

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and nine months ended September 30, 2019 and 2018

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the unaudited condensed interim consolidated financial statements and accompanying notes thereto (Consolidated Financial Statements) of Hydro One Inc. (Hydro One or the Company) for the three and nine months ended September 30, 2019, as well as the Company's audited amended consolidated financial statements and amended MD&A for the year ended December 31, 2018. The Consolidated Financial Statements are presented in Canadian dollars and have been prepared in accordance with United States (US) Generally Accepted Accounting Principles (GAAP). All financial information in this MD&A is presented in Canadian dollars, unless otherwise indicated.

The Company has prepared this MD&A in accordance with National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the US/Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canadian securities laws and regulations, which can vary from those of the US. This MD&A provides information for the three and nine months ended September 30, 2019, based on information available to management as of November 6, 2019.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>(millions of dollars, except as otherwise noted)</i>	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Revenues	1,584	1,598	(0.9%)	4,737	4,630	2.3%
Purchased power	737	733	0.5%	2,197	2,158	1.8%
Revenues, net of purchased power ¹	847	865	(2.1%)	2,540	2,472	2.8%
Operation, maintenance and administration (OM&A) costs	249	260	(4.2%)	762	762	0.0%
Depreciation, amortization and asset removal costs	217	211	2.8%	646	615	5.0%
Financing charges	118	109	8.3%	344	311	10.6%
Income tax expense	14	50	(72.0%)	48	128	(62.5%)
Net income to common shareholder of Hydro One	248	231	7.4%	734	645	13.8%
Basic earnings per common share (EPS)	\$1,744	\$1,624	7.4%	\$5,160	\$4,535	13.8%
Diluted EPS	\$1,744	\$1,624	7.4%	\$5,160	\$4,535	13.8%
Net cash from operating activities	636	508	25.2%	1,178	1,201	(1.9%)
Funds from operations (FFO) ¹	462	430	7.4%	1,160	1,256	(7.6%)
Capital investments	422	399	5.8%	1,099	1,102	(0.3%)
Assets placed in-service	423	238	77.7%	840	855	(1.8%)
Transmission: Average monthly Ontario 60-minute peak demand (MW)	20,954	22,759	(7.9%)	19,981	20,841	(4.1%)
Distribution: Electricity distributed to Hydro One customers (GWh)	6,627	6,817	(2.8%)	20,438	20,334	0.5%
					2019	2018
Debt to capitalization ratio ²					56.7%	53.6%

¹ See section "Non-GAAP Measures" for description and reconciliation of FFO and revenues, net of purchased power.

² Debt to capitalization ratio is a non-GAAP measure and has been presented at September 30, 2019 and December 31, 2018, and has been calculated as total debt (includes total long-term debt and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholder's equity, including preferred shares but excluding any amounts related to noncontrolling interest. Management believes that the debt to capitalization ratio is helpful as a measure of the proportion of debt in the Company's capital structure.

OVERVIEW

The Company's transmission business consists of the transmission system operated by its subsidiaries, Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON), and an approximately 75% interest in Niagara Reinforcement Limited Partnership (NRLP), a limited partnership between Hydro One and Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation (collectively, the First Nations Partners). Hydro One's distribution business consists of the distribution system operated by its subsidiaries, Hydro One Networks and Hydro One Remote Communities Inc. (Hydro One Remote Communities). The other segment includes certain corporate activities.

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For the nine months ended September 30, 2019 and 2018, Hydro One's business segments accounted for the Company's total revenues, net of purchased power, as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Transmission	52%	57%	49%	54%
Distribution	48%	43%	51%	46%
Other	—%	—%	—%	—%

At September 30, 2019 and December 31, 2018, Hydro One's business segments accounted for the Company's total assets as follows:

	September 30, 2019	December 31, 2018
Transmission	56%	54%
Distribution	36%	36%
Other	8%	10%

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholder for the quarter ended September 30, 2019 of \$248 million is an increase of \$17 million or 7.4% from the prior year. Significant influences on net income included:

- lower revenues, net of purchased power, primarily resulting from:
 - lower average monthly Ontario 60-minute peak demand driven by less favourable weather in the third quarter of 2019 compared to 2018; and
 - deferred tax asset sharing mandated by the OEB and deferred tax regulatory adjustment related to accelerated tax depreciation (Accelerated CCA) both of which will flow through to customers and are offset in lower taxes, with no impact on regulated return on equity (ROE); partially offset by
 - an increase in distribution revenues, net of purchased power, due to the Ontario Energy Board's (OEB) decision on the 2019 distribution rates;
- lower OM&A costs primarily resulting from lower corporate support costs, partially offset by insurance proceeds received last year;
- higher financing charges primarily resulting from an increase in interest expense on long-term debt driven by higher weighted-average long-term debt balance outstanding in 2019;
- lower income tax expense primarily attributable to the following:
 - incremental tax deductions from deferred tax asset sharing mandated by the OEB;
 - higher 2019 temporary differences recoverable from or refundable to customers in the future, compared to 2018;
 - Accelerated CCA resulting from the enactment of certain 2019 federal and Ontario budget measures in the second quarter of 2019, which flows through to customers and offsets lower revenues, with no impact on regulated ROE; and
 - lower income before taxes in 2019, compared to 2018.

Net income attributable to common shareholder for the nine months ended September 30, 2019 of \$734 million is an increase of \$89 million or 13.8% from the prior year. Year-to-date results were impacted by similar factors to those noted above, as well as the following:

- an increase in distribution revenues, net of purchased power, due to the OEB's decision on the 2018 distribution rates; and
- lower costs due to the repatriation of the Call Centre which resulted in operational improvements; partially offset by
- higher vegetation management coverage compared to the prior year;
- higher costs of non-storm emergency restorations due to higher occurrence of such events; and
- higher information technology (IT) costs due to implementation of new tools to support ongoing operations.

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Revenues

<i>(millions of dollars, except as otherwise noted)</i>	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Transmission	444	495	(10.3%)	1,247	1,346	(7.4%)
Distribution	1,140	1,103	3.4%	3,490	3,284	6.3%
Total revenues	1,584	1,598	(0.9%)	4,737	4,630	2.3%
Transmission	444	495	(10.3%)	1,247	1,346	(7.4%)
Distribution, net of purchased power	403	370	8.9%	1,293	1,126	14.8%
Total revenues, net of purchased power	847	865	(2.1%)	2,540	2,472	2.8%
Transmission: Average monthly Ontario 60-minute peak demand (<i>MW</i>)	20,954	22,759	(7.9%)	19,981	20,841	(4.1%)
Distribution: Electricity distributed to Hydro One customers (<i>GWh</i>)	6,627	6,817	(2.8%)	20,438	20,334	0.5%

Transmission Revenues

Transmission revenues decreased by 10.3% during the quarter ended September 30, 2019, primarily due to the following:

- lower average monthly Ontario 60-minute peak demand driven by less favourable weather in the third quarter of 2019;
- revenue recognized in the third quarter of 2018 to reflect the Company's position with respect to the deferred tax asset, which was subsequently reversed following the OEB decision; and
- deferred tax regulatory adjustment related to Accelerated CCA which will flow through to customers and is offset in lower taxes, with no impact on regulated ROE; partially offset by
- higher revenue driven by increased OEB-approved transmission rates for 2019.

