supplement, the Issuer will take reasonable efforts to furnish to the U.S. Trustee or a holder within a reasonable time certified copies of tax receipts or other evidence of the payment by the Issuer of any Taxes imposed or levied by a Relevant Taxing Jurisdiction.

Except as otherwise specified in a Prospectus Supplement, the Issuer will pay any present or future stamp, issue, registration, court documentation, excise or property taxes or other similar taxes, charges and duties, including interest, additions to tax and penalties with respect thereto, imposed by any Relevant Taxing Jurisdiction in respect of the receipt of any payment under or with respect to the Debt Securities of any series, the execution, issue, delivery or registration of the Debt Securities of such series or the Indenture or any other document or instrument referred to thereunder and any such taxes, charges, duties or similar levies imposed by any jurisdiction as a result of, or in

connection with, the enforcement of the Debt Securities of such series or the Indenture or any such other document or instrument following the occurrence of any event of default with respect to the Debt Securities of such series. The Issuer will not, however, pay such amounts that are imposed on or result from a sale or other transfer or disposition by a holder or beneficial owner of Debt Securities.

Except as otherwise specified in a Prospectus Supplement, the preceding provisions will survive any termination, defeasance or discharge of the Indenture and shall apply *mutatis mutandis* to any jurisdiction in which any successor person to the Issuer is organized, incorporated or otherwise resident or engaged in or carrying on business for tax purposes and any political subdivision or taxing authority or agency thereof or therein.

Statement by Officers as to Default

Except as otherwise specified in a Prospectus Supplement, the Issuer will deliver to the Trustees, within 120 days after the end of each calendar year or on or before such other day in each calendar year as the Issuer and the Trustees may from time to time agree upon, an officer's certificate stating whether or not to the best knowledge of the signers thereof, the Issuer is in default in the performance or observance of any of the terms, provisions and conditions of the Indenture and, if the Issuer shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

Provision of Financial Information

Except as otherwise specified in a Prospectus Supplement, the Issuer will supply to holders of Debt Securities and the U.S. Trustee, copies of its annual reports and quarterly reports and any information, documents or reports that are required to be filed by the Issuer with the SEC pursuant to Section 13 or 15(d) of the U.S. *Securities Exchange Act of 1934*, as amended (the "**Exchange Act**"), within 15 days after the same is filed with the SEC or pursuant to applicable trust indenture legislation at the times and in the manner provided pursuant to such trust indenture legislation.

Notwithstanding that the Issuer may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or otherwise report on an annual and quarterly basis pursuant to rules and regulations promulgated by the SEC, the Issuer will supply to holders of Debt Securities and the U.S. Trustee: (i) all annual and quarterly financial statements that the Issuer would have filed with the SEC on Form 40-F and Form 6-K pursuant to Section 13 or Section 15(d) of the Exchange Act as if the Issuer was required to file with the SEC such financial statements, provided that such financial statements shall be substantially in the form prescribed or permitted (including pursuant to any exemption granted by applicable regulatory authorities) by Canadian regulatory authorities for Canadian public reporting companies; and (ii) all current reports that would be required to be filed by the Issuer with the SEC on Form 6-K if the Issuer were required to file such reports.

Consolidation, Amalgamation, Arrangement, Merger, Conveyance or Transfer

Except as otherwise specified in a Prospectus Supplement, the Issuer will be permitted under the Indenture to consolidate, merge or amalgamate with or into, or enter into an arrangement with, any other person, or convey or transfer all or substantially all of its properties and assets to any other person; provided that (i) no event of default has occurred and is continuing; (ii) any successor entity assumes the obligations of the Issuer under the Indenture and the Debt Securities issued thereunder; and (iii) the Issuer delivers to the Trustees an officer's certificate and an opinion of counsel that affirms compliance with all conditions in the Indenture in respect of such transaction. Provided the above conditions are satisfied, the successor entity will succeed to and be substituted for the Issuer under the Indenture, and the Issuer will be relieved of its obligations under the Indenture and the Debt Securities issued thereunder.