The decrease of 7.4% in transmission revenues for the nine months ended September 30, 2019 was the result of similar factors as noted above.

Distribution Revenues, Net of Purchased Power

Distribution revenues, net of purchased power, increased by 8.9% during the quarter ended September 30, 2019, primarily due to the following:

- update to the 2019 distribution rates per OEB decision received in March 2019; partially offset by
- lower energy consumption resulting from less favourable weather in the third quarter of 2019; and
- deferred tax asset sharing mandated by the OEB and deferred tax regulatory adjustment related to Accelerated CCA both of which will flow through to customers and are offset in lower taxes, with no impact on regulated ROE.

The increase of 14.8% in distribution revenues, net of purchased power, for the nine months ended September 30, 2019 was the result of similar factors as noted above, as well as the update to the 2018 distribution rates per OEB decision received in March 2019.

OM&A Costs

<i>(millions of dollars)</i>	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Transmission	100	100	—%	307	307	—%
Distribution	148	151	(2.0%)	451	439	2.7%
Other	1	9	(88.9%)	4	16	(75.0%)
	249	260	(4.2%)	762	762	—%

Transmission OM&A Costs

Transmission OM&A costs for the quarter and nine months ended September 30, 2019 were consistent with the same periods last year, and were primarily impacted by insurance proceeds received last year for the National Research Council transformer station, and changes in corporate support costs compared to prior year.

Distribution OM&A Costs

The decrease of 2.0% in distribution OM&A costs for the quarter ended September 30, 2019 was primarily due to lower corporate support costs compared to prior year.

The increase of 2.7% in distribution OM&A costs for the nine months ended September 30, 2019 was primarily due to the following:

- higher vegetation management coverage compared to the prior year;
- higher emergency power restoration costs due to a higher volume of non-storm related emergency calls; and

- higher spend related to IT projects as a result of implementation of new tools to support ongoing operations; partially offset by
- lower project and inventory write-offs;
- lower costs due to repatriation of the Call Centre which resulted in operational improvements;
- mutual storm assistance costs in the first quarter of 2018 (net income neutral); and
- lower corporate support costs.

Other OM&A Costs

The decrease in other OM&A costs for the quarter and nine months ended September 30, 2019 was primarily due to lower corporate support costs compared to prior year.

Financing Charges

The increase of \$9 million or 8.3% in financing charges for the quarter ended September 30, 2019 was primarily due to the following:

- an increase in interest expense on long-term debt driven by higher weighted-average long-term debt balance outstanding in 2019, mainly due to the issuance of \$1.5 billion long-term debt in April 2019; and
- a decrease in interest income on short-term investment driven by lower weighted-average balance of short-term investment outstanding in 2019.

The increase of \$33 million or 10.6% in financing charges for the nine months ended September 30, 2019 was primarily due to the following:

- an increase in interest expense on long-term debt driven by higher weighted-average long-term debt balance outstanding in 2019, mainly due to the issuance of \$1.5 billion long-term debt in April 2019; and
- an increase in interest expense on short-term notes payable driven by higher weighted-average interest rates and balance of short-term notes outstanding in 2019.

Income Tax Expense

Income tax expense was \$14 million and \$48 million for the three and nine months ended September 30, 2019, respectively, compared to an expense of \$50 million and \$128 million in the comparable periods last year. The Company realized an effective tax rate (ETR) for the three and nine months ended September 30, 2019 of approximately 5.3% and 6.1%, respectively, compared to approximately 17.5% and 16.3% realized in the same periods last year.

As prescribed by the regulators, the Company recovers income taxes and is required to accrue its tax expense based on the tax liability determined without accounting for temporary differences recoverable from or refundable to customers in the future.

The decrease in income tax expense for the three months ended September 30, 2019 was primarily attributable to the following:

- incremental tax deductions from deferred tax asset sharing mandated by the OEB;
- higher 2019 temporary differences recoverable from or refundable to customers in the future, compared to 2018;
- Accelerated CCA resulting from the enactment of certain 2019 federal and Ontario budget measures in the second quarter of 2019, which flows through to customers and offsets lower revenues, with no impact on regulated ROE; and
- lower income before taxes in 2019, compared to 2018.

The decrease in income tax expense for the nine months ended September 30, 2019 was primarily attributable to the following:

- incremental tax deductions from deferred tax asset sharing mandated by the OEB;
- Accelerated CCA resulting from the enactment of certain 2019 federal and Ontario budget measures in the second quarter of 2019, which flows through to customers and offsets lower revenues, with no impact on regulated ROE; and
- higher 2019 temporary differences recoverable from or refundable to customers in the future, compared to 2018.

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QUARTERLY RESULTS OF OPERATIONS

Quarter ended (millions of dollars, except EPS and ratio)	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
Revenues	1,584	1,403	1,750	1,480	1,598	1,466	1,566	1,429
Purchased power	737	653	807	741	733	674	751	662
Revenues, net of purchased power ¹	847	750	943	739	865	792	815	767
Net income (loss) to common shareholder	248	162	324	(685)	231	199	215	180
Basic and diluted EPS	\$1,744	\$1,139	\$2,278	(\$4,816)	\$1,624	\$1,399	\$1,512	\$1,265
Earnings coverage ratio ²	2.7	2.7	2.9	2.8	3.0	3.0	2.8	2.7

¹ See section "Non-GAAP Measures" for description of revenues, net of purchased power.

² Earnings coverage ratio is a non-GAAP measure that has been presented for the twelve months ended as of each date indicated above and has been calculated as net income before financing charges and income taxes attributable to shareholder of Hydro One, divided by the sum of financing charges, capitalized interest, and preferred dividends.

Variations in revenues and net income over the quarters are primarily due to the impact of seasonal weather conditions on customer demand and market pricing, as well as timing of regulatory decisions.

CAPITAL INVESTMENTS

The Company makes capital investments to maintain the safety, reliability and integrity of its transmission and distribution system assets and to provide for the ongoing growth and modernization required to meet the expanding and evolving needs of its customers and the electricity market. This is achieved through a combination of sustaining capital investments, which are required to support the continued operation of Hydro One's existing assets, and development capital investments, which involve both additions to existing assets and large scale projects such as new transmission lines and transmission stations.

Assets Placed In-Service

The following table presents Hydro One's assets placed in-service during the three and nine months ended September 30, 2019 and 2018:

(millions of dollars)	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Transmission	294	112	162.5%	509	466	9.2%
Distribution	129	126	2.4%	331	389	(14.9%)
Total assets placed in-service	423	238	77.7%	840	855	(1.8%)

Transmission Assets Placed In-Service

Transmission assets placed in-service increased by \$182 million or 162.5% during the third quarter of 2019 primarily due to the following:

- completion of development work at Niagara Reinforcement Project; and
- assets placed in-service in the third quarter of 2019 for station sustainment investments (primarily at Elgin transmission station) and line refurbishment projects.

Transmission assets placed in-service increased by \$43 million or 9.2% during the nine months ended September 30, 2019 primarily due to similar factors as noted above, as well as the following:

- assets placed in service in first half of 2019 for station sustainment investments (primarily at Enfield, Hanmer, Cherrywood, and St. Isidore transmission stations); partially offset by
- assets placed in service in the second quarter of 2018 for Clarington transmission station.