Optional Redemption

To the extent specified in a Prospectus Supplement, the Issuer may redeem any Debt Securities by delivering: (i) to the U.S. Trustee notice at least 15 days before the date fixed for such redemption and (ii) to the holders of Debt Securities a notice at least 15 days but not more than 60 days before the date fixed for such redemption. The notice to holders of Debt Securities may state that the redemption will be conditional upon (i) the U.S. Trustee or the applicable paying agent receiving sufficient funds to pay the principal of, and premium, Additional Amounts and interest on, such Debt Securities on or prior to the date fixed for such redemption and that if the funds are not received, the redemption notice will not apply, and the Issuer will not be required to redeem such Debt Securities or (ii) the

occurrence of any event (including a financing, asset disposition or other transaction) and that if such event does not occur, or the occurrence of such event as a condition to the redemption is not waived by the Issuer in its sole discretion, on or prior to the date fixed for such redemption, then such notice shall be of no force or effect and the Issuer shall not be required to redeem such Debt Securities.

Optional Tax Redemption

Except as otherwise specified in a Prospectus Supplement, the Debt Securities will be subject to redemption at any time, in whole but not in part, upon not less than 15 days' nor more than 60 days' written notice to the holders of Debt Securities, at a redemption price equal to the principal amount thereof together with any premium, Additional Amounts and interest then due and which become due on the date fixed for redemption as a result of the redemption or otherwise, if the Issuer determines that the Issuer is, or on the next date on which any amount would be payable in respect of the Debt Securities of such series, would be obligated to pay Additional Amounts in respect of the Debt Securities of such series pursuant to the terms and conditions thereof, which the Issuer cannot avoid by the use of reasonable measures available to it, as a result of: (i) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of any Relevant Taxing Jurisdiction affecting taxation which becomes effective on or after the issuance date or, in the case of a Relevant Taxing Jurisdiction that did not become a Relevant Taxing Jurisdiction until after the issuance date, the date on which such Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under the Indenture; or (ii) any change in, or amendment to, the official application, administration, or interpretation of the laws, regulations or rulings of any Relevant Taxing Jurisdiction, on or after the issuance date or, in the case of a Relevant Taxing Jurisdiction that did not become a Relevant Taxing Jurisdiction until after the issuance date, the date on which the Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under the Indenture (each of (i) and (ii), a "**Change in Tax Law**"), provided that the Issuer will also deliver to the U.S. Trustee an opinion of counsel stating that the Issuer would be obligated to pay Additional Amounts as a result of a Change in Tax Law. Notwithstanding the foregoing, except as otherwise specified in a Prospectus Supplement, the Issuer may not redeem the Debt Securities of any series if the Change in Tax Law obliging the Issuer to pay Additional Amounts was (x) officially announced by the Relevant Taxing Jurisdiction's tax authority or a court or (y) validly enacted into law by the Relevant Taxing Jurisdiction, in each case, prior to the issuance date or, in the case of a Relevant Taxing Jurisdiction that did not become a Relevant Taxing Jurisdiction until after the issuance date, the date on which such Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under the Indenture.

Modification of the Indenture

Except as otherwise specified in a Prospectus Supplement, the Issuer may modify the Indenture with the consent of the holders of a majority in principal amount of the outstanding Debt Securities of each series of Debt Securities issued under the Indenture that are affected by the modification, voting as one class. However, except as otherwise specified in a Prospectus Supplement, the consent of each holder of outstanding Debt Securities issued under the Indenture affected by such modification will be required to:

- change the maturity date of the principal of, or any instalment of principal of or interest on, such Debt Securities;
- reduce the principal amount, the interest rate or any premium payable upon the redemption of such Debt Securities;
- change any obligation of the Issuer to pay Additional Amounts;
- reduce the amount of principal due and payable upon acceleration of maturity;
- change the currency of payment of principal, premium, Additional Amounts or interest on such Debt Securities;
- impair the right to institute suit to enforce any such payment on or after the maturity date or redemption date;
- reduce the percentage in principal amount of the outstanding Debt Securities of any series required to modify the Indenture, waive compliance with certain restrictive provisions of the Indenture or waive certain defaults;

- with certain exceptions, modify the provisions of the Indenture governing modifications of the Indenture or governing statements by the officers as to defaults or waiver of covenants of past defaults; or

- in the case of subordinated or junior subordinated Debt Securities, modify the subordination provisions of those Debt Securities in a manner adverse to the holders of subordinated or junior subordinated Debt Securities, as applicable.