Distribution Assets Placed In-Service

Distribution assets placed in-service increased by \$3 million or 2.4% during the third quarter of 2019 primarily due to the following:

- higher volume of emergency power restoration work;
- higher volume of distribution station refurbishments; and
- higher volume of new customer connections; partially offset by
- lower volume of storm-related asset replacements in the third quarter of 2019.

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Distribution assets placed in-service decreased by \$58 million or 14.9% during the nine months ended September 30, 2019 primarily due to the following:

- lower volume of storm-related asset replacements in 2019 compared to the prior year; and
- cumulative investments that were placed in-service for the Advanced Distribution System project and the Advanced Metering Infrastructure Wireless project work in the first half of 2018; partially offset by
- higher volume of emergency power restoration work; and
- higher volume of distribution station refurbishments.

Capital Investments

The following table presents Hydro One's capital investments during the three and nine months ended September 30, 2019 and 2018:

<i>(millions of dollars)</i>	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Transmission						
Sustaining	220	221	(0.5%)	602	587	2.6%
Development	47	30	56.7%	96	77	24.7%
Other	9	10	(10.0%)	26	29	(10.3%)
	276	261	5.7%	724	693	4.5%
Distribution						
Sustaining	63	72	(12.5%)	173	232	(25.4%)
Development	71	59	20.3%	168	153	9.8%
Other	12	7	71.4%	34	24	41.7%
	146	138	5.8%	375	409	(8.3%)
Total capital investments	422	399	5.8%	1,099	1,102	(0.3%)

Transmission Capital Investments

Transmission capital investments increased by \$15 million or 5.7% during the third quarter of 2019 primarily due to the following:

- higher investments in multi-year development projects (East-West Tie Expansion); and
- higher volume of work on load customer connections at Leamington transmission station.

Transmission capital investments increased by \$31 million or 4.5% during the nine months ended September 30, 2019 primarily due to factors noted above, as well as the following:

- higher volume of overhead line refurbishments and replacements; and
- higher volume of work for the North American Electric Reliability Corporation Critical Infrastructure Protection project.

Distribution Capital Investments

Distribution capital investments increased by \$8 million or 5.8% during the third quarter of 2019. Principal impacts on the levels of capital investments included:

- higher volume of new customer connections;
- higher investments in distribution system connections (Leamington and Enfield transmission stations);
- higher volume of emergency power restoration work; and
- higher volume of overhead line refurbishments and replacements; partially offset by
- lower volume of storm-related asset replacements; and
- lower costs due to disallowance of pension costs as a result of the OEB decision on the 2018-2022 distribution application.

Distribution capital investments decreased by \$34 million or 8.3% during the nine months ended September 30, 2019 primarily due to the following:

- lower volume of storm-related asset replacements; and
- lower costs due to disallowance of pension costs as a result of the OEB decision on the 2018-2022 distribution application; partially offset by
- higher volume of new customer connections;
- higher volume of emergency power restoration work;
- higher volume of line and station refurbishments and replacements;
- timing of investments in distribution system connections (Leamington and Enfield transmission stations); and
- higher volume of customer requests for line relocations.

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Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects as at September 30, 2019:

Project Name	Location	Type	Anticipated In-Service Date (year)	Estimated Cost (millions of dollars)	Capital Cost To Date
Development Projects:					
Niagara Reinforcement Project	Niagara area Southwestern Ontario	New transmission line and stations	2019 ¹	135	135
Wataynikaneyap Power LP Line Connection	Pickle Lake Northwestern Ontario	New stations and transmission connection	2021	31	1
East-West Tie Station Expansion	Northern Ontario	New transmission connection and station expansion	2022 ²	157	41
Waasigan Transmission Line	Thunder Bay-Atikokan-Dryden Northwestern Ontario	New transmission line	2024 ³	35 ³	2 ³
Leamington Area Transmission Reinforcement ⁴	Leamington Southwestern Ontario	New transmission line and stations	2026 ⁴	325 ⁴	—
Sustainment Projects:					
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2021	115	106
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2021	147	132
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2023	113	74
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2023	111	73
Middleport Transmission Station Circuit Breaker Replacement	Middleport Southwestern Ontario	Station sustainment	2025	116 ⁵	27

¹ The Niagara Reinforcement Project was placed in-service in August 2019. Total costs include \$119 million for the construction of a new 230 kV transmission line (Niagara Line), as well as \$16 million for costs relating to other assets, including stations. In September 2019, the Niagara Line assets were transferred from Hydro One Networks to NRLP. See section Regulation - NRLP for additional information.

² The majority of the East-West Tie Station Expansion project is expected to be placed in-service in 2021, enabling the connection and energization of the new East-West Tie transmission line. Additional work to complete the upgrades is expected to be placed in-service in 2022.

³ The in-service date and the costs of the Waasigan Transmission Line project (formerly known as Northwest Bulk Transmission Line Development project) relate to the development phase.

⁴ The Leamington Area Transmission Reinforcement project consists of the construction of a new double-circuit line between Chatham and Leamington and associated transmission stations and connections. The project is currently in the development stage. The anticipated in-service dates for the line and stations are between 2020 and 2026, and the total estimated cost is in the range of \$290 million to \$325 million, with approximately \$143 million of the total estimated cost included in the projected capital investments tables in section "Future Capital Investments" below.

⁵ Approximately \$107 million of the total estimated cost is included in the projected capital investments tables in section "Future Capital Investments" below.

Future Capital Investments

Following is a summary of estimated capital investments by Hydro One over the years 2019 to 2023. The Company's estimates are based on management's expectations of the amount of capital expenditures that will be required to provide transmission and distribution services that are efficient, reliable, and provide value for customers, consistent with the OEB's Renewed Regulatory Framework.

The 2019 to 2022 distribution capital investments estimates differ from 2018 year end disclosures, representing a decrease to reflect Hydro One's five-year rate application for 2018-2022 distribution rates. The projections and the timing of the transmission 2020-2023 expenditures are subject to approval by the OEB.

The following table summarizes Hydro One's annual projected capital investments for 2019 to 2023, by business segment:

(millions of dollars)	2019	2020	2021	2022	2023
Transmission	1,049	1,203	1,329	1,380	1,381
Distribution	632	671	645	620	757
Total capital investments¹	1,681	1,874	1,974	2,000	2,138

¹ Total capital investments include approximately \$150 million related to the Integrated Systems Operations Center with an anticipated in-service date of 2021.

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The following table summarizes Hydro One's annual projected capital investments for 2019 to 2023, by category:

<i>(millions of dollars)</i>	2019	2020	2021	2022	2023
Sustainment	1,068	1,182	1,397	1,479	1,530
Development	408	493	419	376	468
Other ¹	205	199	158	145	140
Total capital investments²	1,681	1,874	1,974	2,000	2,138

¹ "Other" capital expenditures consist of special projects, such as those relating to IT.

² Total capital investments include approximately \$150 million related to the Integrated Systems Operations Center with an anticipated in-service date of 2021.

SUMMARY OF SOURCES AND USES OF CASH

Hydro One's primary sources of cash flows are funds generated from operations, capital market debt issuances and bank credit facilities that are used to satisfy Hydro One's capital resource requirements, including the Company's capital expenditures, servicing and repayment of debt, and dividend payments.

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash provided by operating activities	636	508	1,178	1,201
Cash provided by (used in) financing activities	(215)	(748)	(585)	484
Cash used in investing activities	(402)	(391)	(1,066)	(1,075)
Increase (decrease) in cash and cash equivalents	19	(631)	(473)	610

Cash provided by operating activities

Cash from operating activities increased by \$128 million during the three months ended September 30, 2019, compared to the same period in 2018. The increase was impacted by various factors, including higher cash earnings in the third quarter of 2019, changes in certain regulatory variance and deferral accounts, and changes in accrual balances related to purchased power resulting from lower generation rebates from the Independent Electricity System Operator (IESO) in the third quarter of 2019.

Cash from operating activities decreased by \$23 million during the nine months ended September 30, 2019, compared to the same period in 2018. The decrease was impacted by various factors, including lower cash earnings in 2019, changes in certain regulatory variance and deferral accounts, and changes in receivable balances mainly due to higher non-energy revenues in 2019 related to secondary land use, partially offset by changes in accrual balances related to purchased power resulting from lower generation rebates from the IESO and higher global adjustment rate in 2019.

Cash provided by (used in) financing activities

Sources of cash

- During the nine months ended September 30, 2019, the Company issued \$1.5 billion of long-term debt, all in the second quarter, compared to \$1.4 billion long-term debt issued in the same period last year.
- The Company received proceeds of \$520 million and \$2,942 million from the issuance of short-term notes in the three and nine months ended September 30, 2019, respectively, compared to \$445 million and \$2,987 million received in the same periods last year.

Uses of cash

- The Company repaid \$599 million and \$3,675 million of short-term notes in the three and nine months ended September 30, 2019, respectively, compared to \$1,049 million and \$3,469 million repaid in the same periods last year.
- The Company redeemed all of its preferred shares totalling \$486 million in the nine months ended September 30, 2019, all in the first quarter, compared to no preferred shares redeemed in the prior year.
- The Company repaid \$229 million of long-term debt during the nine months ended September 30, 2019, all in the second quarter, compared to \$1 million of long-term debt repaid in the same period last year.
- In the three and nine months ended September 30, 2019, the Company made returns of stated capital of \$146 million and \$631 million, respectively, compared to returns of stated capital of \$140 million and \$405 million made in the same periods last year.
- Dividends paid in the three and nine months ended September 30, 2019 were \$nil and \$3 million, respectively, compared to dividends of \$3 million and \$13 million paid in the same periods last year.

Cash used in investing activities

Uses of cash

- Capital expenditures were \$18 million higher in the third quarter of 2019 and \$8 million lower year-to-date 2019, primarily due to changes in volume and timing of capital investment work.

LIQUIDITY AND FINANCING STRATEGY

Short-term liquidity is provided through FFO, Hydro One's commercial paper program, and the Company's consolidated bank credit facilities. Under the commercial paper program, Hydro One is authorized to issue up to \$2.3 billion in short-term notes with a term to maturity of up to 365 days. On March 25, 2019, the maximum number of short-term notes authorized for issuance was increased from \$1.5 billion to \$2.3 billion.

At September 30, 2019, Hydro One had \$519 million in commercial paper borrowings outstanding, compared to \$1,252 million outstanding at December 31, 2018. The interest rates on the commercial paper borrowings outstanding at September 30, 2019 ranged from 1.8% to 1.9%. In addition, the Company has revolving bank credit facilities (Operating Credit Facilities) with total availability of \$2.3 billion. On June 3, 2019, the maturity date for the Operating Credit Facilities was extended from 2022 to 2024. At September 30, 2019 and December 31, 2018, no amounts were drawn on the Operating Credit Facilities. The Company may use these credit facilities for working capital and general corporate purposes. The short-term liquidity under the commercial paper program, the Operating Credit Facilities, and anticipated levels of FFO are expected to be sufficient to fund the Company's normal operating requirements.

At September 30, 2019, the Company had long-term debt outstanding in the principal amount of \$11,987 million, which included \$11,845 million of long-term debt issued by Hydro One and long-term debt in the principal amount of \$142 million issued by HOSSM. The majority of long-term debt issued by Hydro One has been issued under its Medium Term Note (MTN) Program. The long-term debt consists of notes and debentures that mature between 2019 and 2064, and at September 30, 2019, had a weighted-average term to maturity of approximately 15.3 years and a weighted-average coupon rate of 4.1%.

The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 is \$4.0 billion, and at September 30, 2019, \$1.1 billion remained available for issuance until April 2020.

Compliance

At September 30, 2019, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

OTHER OBLIGATIONS

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

Summary of Contractual Obligations and Other Commercial Commitments

The following table presents a summary of Hydro One's debt and other major contractual obligations and commercial commitments:

September 30, 2019 (millions of dollars)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations (due by year)					
Long-term debt - principal repayments	11,987	1,153	1,406	833	8,595
Long-term debt - interest payments	8,407	486	895	845	6,181
Short-term notes payable	519	519	—	—	—
Pension contributions ¹	353	74	129	128	22
Environmental and asset retirement obligations	175	26	63	58	28
Outsourcing and other agreements ²	203	126	58	5	14
Lease obligations	29	10	9	3	7
Long-term software/meter agreement	36	21	10	3	2
Total contractual obligations	21,709	2,415	2,570	1,875	14,849
Other commercial commitments (by year of expiry)					
Operating Credit Facilities ³	2,300	—	—	2,300	—
Letters of credit ⁴	166	161	5	—	—
Guarantees ⁵	325	325	—	—	—
Total other commercial commitments	2,791	486	5	2,300	—

¹ Contributions to the Hydro One Pension Fund are generally made one month in arrears. Company and employee contributions to the Pension Plan are based on actuarial reports, including valuations performed at least every three years, and actual or projected levels of pensionable earnings, as applicable. The most recent actuarial valuation was performed effective December 31, 2018 and filed on September 30, 2019.

² In September 2019, the agreements with Inergi LP for finance and accounting, and pay operations services were extended to December 31, 2020.

³ On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended to 2024.

⁴ Letters of credit consist of a \$155 million letter of credit related to retirement compensation arrangements, \$5 million in letters of credit to satisfy debt service reserve requirements, a \$3 million letter of credit provided to the IESO for prudential support, and \$3 million in letters of credit for various operating purposes.

⁵ Guarantees consist of prudential support provided to the IESO by Hydro One on behalf of its subsidiaries.

SHARE CAPITAL

Hydro One is authorized to issue an unlimited number of common shares. The amount and timing of any dividends payable by Hydro One is at the discretion of Hydro One's Board of Directors (Board) and is established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board may consider relevant. At November 6, 2019, Hydro One had 142,239 issued and outstanding common shares.

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. The Company has two series of preferred shares authorized for issuance: the Class A preferred shares and Class B preferred shares. At November 6, 2019, the Company had no Class A or Class B preferred shares issued and outstanding.