Except as otherwise specified in a Prospectus Supplement, each of the Issuer and the Trustees may modify the Indenture without the consent of any holders of Debt Securities to:

- evidence the succession of another person to the Issuer and the assumption by any such successor of the covenants of the Issuer in the Indenture and the Debt Securities;

- add to the covenants of the Issuer for the benefit of the holders of all or any series of Debt Securities or to surrender any right or power under the Indenture conferred upon the Issuer;

- add any additional Events of Default for the benefit of the holders of all or any series of Debt Securities;

- add or change any of the provisions of the Indenture to such extent as shall be necessary to permit or facilitate the issuance of Debt Securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to facilitate the issuance of the Debt Securities in uncertificated form;

- add to, change or eliminate any of the provisions of the Indenture in respect of one or more series of Debt Securities; provided that any such addition, change or elimination: (i) shall neither (a) apply to any Debt Securities of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (b) modify the rights of the holder of any such Debt Securities with respect to such provision; or (ii) shall become effective only when there is no such Debt Securities outstanding;

- secure the Debt Securities of any series;

- provide for the guarantee by any person of the obligations of the Issuer under the Indenture and the Debt Securities of any series (including provisions relating to seniority, subordination, and the release of the guarantors);

- establish the form or terms of Debt Securities of any series;

- effect or maintain, or otherwise comply with the requirements of the SEC in connection with the qualification of the Indenture under the United States *Trust Indenture Act of 1939*;

- evidence and provide for the acceptance of appointment under the Indenture by a successor indenture trustee with respect to the Debt Securities of one or more series and add to or change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the trusts by multiple indenture trustees or the removal of one or more of the Trustees;

- cure any ambiguity, correct or supplement any provision in the Indenture which may be defective or inconsistent with any other provision in the Indenture, or make any other provisions with respect to matters or questions arising under the Indenture; provided that such action does not adversely affect the interests of holders of the Debt Securities of any series in any material respect; or

- make any other change to the Indenture or the Debt Securities of any series that does not adversely affect the interests of holders of the Debt Securities of any series in any material respect.

Defeasance and Discharge and Covenant Defeasance

Except as otherwise specified in a Prospectus Supplement, the Issuer will be discharged from (i) its obligations, with certain limited exceptions, with respect to any Debt Securities or any series of Debt Securities issued under the Indenture (except as to certain surviving rights and obligations specified in the Indenture) (a "**Defeasance**") and (ii)

its obligations under certain restrictive covenants established with respect to any Debt Securities or any series of Debt Securities issued under the Indenture, in each case, when, in respect of such Debt Securities and the Indenture: (a) the Issuer has irrevocably deposited with the U.S. Trustee money or government obligations sufficient to pay and discharge such Debt Securities to the applicable maturity or redemption date, including principal, premium, Additional Amounts and interest thereon; (b) no event of default shall have occurred and be continuing at the time of such deposit or with regard to any such an event of default relating to an event of bankruptcy, insolvency or reorganization of the Issuer, at any time prior to the 90th day after such deposit; (c) if the Debt Securities are to be redeemed prior to the applicable stated maturity, notice of such redemption has been duly given pursuant to the Indenture; and (d) the Issuer has delivered to the U.S. Trustee an officer's certificate and opinion of counsel stating that all conditions precedent relating to the satisfaction and discharge of the Indenture have been complied with. Following the occurrence of a Defeasance, payment of such Debt Securities may not be accelerated because of an event of default under the Indenture.

Governing Law

The Indenture and the Debt Securities will be governed by, and construed in accordance with, the laws of the State of New York.

CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement may describe certain Canadian federal income tax considerations generally applicable to purchasers who are acquiring, holding and disposing of the Debt Securities offered thereunder. The applicable Prospectus Supplement may also describe certain U.S. federal income tax considerations applicable to purchasers who are acquiring, holding and disposing of the Debt Securities offered thereunder.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in the Province of Ontario provides purchasers with the right to withdraw from an agreement to purchase Debt Securities. Unless otherwise provided in the applicable Prospectus Supplement, this right may be exercised within two business days after the later of (i) the date that the Issuer (a) filed the prospectus or any amendment on SEDAR+ and a receipt is issued and posted for the document, and (b) issued and filed a news release on SEDAR+ announcing that the document is accessible through SEDAR+, and (ii) the date that the purchaser or subscriber has entered into an agreement to purchase the Debt Securities or a contract to purchase or a subscription for the Debt Securities. In the Province of Ontario, securities legislation further provides a purchaser with remedies for rescission or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the Province of Ontario. The purchaser should refer to any applicable provisions of the securities legislation of the Province of Ontario for the particulars of these rights or consult with a legal advisor.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is incorporated under the laws of the Province of Ontario. All of the directors and officers of the Issuer, and the majority of the experts named in this Prospectus, are non-U.S. residents and a substantial portion of the assets of the Issuer and the assets of such experts named in this Prospectus are located outside of the U.S. The Issuer has appointed an agent for service of process in the U.S., but it may be difficult for holders of Debt Securities who reside in the U.S. to effect service within the U.S. upon those directors, officers and experts who are not residents of the U.S. It may also be difficult for holders of the Debt Securities who reside in the U.S. to realize in Canada upon judgments of courts of the U.S. predicated upon the civil liability of the Issuer and the civil liability of the Issuer's directors, officers and experts under U.S. federal securities law.

The Issuer has been advised that a judgment of a U.S. court predicated solely upon civil liability under U.S. federal securities laws would likely be enforceable in Canada if the U.S. court in which the judgment was obtained has a basis for jurisdiction in the matter that would be recognized by a Canadian court for the same purposes. The Issuer has also been advised, however, that there is real doubt whether an action could be brought in Canada in the first instance on the basis of liability predicated solely upon U.S. federal securities laws.

CONSENT TO JURISDICTION AND SERVICE

The Issuer filed with the SEC, concurrently with the Registration Statement, an appointment of agent for service of process on Form F-X. Under the Form F-X, the Issuer appointed C T Corporation System, 28 Liberty Street, New York, New York 10005, as its agent for service of process in the U.S. in connection with any investigation or administrative proceeding conducted by the SEC, and any civil suit or action brought against or involving the Issuer arising out of or related to or concerning an offering of Debt Securities under the Registration Statement.

EXEMPTIONS

Well-Known Seasoned Issuers

The Ontario Securities Commission has adopted Ontario Rule 44-503 – *Exemption from Certain Prospectus Requirements for Well-known Seasoned Issuers* (the "**WKSI Blanket Order**"). This Prospectus has been filed by the Issuer in reliance upon the WKSI Blanket Order, which permits "well-known seasoned issuers", or "WKSIs", to file a final short form base shelf prospectus as the first public step in an offering, and exempt qualifying issuers from certain disclosure requirements relating to such final short form base shelf prospectus. The Issuer intends to rely on such exemptions to the full extent permitted by the WKSI Blanket Order notwithstanding the inclusion in this short form base shelf prospectus of any disclosure that is permitted to be excluded pursuant to the WKSI Blanket Order.

LEGAL MATTERS

Unless otherwise indicated in the Prospectus Supplement relating to an offering of Debt Securities, the offering of Debt Securities will be subject to approval of certain legal matters on behalf of the Issuer by Osler, Hoskin & Harcourt LLP, with respect to Canadian law, and Skadden, Arps, Slate, Meagher & Flom LLP, with respect to U.S. law. As of the date of this Prospectus, the partners and associates of Osler, Hoskin & Harcourt LLP, as a group, beneficially owned, directly or indirectly, less than 1% of outstanding securities of any class issued by the Issuer or any associate or affiliate of the Issuer. In addition, certain legal matters in connection with any offering of Debt Securities will be passed upon for any underwriters, dealers or agents, as applicable, by counsel to be designated at the time of the offering.

AUDITORS

KPMG LLP, Chartered Professional Accountants, located at 333 Bay Street, Suite 4600, Bay Adelaide Centre, Toronto, Ontario, M5H 2S5, is the auditor of the Issuer and has confirmed that it is independent of the Issuer within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation and also that they are independent accountants with respect to the Issuer under all relevant U.S. professional and regulatory standards.

CERTIFICATE OF HYDRO ONE INC.

Dated: August 18, 2025

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of the Province of Ontario.

(signed) DAVID LEBETER
President and Chief Executive Officer

(signed) HARRY TAYLOR
Executive Vice President, Chief Financial and Regulatory Officer

On behalf of the Board of Directors:

(signed) MELISSA SONBERG
Director

(signed) MITCH PANCIUK
Director

COST OF CAPITAL/CAPITAL STRUCTURE - HOSSM

1.0 INTRODUCTION

This Exhibit summarizes the method and cost of financing Hydro One Sault Ste. Marie LP's (HOSSM) capital requirements for the test years 2027 and 2028 and for the duration of the 2029 to 2032 Custom IR period.

The cost of capital as described in this Exhibit has been reflected in the revenue requirements for each year of this Application as a placeholder. HOSSM will update the total revenue requirement for the 2027 year to reflect the OEB's 2027 cost of capital parameters, and 2028 to 2032 test years to reflect the OEB's 2028 cost of capital parameters, when they are released.

2.0 OVERALL FINANCING STRATEGY

Hydro One Inc.'s financing strategy for HOSSM takes into consideration the objectives of cost effectiveness, liquidity, minimizing refinancing risk, and ensuring the overall outstanding duration of its capital is aligned with the long service lives of the Company's assets. The standard maturity terms of five, ten and thirty years are generally the most liquid, or largest from an investor demand perspective, and represent the main financing tenors that Hydro One Inc. plans to utilize to execute its debt financing strategy.

3.0 CAPITAL STRUCTURE FOR HOSSM

HOSSM has adopted the capital structure consistent with the OEB's findings in its Decision and Order, Generic Proceeding – Cost of Capital and Other Matters, dated March 27, 2025 (EB-2024-0063) (the "Generic CoC Decision"). HOSSM's deemed capital structure for rate making purposes is 60% debt and 40% common equity. The 60% debt component is comprised of 4% deemed short term debt and 56% long term debt.

4.0 RETURN ON COMMON EQUITY FOR HOSSM

HOSSM's proposed revenue requirement reflects a return on equity (ROE) of 9.11% as a placeholder for 2027 and 2028 based on the Cost of Capital Parameters released by the

OEB on October 31, 2025, for rates effective January 1, 2026. It is calculated using the OEB's formulaic approach, as set out in Schedule C of the *Decision and Order, Generic Proceeding – Cost of Capital and Other Matters* report, dated March 27, 2025 (EB-2024-0063).

As described above, HOSSM will update the equity component of the cost of capital for the 2027 test year using the 2027 ROE to be calculated and released by the OEB in the fall of 2026, and the 2028 test year using the 2028 ROE to be calculated and released by the OEB in the fall of 2027.

The table below provides HOSSM's 2018 to 2025 achieved ROE and OEB Approved ROE.

Table 1 - Achieved and OEB Approved ROE

HOSSM	2018	2019	2020	2021	2022	2023	2024	2025
Achieved ROE	13.67%	10.56%	14.48%	16.57%	17.54%	19.45%	20.10%	17.07%
OEB Approved ROE	9.19%	9.19%	9.19%	9.19%	9.19%	9.19%	9.19%	9.19%

Overall, HOSSM's achieved ROE exceeded the OEB-approved ROE from 2018 to 2025, primarily due to higher electricity demand driven by weather-related variability, and lower OM&A arising from efficiencies. HOSSM has been in a deferred rebasing period since 2016.

5.0 DEEMED SHORT-TERM DEBT FOR HOSSM

Under the proposed capital structure, as noted above, HOSSM is requesting that the amount of short-term debt that should be factored into rate-setting be fixed at 4.0% of rate base. The OEB's deemed short-term debt rate of 2.72% is being used by HOSSM as a placeholder for 2027 and 2028. This rate is based on the September 2025 3-month Utility Bond Yield (BVCAUA3M BVLI Index) from the 2026 Cost of Capital Parameters published by the OEB (EB-2025-0303).

HOSSM will update the deemed short-term debt rate for the 2027 test year based on the 2027 deemed short-term debt rate to be calculated and published by the Board in the fall

of 2026 and for the 2028 test years based on the 2028 deemed short-term debt rate to be calculated and published by the Board in the fall of 2027.

6.0 LONG-TERM DEBT FOR HOSSM

Under the proposed capital structure, as noted above, Hydro One is requesting that the deemed amount of long-term debt that should be factored into rate-setting be fixed at 56% of rate base.

HOSSM will update the long-term debt rate for each of the 2027-2032 test years based on actual issuances of debt, which are planned in 2027 and are discussed in Exhibit F-02-02 Section 1.0.

7.0 COST OF CAPITAL SUMMARY FOR HOSSM

Historical, bridge, test and the last OEB-approved debt and equity summary schedules are available at Exhibit F-02-03.