REGULATION

The OEB approves both the revenue requirements and the rates charged by Hydro One's regulated transmission and distribution businesses. The rates are designed to permit the Company's transmission and distribution businesses to recover the allowed costs and to earn a formula-based annual rate of return on its deemed 40% equity level invested in the regulated businesses. This is done by applying a specified equity risk premium to forecasted interest rates on long-term bonds. In addition, the OEB approves rate riders to allow for the recovery or disposition of specific regulatory deferral and variance accounts over specified time frames.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

The following table summarizes the status of Hydro One's major regulatory proceedings with the OEB:

Application	Years	Type	Status
Electricity Rates			
Hydro One Networks	2017-2018	Transmission – Cost-of-service	OEB decision received ¹
Hydro One Networks	2019	Transmission – Revenue Cap	OEB decision received
Hydro One Networks	2020-2022	Transmission – Custom	OEB decision pending
Hydro One Networks	2018-2022	Distribution – Custom	OEB decision received ²
B2M LP	2015-2019	Transmission – Cost-of-service	OEB decision received
B2M LP	2020-2024	Transmission – Revenue Cap	OEB decision pending
HOSSM	2017-2026	Transmission – Revenue Cap	OEB decision received
NRLP	2020-2024	Transmission – Revenue Cap	OEB decision pending
Mergers Acquisitions Amalgamations and Divestitures (MAAD)			
Orillia Power	n/a	Acquisition	OEB decision pending ³
Peterborough Distribution	n/a	Acquisition	OEB decision pending
Leave to Construct			
East-West Tie Station Expansion	n/a	Section 92	OEB decision received
Lake Superior Link Project	n/a	Section 92	OEB decision received ⁴

¹ On March 7, 2019, the OEB upheld its Original Decision relating to the deferred tax asset. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court.

² On March 26, 2019, the Company filed a motion to review and vary the OEB's decision with respect to recovery of pension costs. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court, which is being held in abeyance pending the outcome of the motion.

³ In September 2018, Hydro One filed a new MAAD application with the OEB to acquire Orillia Power.

⁴ On February 11, 2019, the OEB issued its decision awarding the construction of the East-West Tie Line to NextBridge, as directed by the Province of Ontario (Province) on January 30, 2019.

The following table summarizes the key elements and status of Hydro One's electricity rate applications:

Application	Year	ROE Allowed (A) or Forecast (F)	Rate Base Allowed (A) or Forecast (F)	Rate Application Status	Rate Order Status
Transmission					
Hydro One Networks	2019	n/a ¹	n/a ¹	Filed in October 2018	Approved in June 2019
	2020	8.52% (F)	\$12,375 million ² (F)	Filed in March 2019	To be filed
	2021	8.52% (F)	\$13,093 million ² (F)	Filed in March 2019	To be filed
	2022	8.52% (F)	\$13,917 million ² (F)	Filed in March 2019	To be filed
B2M LP	2019	8.98% (A)	\$496 million (A)	Approved in December 2015	Approved in December 2018
	2020-2024	8.52% (F)	\$490 million (F)	Filed in July 2019	To be filed
HOSSM	2017-2026	9.19% (A)	\$218 million (A)	Approved in October 2016	Approved in July 2019 ³
NRLP	2020-2024	8.52% (F)	\$120 million (F)	Filed in October 2019	To be filed
Distribution					
Hydro One Networks	2018	9.00% (A)	\$7,637 million (F)	Filed in March 2017 ⁴	Approved in June 2019
	2019	9.00% (A)	\$7,894 million (F)	Filed in March 2017 ⁴	Approved in June 2019
	2020	9.00% (A)	\$8,175 million (F)	Filed in March 2017 ⁴	Filed in August 2019
	2021	9.00% (A)	\$8,517 million (F)	Filed in March 2017 ⁴	To be filed in 2020
	2022	9.00% (A)	\$8,813 million (F)	Filed in March 2017 ⁴	To be filed in 2021

¹ The Revenue Cap application is a formulaic adjustment to the approved revenue requirement and does not consider ROE or rate base.

² On June 19, 2019, Hydro One filed updates to the application reflecting recent financial results and other adjustments.

³ In October 2016, the OEB approved the 2017-2026 revenue requirements. In June 2019, the OEB approved the request for an inflationary increase (revenue cap escalator index) to the 2019 revenue requirement. On July 18, 2019, the OEB issued the final rate order including a final 2019 revenue requirement of \$38 million to be included in the 2019 Uniform Transmission Rates (UTRs).

⁴ On June 11, 2019, the OEB approved Hydro One Networks' rate order which included the rate base amounts shown above.

Electricity Rates Applications

Hydro One Networks - Transmission

On September 28, 2017, the OEB issued its decision and order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Original Decision), with 2017 rates effective January 1, 2017.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

In its Original Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act, 1998* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a decision and order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of a portion of both Hydro One Networks' transmission and distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Original Decision and filed an appeal with the Ontario Divisional Court (Appeal). In both cases, the Company's position was that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. On August 31, 2018, the OEB granted the Motion and returned the portion of the Original Decision relating to the deferred tax asset to an OEB panel for reconsideration.

On March 7, 2019, the OEB issued its reconsideration decision and concluded that their Original Decision was reasonable and should be upheld. Also, on March 7, 2019, the OEB issued its decision for Hydro One Networks' 2018-2022 distribution rates, in which it directed the Company to apply the Original Decision to Hydro One Networks' distribution rates. As a result, as at December 31, 2018, the Company recognized an impairment charge of Hydro One Networks' distribution deferred income tax regulatory asset of \$474 million and Hydro One Networks' transmission deferred income tax regulatory asset of \$558 million, an increase in deferred income tax regulatory liability of \$81 million, and a decrease in the foregone revenue deferral regulatory asset of \$68 million. After recognition of the related \$314 million deferred tax asset, the Company recorded an \$867 million one-time decrease in net income as a reversal of revenues of \$68 million, and charge to deferred tax expense of \$799 million, which is expected to result in an annual decrease to FFO in the range of \$50 million to \$60 million. Notwithstanding the recognition of the effects of the decision in the 2018 financial statements, on April 5, 2019, the Company filed an appeal with the Ontario Divisional Court with respect to the OEB's deferred tax asset decision. The appeal is scheduled to be heard on November 21, 2019.

On October 26, 2018, Hydro One filed a one-year inflation based application with the OEB for 2019 transmission revenue requirement. On December 20, 2018, the OEB issued a decision approving Hydro One's 2018 revenue requirement as interim for 2019. On April 25, 2019, the OEB issued its decision on Hydro One's 2019 transmission rate application, and set the revenue index at 1.4% on a final basis effective May 1, 2019.

On March 21, 2019, Hydro One Networks filed a three-year Custom Incentive Rate application with the OEB for 2020-2022 transmission rates. On June 19, 2019, Hydro One filed updates to the application reflecting recent financial results and other adjustments. The hearing began on October 21, 2019, and concluded on November 4, 2019. The OEB decision is pending.

Hydro One Networks - Distribution

On March 31, 2017, Hydro One Networks filed a custom application with the OEB for 2018-2022 distribution rates under the OEB's incentive-based regulatory framework (2018-2022 Distribution Application), which was subsequently updated on June 7 and December 21, 2017. The application reflects the level of capital investments required to minimize degradation in overall system asset condition, to meet regulatory requirements, and to maintain current reliability levels.