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COST OF LONG-TERM DEBT - HOSSM

1.0 HOSSM LONG-TERM DEBT

The debt portfolio for HOSSM is detailed in Exhibit F-02-04. In 2027, HOSSM is expected to be allocated a portion of the debt issued by Hydro One Networks Inc. to Hydro One Inc to refinance HOSSM's existing promissory notes (Exhibit F-02-05 and Exhibit F-02-06).

Hydro One Networks Inc. issues debt to Hydro One Inc. to reflect debt issued by Hydro One Inc. to third-party public debt investors. The amount of debt issued by Hydro One Inc. to third-party public debt investors includes the debt required by Hydro One Inc.'s subsidiaries. Third-party public debt investors hold all of the long-term debt issued by Hydro One Inc.

Hydro One Inc.'s debt programs are discussed in Exhibit F-01-02 Section 1.0.

As noted in Exhibit F-02-01, Hydro One has proposed to update the long-term debt rate for HOSSM. In this exhibit, Hydro One has updated the debt rates for 2027 and 2028 to reflect the Consensus Forecasts October 2025 Long-term Forecasts. These will be further updated as part of the draft rate order process to include Hydro One's actual 2027 debt issuances to such date. Until the actual issuances of debt occur, HOSSM will use the deemed long-term debt rate as the cost of long-term debt as per HOSSM's existing promissory notes in Exhibits F-02-05 and F-02-06, calculated and published by the Board in the fall of 2026, as the cost of debt in 2027.

2.0 HYDRO ONE INC. CREDIT RATINGS

Hydro One Inc.'s credit ratings are discussed in Exhibit F-01-02 Section 2.0.

3.0 HYDRO ONE HOSSM COST OF LONG-TERM DEBT

The long-term debt rates for HOSSM are calculated as the weighted average interest rates on forecast debt planned to be issued in 2027 and Treasury OM&A costs and other

financing-related fees forecasted to incur in 2027. The weighted average interest rate on long-term debt for HOSSM in 2027 and 2028 is 4.86%.

3.1 HYDRO ONE HOSSM FORECAST DEBT

HOSSM's forecast borrowing requirement for the test year is equally distributed amongst the 5-, 10-and 30-year terms, as shown in Table 1 below.

Table 1 lists the fixed rate debt that Hydro One HOSSM plans to issue in 2027 as shown in lines 1 to 3 of Exhibit F-02-04, page 1.

Table 1 - Forecast HOSSM Debt Allocation for 2027 and 2028

Year	Principal Amount ($M)	Term (Years)	Coupon
2027/2028	64.5	5	3.943%
	64.5	10	4.721%
	64.5	30	5.473%

3.2 HYDRO ONE HOSSM INTEREST RATES FOR 2027 FORECAST DEBT ISSUES

HOSSM borrowing will be financed at market rates applicable to Hydro One Inc. As an example, Tables 2, 3 and 4 summarize the derivation of the forecast Hydro One Inc. yield for HOSSM for each of the planned issuance terms in 2027. The derivation of the coupon rates are described in Exhibit F-01-02 Section 3.4.

Table 2 - Forecast Coupon Rates (%) for 2027 5-Year Term

	2027
Government of Canada Yield	3.15%
Hydro One Credit Spread	0.79%
Hydro One Coupon Rate	3.94%

Table 3 - Forecast Coupon Rates (%) for 2027 10-Year Term

	2027
Government of Canada Yield	3.60%
Hydro One Credit Spread	1.12%
Hydro One Coupon Rate	4.72%

Table 4 - Forecast Coupon Rates (%) for 2027 30-Year Term

	2027
Government of Canada Yield	4.05%
Hydro One Credit Spread	1.42%
Hydro One Coupon Rate	5.47%

3.3 HYDRO ONE HOSSM TREASURY OM&A COSTS

Treasury OM&A costs are described in Exhibit F-01-02 Section 3.5.

Treasury OM&A costs for HOSSM are provided in Exhibit F-02-04 and are summarized in Table 5:

Table 5 - Forecast HOSSM Treasury OM&A Costs

Year	Amount ($M)	Line	Page
2027	0.04	5	1

3.4 HYDRO ONE HOSSM OTHER FINANCING-RELATED FEES

Column (e) of Exhibit F-02-04 (Premium, Discount and Expenses) presents the costs of issuing debt. These costs are specific to each debt issue and include commissions, legal fees, debt discounts or premiums on issues or re-openings of issues relative to par, and hedge gains or losses.