On March 7, 2019, the OEB rendered its decision on the 2018-2022 Distribution Application. In accordance with the OEB decision, the Company filed its draft rate order reflecting updated revenue requirements of \$1,459 million for 2018, \$1,498 million for 2019, \$1,532 million for 2020, \$1,578 million for 2021, and \$1,624 million for 2022. On June 11, 2019, the OEB approved the rate order confirming these updated revenue requirements. See above in "- Hydro One Networks - Transmission" for impacts relating to the distribution deferred income tax regulatory asset.

On March 26, 2019, the Company filed a motion to review and vary the OEB's decision with respect to recovery of pension costs, and on April 5, 2019, the Company filed an appeal with the Ontario Divisional Court. The appeal is being held in abeyance pending the outcome of the motion.

Hydro One Remote Communities

On November 5, 2018, Hydro One Remote Communities filed an application with the OEB seeking approval for increased base rates of 1.8% effective May 1, 2019. On February 11, 2019, the OEB issued a draft decision approving the requested increase, which was later finalized on March 28, 2019. On October 16, 2019, Hydro One Remote Communities filed an application with the OEB seeking approval for increased base rates of 1.5% effective May 1, 2020.

Hydro One Remote Communities is fully financed by debt and is operated as a break-even entity with no ROE.

NRLP

On September 19, 2018, NRLP was formed to own and operate a new 230 kV transmission line (Niagara Line) in the Niagara region. The Niagara Line enables generators in the Niagara area to connect to the load centres of the Greater Toronto and Hamilton areas.

On September 27, 2018, Hydro One filed a transmission licence application with the OEB for NRLP. On October 25, 2018, Hydro One filed two other applications with the OEB relating to NRLP requesting approval for Hydro One Networks to sell the applicable Niagara Line assets to NRLP, and approval of interim rates to include in the 2019 Uniform Transmission Rates (UTRs). On December 20, 2018, the OEB issued a decision finding that the request for approval for an interim revenue requirement effective January 1, 2019 was premature but indicated that there would be an opportunity to adjudicate the matter at a later date.

In January 2019, construction on the project was halted due to a land dispute with the Haudenosaunee Confederacy Chiefs Council (HCCC). On March 1, 2019, Hydro One filed a letter with the OEB requesting that the three previously-filed applications be heard together once the land dispute is resolved. On March 15, 2019, the OEB put the NRLP applications in abeyance per Hydro One's request. Hydro One filed an application with the Ontario Superior Court of Justice for injunctive relief (injunction) against members of the HCCC amongst others. On July 15, 2019, Hydro One was granted an injunction order. Hydro One resumed construction shortly thereafter.

On August 1, 2019, Hydro One filed an update to the three previously-filed OEB applications and asked that the OEB resume adjudication of the applications. On August 30, 2019, the construction of the Niagara Line was completed, and on September 12, 2019, the OEB granted NRLP a transmission licence and granted Hydro One Networks leave to sell the applicable Niagara Line assets to NRLP.

On September 18, 2019, the applicable Niagara Line assets were transferred from Hydro One Networks to NRLP. Subsequently, on the same date, Hydro One Networks sold to the Six Nations of the Grand River Development Corporation and, through a trust, to the Mississaugas of the Credit First Nation a 25.0% and 0.1% equity interest in NRLP partnership units, respectively, for total consideration of \$12 million, representing the fair value of the equity interest acquired. The Mississaugas of the Credit First Nation has an option to purchase an additional 19.9% equity interest in NRLP partnership units from Hydro One Networks at a price based on the book value of the Niagara Line assets on the date the option is exercised. This option is available for up to six months and is subject to certain conditions.

On September 26, 2019, the OEB approved NRLP's request to establish a deferral account to record NRLP's 2019 revenue requirement prior to its inclusion in the UTR. On October 25, 2019, NRLP filed its revenue cap incentive rate application for 2020-2024. The OEB decision is pending.

HOSSM

HOSSM is under a 10-year deferred rebasing period for years 2017-2026, as approved in the OEB MAAD decision dated October 13, 2016. In July 2018, HOSSM filed a 2019 application to allow for inflationary increase (revenue cap escalator index) to its previously approved revenue requirement. The revenue cap escalator index is designed to add inflationary increases to the revenue requirement on an annual basis. On June 20, 2019, the OEB approved the revenue cap escalator index at 1.1% (net) which was applied to HOSSM's base revenue requirement for 2019, effective February 1, 2019, and also approved the 2019-2026 revenue cap framework.

B2M LP

On July 31, 2019, B2M LP filed a transmission rate application for 2020-2024, seeking a base revenue requirement of \$36 million for 2020, and a 1.4% revenue cap escalator index for 2021 to 2024.

MAAD Applications

Orillia Power MAAD Application

In 2016, Hydro One filed a MAAD application (2016 Application) with the OEB to acquire Orillia Power Distribution Corporation (Orillia Power) from the City of Orillia, Ontario. On April 12, 2018, the OEB issued a decision denying Hydro One's proposed acquisition of Orillia Power. On September 26, 2018, Hydro One filed a new MAAD application (2018 Application) with the OEB to acquire Orillia Power. The evidence in the 2018 Application is similar to that provided in the 2016 Application. However, it includes additional information that was not available at the time Hydro One filed its 2016 MAAD Application, including updates to reflect current variables to costs and other metrics, as well as future cost structures pertaining to the acquired entity.

On October 16, 2018, the School Energy Coalition (SEC) filed a motion with the OEB seeking an order dismissing the 2018 Application. On January 16, 2019, Hydro One and Orillia Power filed submissions on the SEC motion, maintaining that the motion should be dismissed, and that the 2018 Application should be heard by the OEB. On March 12, 2019, the OEB dismissed SEC's motion. At the request of Hydro One, on March 21, 2019, the OEB cancelled the deadlines for interrogatories to allow Hydro One to file amended or supplemental evidence in response to the OEB decision on Hydro One's 2018-2022 Distribution Application. Hydro One filed the supplemental evidence on April 26, 2019. A transcribed technical conference was held on October 3-4, 2019. On October 28, 2019, the OEB requested submission from the parties on the need for an oral hearing. Written submissions were due by November 4, 2019. The OEB intends to schedule an oral hearing for December 2-4, 2019.

Peterborough Distribution MAAD Application

On October 12, 2018, the Company filed an application with the OEB for approval of the acquisition of the business and distribution assets of Peterborough Distribution Inc. (Peterborough Distribution). On October 25, 2018, an advance ruling certification application was filed with the Competition Bureau. On November 14, 2018, the Competition Bureau issued a no action letter, meaning that the transaction can proceed from the Competition Bureau's perspective. At the request of Hydro One, on March 21, 2019, the OEB allowed Hydro One to file amended or supplemental evidence in response to the OEB decision on Hydro One's 2018-2022 Distribution Application. Hydro One filed the supplemental evidence on April 26, 2019. A transcribed technical conference was held on October 3-4, 2019. On October 28, 2019, the OEB requested submission from the parties on the need for an oral hearing. Written submissions were due by November 4, 2019. The OEB intends to schedule an oral hearing for December 2-4, 2019.

OTHER DEVELOPMENTS

Strategy

On November 6, 2019, the Board endorsed the Company's updated strategy focused on five key aspirational priorities:

1. **PLAN, DESIGN AND BUILD A GRID FOR THE FUTURE**

We will plan, design and build a reliable grid taking into account changing technologies to prevent future outages. There will be increased focus on grid resilience in order to restore power after events. Climate change and sustainability factors will be taken into consideration in our planning processes to increase resilience and lower our environmental footprint. We will incorporate distributed energy resources to enable customer choice while delivering exceptional value to customers through best-in-class asset management practices.

2. **BE THE SAFEST AND MOST EFFICIENT UTILITY**

We will transform and improve our safety culture through robust safety analytics as well as grass-roots engagement with our employees. Field operations will be more empowered to drive efficiency, productivity and reliability and provided with efficient corporate support. There will be a focus on efficient capital delivery to support an ongoing growing work program.

3. **BE A TRUSTED PARTNER**

We will make concerted efforts to build and grow relationships with Indigenous peoples, government and industry partners. We will proactively address community concerns and establish strong partnerships with our customers through local investment and economic development for the benefit of Ontarians.

4. **ADVOCATE FOR OUR CUSTOMERS AND HELP THEM MAKE INFORMED DECISIONS**

We will make it easier to do business with Hydro One by strengthening the customer experience through innovative customer-centric practices. We will help our customers make informed decisions with deeper insights and leverage our position as energy experts. We will expand access to energy offerings to become the provider of choice to our customers.

5. **INNOVATE AND GROW THE BUSINESS**

We will continue to invest responsibly in our core transmission and distribution business. In addition, we will pursue incremental regulated and unregulated business opportunities through innovation and our focused presence in Ontario.

Collective Agreements

On March 25, 2019, Hydro One and the Society of United Professionals (Society) announced the tentative settlement of a two-year collective agreement covering approximately 1,500 employees in critical engineering, supervisory and administrative roles. The agreement covering the period from April 1, 2019 to March 31, 2021 was ratified by the Society on April 30, 2019.

Litigation

Hydro One, Hydro One Networks, Hydro One Remote Communities, and Norfolk Power Distribution Inc. were defendants in a class action suit commenced in 2015 in which the representative plaintiff was seeking up to \$125 million in damages related to allegations of improper billing practices. In March 2019, the plaintiff's application for leave to appeal the lower court's refusal to certify the lawsuit as a class action was denied by the Ontario Court of Appeal, which means that the lawsuit has effectively ended.

2019 Federal and Ontario Budgets

Impact

Certain 2019 federal and Ontario budget measures enacted during the nine months ended September 30, 2019 provide certain time-limited investment incentives permitting Hydro One to deduct Accelerated CCA of up to three times the first-year rate for eligible capital investments acquired after November 20, 2018 and placed in-service before January 1, 2028. The Accelerated CCA resulted in a temporary reduction in the Company's ETR and the recognition of a tax regulatory liability relating to the Accelerated CCA that has not been reflected in the OEB approved rates. The timing of the disposition of the tax regulatory liability is subject to OEB approval, and may have a material impact on Hydro One's future cash flows in the near term.

Estimated ETR Change

Hydro One expects that the OEB's March 7, 2019 decision relating to the sharing of the Company's deferred tax asset and the Accelerated CCA will lower the Company's ETR in 2019 and in the next 5 years.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

HYDRO ONE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Board of Directors

On June 24, 2019, Hydro One announced that the Board Chair Tom Woods would be stepping down from the Board on July 31, 2019. On July 2, 2019, Hydro One announced that Tim Hodgson has been appointed by the Board to serve as the Board Chair commencing August 1, 2019.

Executive Officers

On March 28, 2019, Hydro One announced the appointment of Mark Poweska as President and Chief Executive Officer (CEO) of Hydro One and Hydro One Limited, effective May 10, 2019.

In April 2019, Greg Kiraly, Chief Operating Officer, and Jamie Scarlett, Executive Vice President and Chief Legal Officer, left the Company following a period of planned leadership transition.

On May 8, 2019, Chris Lopez was appointed as the Chief Financial Officer of Hydro One and Hydro One Limited, effective May 9, 2019.

On July 10, 2019, Hydro One announced the appointment of Saylor Millitz-Lee, as Executive Vice President and Chief Human Resources Officer, effective immediately.

On August 9, 2019, Hydro One announced the appointment of Paul Harricks, as Executive Vice President and Chief Legal Officer, effective September 9, 2019.

Executive Compensation

On March 8, 2019, Hydro One released a revised executive compensation framework for its Board, the CEO and other executives that was approved by the Management Board of Cabinet of the Province.

NON-GAAP MEASURES

FFO

FFO is defined as net cash from operating activities, adjusted for (i) changes in non-cash balances related to operations, (ii) dividends paid on preferred shares, and (iii) distributions to noncontrolling interest. Management believes that FFO is helpful as a supplemental measure of the Company's operating cash flows as it excludes timing-related fluctuations in non-cash operating working capital and cash flows not attributable to common shareholders. As such, FFO provides a consistent measure of the cash generating performance of the Company's assets.

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
<i>(millions of dollars)</i>				
Net cash from operating activities	636	508	1,178	1,201
Changes in non-cash balances related to operations	(173)	(74)	(9)	68
Preferred share dividends	—	(3)	(2)	(7)
Distributions to noncontrolling interest	(1)	(1)	(7)	(6)
FFO	462	430	1,160	1,256

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

Revenues, Net of Purchased Power

Revenues, net of purchased power is defined as revenues less the cost of purchased power. Management believes that revenue, net of purchased power is helpful as a measure of net revenues for the distribution segment, as purchased power is fully recovered through revenues.

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenues	1,584	1,598	4,737	4,630
Less: Purchased power	737	733	2,197	2,158
Revenues, net of purchased power	847	865	2,540	2,472

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Distribution revenues	1,140	1,103	3,490	3,284
Less: Purchased power	737	733	2,197	2,158
Distribution revenues, net of purchased power	403	370	1,293	1,126

FFO, revenues, net of purchased power, and distribution revenues, net of purchased power are not recognized measures under US GAAP and do not have a standardized meaning prescribed by US GAAP. They are therefore unlikely to be directly comparable to similar measures presented by other companies. They should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under US GAAP.

RELATED PARTY TRANSACTIONS

Hydro One is owned by Hydro One Limited. The Province is a shareholder of Hydro One with approximately 47.3% ownership at September 30, 2019. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), the OEB, Hydro One Telecom Inc. (Hydro One Telecom), and 2587264 Ontario Inc. are related parties to Hydro One because they are controlled or significantly influenced by the Province or by Hydro One Limited. The following is a summary of the Company's related party transactions during the three and nine months ended September 30, 2019 and 2018:

<i>(millions of dollars)</i>	Related Party	Transaction	Three months ended September 30		Nine months ended September 30	
			2019	2018	2019	2018
IESO		Power purchased	301	321	1,110	1,079
		Revenues for transmission services	439	474	1,222	1,293
		Amounts related to electricity rebates	137	113	379	353
		Distribution revenues related to rural rate protection	60	59	178	177
		Distribution revenues related to the supply of electricity to remote northern communities	8	8	26	24
		Funding received related to Conservation and Demand Management programs	5	11	28	33
OPG		Power purchased	—	2	5	8
		Revenues related to provision of services and supply of electricity	3	1	6	5
		Costs related to the purchase of services	—	—	1	—
OEFC		Power purchased from power contracts administered by the OEFC	—	1	1	2
OEB		OEB fees	3	2	7	6
Hydro One Limited		Return of stated capital	146	140	631	405
		Dividends paid	—	—	1	6
		Stock-based compensation costs	—	11	8	23
		Cost recovery for services provided	3	4	10	11
Hydro One Telecom		Services received – costs expensed	5	6	16	18
		Revenues for services provided	1	1	2	2
2587264 Ontario Inc.		Preferred shares redeemed	—	—	486	—
		Dividends paid	—	3	2	7

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over financial reporting as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Internal control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and due to its inherent limitations, may not prevent or detect all misrepresentations.