Other financing-related fees include the HOSSM allocations of Hydro One Inc.’s standby credit facility, annual credit rating agency, filing fees to security regulators, letter of credit, banking, custodial and trustee fees.

The amounts of these fees for HOSSM are summarized in Table 6 below and are also provided in the long-term debt schedules for Exhibit F-02-04:

Table 6 - Forecast HOSSM Other Financing-Related Fees

Year	Amount ($M)	Line	Page
2027	0.13	6	1

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DEBT AND EQUITY SUMMARY - HOSSM

This exhibit has been filed separately in MS Excel format.

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COST OF LONG-TERM DEBT CAPITAL - HOSSM

This exhibit has been filed separately in MS Excel format.

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THIS FIRST AMENDING AGREEMENT made and effective as of this 1st day of July, 2026.

BETWEEN:

HYDRO ONE INC., a corporation incorporated pursuant to the laws of the Province of Ontario ("**Lender**")

OF THE FIRST PART;

- and -

HYDRO ONE SAULT STE. MARIE LP, a corporation incorporated pursuant to the laws of the Province of Ontario ("**Borrower**")

OF THE SECOND PART.

(each a "**party**" and collectively, the "**parties**")

WHEREAS the Borrower issued a Promissory Note dated June 15, 2023 in the principal amount of $94,846,845 to the Lender, a copy of which is attached hereto as Schedule "A" (the "**Promissory Note**");

AND WHEREAS the current outstanding loan balance on the Promissory Note is $94,846,845;

AND WHEREAS the parties intend to amend the Promissory Note to update the interest rate applicable to the outstanding loan balance under the Promissory Note.

NOW THEREFORE, this First Amending Agreement witnesses that in consideration of the sum of $2.00 paid by the parties to each, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. Unless otherwise defined herein, all capitalized terms shall have the meaning ascribed to them in the Promissory Note.

2. Section 2 of the Promissory Note is hereby deleted in its entirety and replaced with:

   "The Principal Amount outstanding shall bear interest, calculated daily, at a rate equal to 5.50% commencing June 15, 2023 and ending July 1, 2026, followed by the OEB Long Term Debt Rate (as defined below) for each Interest Period (as defined below) commencing July 1, 2026 and ending on the Demand Date (as defined below), payable in equal and semi-annual payments in arrears on December 15 and June 15, provided that if any such day is not a Business Day, then payment shall be made on the next Business Day. The Principal Amount plus any applicable interest shall be due on demand (the "**Demand Date**").

   For the purposes of this Note, "**Business Day**" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day when banking institutions in Toronto are authorised or obligated by law or regulations to close, the "**OEB Long Term Debt Rate**" means (i) the

long term debt rate prescribed by the Ontario Energy Board ("OEB") in the OEB's Cost of Capital parameters for purposes of setting rates that have an effective date commencing in the calendar year in which the interest accrues. "**Interest Period**" means the period commencing on each Interest Reset Date and ending on the day immediately preceding the next following Interest Reset Date or the Demand Date, as applicable and "**Interest Reset Date**" means July 1, 2026 and the first Business Day after each January 1st thereafter."

3. Each party represents and warrants that the recitals, to the extent that the recitals are applicable to that party, are true and accurate and form part of this First Amending Agreement.

4. The parties agree that all terms and conditions of the Promissory Note shall, unless specifically modified or amended herein, continue to remain in full force and effect subject to the terms and conditions therein respectively.

5. This First Amending Agreement and each of the parties' respective rights and obligations under this First Amending Agreement shall be binding on and shall enure to the benefit of the parties hereto and each of their respective successors and permitted assigns.

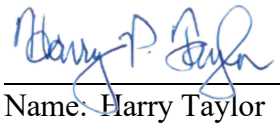
6. This First Amending Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same agreement. Transmission of a copy of an executed signature page of this First Amending Agreement by facsimile transmission or email in pdf format by a party shall be as effective as delivery of an original manually executed counterpart hereof.

7. This First Amending Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the Province of Ontario and the laws of Canada applicable therein.

[*Signature page follows*]

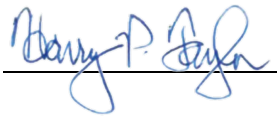
IN WITNESS WHEREOF the parties have caused this First Amending Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE INC.