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2019, that materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

NEW ACCOUNTING PRONOUNCEMENTS

The following tables present Accounting Standards Codifications (ASCs) and Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB) that are applicable to Hydro One:

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASC 842	February 2016 - January 2019	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	Hydro One adopted ASC 842 on January 1, 2019 using the modified retrospective transition approach using the effective date of January 1, 2019 as its date of initial application. See Note 2 to the financial statements for impact of adoption. The Company has included the disclosure requirements of ASC 842 for interim periods in Note 18 to the financial statements.
ASU 2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results.	January 1, 2019	No impact upon adoption
ASU 2018-07	June 2018	Expansion in the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. Previously, ASC 718 was only applicable to share-based payment transactions for acquiring goods and services from employees.	January 1, 2019	No impact upon adoption
ASU 2018-15	August 2018	The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement is not affected by the amendment.	January 1, 2020	Hydro One early-adopted this ASU on April 1, 2019. The ASU was applied prospectively and there was no material impact upon adoption.

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated impact on Hydro One
ASU 2019-01	March 2019	This amendment carries forward the exemption previously provided under ASC 840 relating to the determination of the fair value of underlying assets by lessors that are not manufacturers or dealers. It also provides for clarification on cash-flow presentation of sales-type and financing leases and clarifies that transition disclosures under Topic 250 will not be applicable in the adoption of ASC 842.	January 1, 2020	Under assessment
ASU 2019-04	April 2019	This amendment clarifies, corrects and improves several aspects of the guidance under Topic 326 <i>Financial Instruments - Credit Losses</i> , Topic 815 <i>Derivatives and Hedging</i> and Topic 825 <i>Financial Instruments</i> .	January 1, 2020	Under assessment
ASU 2019-05	May 2019	The amendments in this update provide entities with an option to irrevocably elect the fair value option to be applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326.	January 1, 2020	Under assessment

FORWARD-LOOKING STATEMENTS AND INFORMATION

The Company's oral and written public communications, including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company's business and the industry, regulatory and economic environments in which it operates, and include beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements regarding: the Company's transmission and distribution rate applications, including resulting decisions, rates and expected impacts and timing; the Company's liquidity and capital resources and operational requirements; the Operating Credit Facilities; expectations regarding the Company's financing activities; the Company's maturing debt; ongoing and planned projects and initiatives, including expected results and completion dates; expected future capital investments, including expected timing and investment plans; contractual obligations and other commercial commitments; expected impacts relating to the deferred tax asset; Hydro One's appeal of the OEB's deferred tax asset decision; the motion to review and vary the OEB's decision relating to recovery of pension costs and the related appeal; options to purchase additional equity interest in NRLP partnership units; collective agreements; the pension plan, future pension contributions, valuations and expected impacts; the anticipated impacts of the Accelerated CCA on Hydro One, including timing of such impacts; the Company's expectations relating to its ETR; income tax expense; Hydro One's strategy; non-GAAP measures; internal control over financial reporting and disclosure; recent accounting-related guidance; and the Company's acquisitions and mergers, including Orillia Power and Peterborough Distribution. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "aim", "target", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. Hydro One does not intend, and it disclaims any obligation, to update any forward-looking statements, except as required by law.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to, the following: no unforeseen changes in the legislative and operating framework for Ontario's electricity market or for Hydro One specifically; favourable decisions from the OEB and other regulatory bodies concerning outstanding and future rate and other applications; no unexpected delays in obtaining the required approvals; no unforeseen changes in rate orders or rate setting methodologies for the Company's distribution and transmission businesses; continued use of US GAAP; a stable regulatory environment; no unfavourable changes in environmental regulation; no significant changes to the Company's current credit ratings; no unforeseen impacts of new accounting pronouncements; 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 from third party sources. Actual results may differ materially from those predicted by such forward-looking statements. While Hydro One 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. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- risks associated with the Province's share ownership of Hydro One's parent corporation and other relationships with the Province, including potential conflicts of interest that may arise between Hydro One, the Province and related parties;
- regulatory risks and risks relating to Hydro One's revenues, including risks relating to rate orders, actual performance against forecasts and capital expenditures, or denials of applications;
- the risk that the Company may be unable to comply with regulatory and legislative requirements or that the Company may incur additional costs for compliance that are not recoverable through rates;
- the risk of exposure of the Company's facilities to the effects of severe weather conditions, natural disasters or other unexpected occurrences for which the Company is uninsured or for which the Company could be subject to claims for damage;
- public opposition to and delays or denials of the requisite approvals and accommodations for the Company's planned projects;
- the risk that Hydro One may incur significant costs associated with transferring assets located on reserves (as defined in the Indian Act (Canada));
- the risks associated with information system security and maintaining a complex IT system infrastructure;
- the risk of labour disputes and inability to negotiate appropriate collective agreements on acceptable terms consistent with the Company's rate decisions;
- the risks related to the Company's work force demographic and its potential inability to attract and retain qualified personnel;
- risk that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures;
- the risk of a credit rating downgrade and its impact on the Company's funding and liquidity;
- risks associated with fluctuations in interest rates and failure to manage exposure to credit risk;
- the risk that the Company may not be able to execute plans for capital projects necessary to maintain the performance of the Company's assets or to carry out projects in a timely manner;
- the risk of non-compliance with environmental regulations or failure to mitigate significant health and safety risks and inability to recover environmental expenditures in rate applications;
- the risk that assumptions that form the basis of the Company's recorded environmental liabilities and related regulatory assets may change;

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the three and nine months ended September 30, 2019 and 2018

- the risk of not being able to recover the Company's pension expenditures in future rates and uncertainty regarding the future regulatory treatment of pension, other post-employment benefits and post-retirement benefits costs;
- the potential that Hydro One may incur significant expenses to replace functions currently outsourced if agreements are terminated or expire before a new service provider is selected;
- the risks associated with economic uncertainty and financial market volatility;
- the inability to prepare financial statements using US GAAP;
- the impact of the ownership by the Province of lands underlying the Company's transmission system; and
- the risk related to the impact of the new accounting pronouncements.

Hydro One cautions the reader that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section "Risk Management and Risk Factors" in the 2018 amended MD&A.

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

Additional information about Hydro One, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com, the US Securities and Exchange Commission's EDGAR website at www.sec.gov/edgar.shtml, and the Company's website at www.HydroOne.com/Investors.