Name: Harry Taylor
Title:
I have authority to bind the corporation.

HYDRO ONE SAULT STE. MARIE LP
By its general partner
Hydro One Sault Ste. Marie Inc.



Name: Harry Taylor
Title:
I have authority to bind the Borrower.

THIS FIRST AMENDING AGREEMENT made and effective as of this 1st day of July, 2026.

BETWEEN:

HYDRO ONE SAULT STE. MARIE HOLDINGS LP, a corporation incorporated pursuant to the laws of the Province of Ontario ("**Borrower**")

OF THE FIRST PART;

- and -

HYDRO ONEINC., a corporation incorporated pursuant to the laws of the Province of Ontario ("**Lender**")

OF THE SECOND PART.

(each a "**party**" and collectively, the "**parties**")

WHEREAS the Borrower issued a Promissory Note dated June 15, 2023 in the principal amount of $36,000,000 to the Lender, a copy of which is attached hereto as Schedule "A" (the "**Promissory Note**");

AND WHEREAS the current outstanding loan balance on the Promissory Note is $36,000,000

AND WHEREAS the parties intend to amend the Promissory Note to update the interest rate applicable to the outstanding loan balance under the Promissory Note.

NOW THEREFORE, this First Amending Agreement witnesses that in consideration of the sum of $2.00 paid by the parties to each, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Unless otherwise defined herein, all capitalized terms shall have the meaning ascribed to them in the Promissory Note.

2. Section 2 of the Promissory Note is hereby deleted in its entirety and replaced with:

   "The Principal Amount outstanding shall bear interest, calculated daily, at a rate equal to 5.50% commencing June 15, 2023 and ending June 30, 2026, followed by the OEB Long Term Debt Rate (as defined below) for each Interest Period (as defined below) commencing July 1, 2026 and ending on the Demand Date (as defined below), payable in equal and semi-annual payments in arrears on December 15 and June 15, provided that if any such day is not a Business Day, then payment shall be made on the next Business Day. The Principal Amount plus any applicable interest shall be due on demand (the "**Demand Date**").

   For the purposes of this Note, "**Business Day**" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day when banking institutions in Toronto are authorised or obligated by law or regulations to close, the "**OEB Long Term Debt Rate**" means (i) the

long term debt rate prescribed by the Ontario Energy Board ("OEB") in the OEB's Cost of Capital parameters for purposes of setting rates that have an effective date commencing in the calendar year in which the interest accrues. "**Interest Period**" means the period commencing on each Interest Reset Date and ending on the day immediately preceding the next following Interest Reset Date or the Demand Date, as applicable and "**Interest Reset Date**" means July 1, 2026 and the first Business Day after each January 1st thereafter."

3. Each party represents and warrants that the recitals, to the extent that the recitals are applicable to that party, are true and accurate and form part of this First Amending Agreement.

4. The parties agree that all terms and conditions of the Promissory Note shall, unless specifically modified or amended herein, continue to remain in full force and effect subject to the terms and conditions therein respectively.

5. This First Amending Agreement and each of the parties' respective rights and obligations under this First Amending Agreement shall be binding on and shall enure to the benefit of the parties hereto and each of their respective successors and permitted assigns.

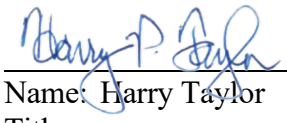
6. This First Amending Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same agreement. Transmission of a copy of an executed signature page of this First Amending Agreement by facsimile transmission or email in pdf format by a party shall be as effective as delivery of an original manually executed counterpart hereof.

7. This First Amending Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the Province of Ontario and the laws of Canada applicable therein.

[*Signature page follows*]

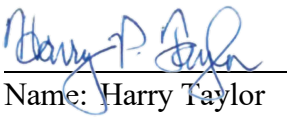
IN WITNESS WHEREOF the parties have caused this First Amending Agreement to be executed by their respective representatives duly authorized in that behalf.

HYDRO ONE INC.



Name: Harry Taylor
Title:
I have authority to bind the corporation.

HYDRO ONE SAULT STE. MARIE HOLDINGS LP
By its general partner Hydro One Sault Ste. Marie Holdings Inc.



Name: Harry Taylor
Title:
I have authority to bind the Borrower.